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May 28, 1951.

H. 6514

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cw.VERY CONFIDENTIAL.

Dear Dannie:

I have received your letter of May 21 and in which you acknowledge receiving the copy of a letter of May 9 which I sent to Mr. Ferguson and am glad you were interested in reading it. You also acknowledge the copy of a letter which I wrote to E. A. Graydon, No. 1330, on May 15 with reference to Mr. Borden's visit to New York. I am quite intrigued as to why he should wish to see you, but in any event it should be interesting to hear what he has to say. You also acknowledge my letter of May 16 with which I sent you a copy of Arnold's letter to me of May 8 and my reply of May 15 and note that you have sent a copy of my letter to Arnold to Brosens. I don't know that my letter to Arnold will be of any value but I am sure in any event that it can do no harm.

On my return from Cuernavaca this morning I find your letter of May 23 with which you send me a copy of your letter to Brosens of May 21 which I find most interesting. I also have your letter of May 21 with which you send me the Spanish text and the French translation of an urgent communication by air mail sent by Brosens to Sofina, and to this letter there is appended a copy of your letter of May 25 addressed to Brosens in which you make your preliminary comment on Brosen's message to Sofina of May 16. You also attach a copy of your letter of May 24 to Wilmers in Brussels.

I also have just received a letter from Levitan dated May 24 stating that at his request you are sending me copies of some cables mentioned in the letter, as well as a copy of Wilmer's confidential letter to you CFL 322 of May 18, together with its enclosures.

I have read this evening the abovementioned correspondence and would like to write you tonight, but I want to digest this material for a day or two before writing. I note that in your letter of May 25 you state that you intend to send further comments on the air message from Brosens to Sofina of May 16, which comments I assume will supplement what you have already said to Brosens in your letter to him of May 25.

I think

D. N. Heineman, Esquire,
Hotel Carlyle,
76th Street and Madison Avenue,
New York, N. Y.

I think your letters of May 21 and May 25 to Brosens will be helpful to him. I would like this evening to make only ~~one~~ comment, which has particular reference to the difficulties which I am sure Brosens is having in handling the situation in Buenos Aires and which difficulties I am sure you do not underestimate.

The situation with which Brosens has to deal in the Argentine is almost unique. It is the one important country in the Americas in which the electricity situation has not had at least some really understanding attention by government. In Mexico we have our troubles and will continue to have them under the best circumstances, but something has been arrived at in Mexico which does not yet exist in the Argentine, and that is a real understanding of the importance of electricity in the economy of the country. The Mexicans are interested in industrialization, irrigation, roads and all sorts of things, but they realize that fundamentally two basic aspects have to get attention first. The first of these is that the population has to be fed adequately and this means improving methods of agriculture and irrigation and cutting down as much as possible imports of the basic foodstuffs. The second aspect they recognize is that not only can there be no new factories, but also that production in existing factories cannot be maintained or increased without adequate power, which in the case of Mexico means electricity. I think there are a good many people still in the Mexican Government whom it hurts to give any kind of decent treatment to the private electricity industry and these people would prefer to push the government electricity program at the expense of the private electricity programs. The favorable aspect in Mexico is that the government has learned two things. One is that the electricity needs of the country are too great for the government to handle by itself, so that it has decided to let the private companies live for an indefinite future. The second is that it has learned that for these private companies to live they have to get something like reasonable treatment. I might add that there is a third favorable factor, and that is that the Mexican Government has learned during the last few years in particular that the private electricity companies are doing their job better than the Comisión Federal de Electricidad -- that is, than the government enterprise. The fact that the private companies, and in particular Mexlight, are carrying on so efficiently, and that certain deficiencies in the operation of the Comisión Federal de Electricidad, the government operating organism, are becoming more apparent, has strengthened the attitude of the government of acting more favorably towards the private electricity industry. In other words, they don't want a repetition of the experience with Petroleos and the Railways. The government here has learned a lot from experience and as a consequence we have a good chance to live and have conditions under which we can live. It means a constant struggle but with the odds in our favor.

In Brazil the situation is somewhat the same, although as I have told you on several occasions, I do not think the situation there is as sound as it is with us in Mexico, for in Brazil both the government and Brazilian Traction and the other private companies still have a great deal to learn. On the whole, however, it can be said that there is a fair understanding of the basic elements in the electricity situation in Brazil, although not to the same extent as in Mexico.

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In Uruguay and Chile, which come next in importance, the government has a monopoly of electricity in Uruguay and practically a monopoly in Chile, but the governments have at least learned what has to be done and have taken provisions for future supply.

In Colombia there has, within the last years, been an increasing understanding of the problem and the prospects there for decent treatment of the electricity industry and private industry in general are better than they were up to let us say two years ago.

On the contrary, in the Argentine we have no indications that the government has learned the necessary lessons. Up to now the Cade and the Italo have been meeting the needs of the most important area of the country without getting latterly the necessary consideration and treatment. Some of the private companies outside of the Greater Buenos Aires area have fallen or are falling like ripe apples into the hands of the government, mostly through the expiration of concessions. There are, however, ~~few~~ people in the Argentine outside of the private companies who realize the importance of electricity in the economy of the country or the importance of the private companies in the picture. This wave of nationalization has taken hold of the Argentine and has found its expression in the acts of the Perón government. The Argentine has not examined or has not wished to examine the experience in countries like Mexico, and in the meantime countries with which the Argentine is very familiar, such as France and England, and which countries it knows in some ways better than the United States, have set a very bad example in the matter of nationalization of the electricity industry. The chances are, however, ninety-nine to one hundred that in the Argentine the government officials have not even studied the nationalization measures in this industry in England or in France. They see only the example. There isn't any doubt that what has happened in France and England, from whom the Argentine has drawn in many ways more of its inspiration than from the United States, has had a very bad effect. We cannot forget this nor underestimate its influence.

Then, too, in most of these countries of Latin America there are more technicians who have had a measure of training in the electricity field in the government in one way or another than there are in the Argentine. There are practically no people in the government who know the electricity problem either from a technical or practical or political point of view other than those in the private companies. These few people in the Argentine who pretend to know anything about electricity, whether they are engineers or whatever they may be, are fanatics without knowledge and who are interested in only one thing and that is nationalization. Knowing that there are difficulties in the way of nationalization with compensation, their endeavor is to do everything possible to throttle the private companies and to strangle them to the point of asfixiation.

Then, too, the Perón government set out on this broad program of industrialization in a country for which there is very little ~~in~~ natural basis for industry and in which many of these industries have to remain in a way unnatural in the sense that they are not really radicated in a sound economy for the country or in its natural resources. The government has kept on

talking

talking about this industry and that industry and keeps on talking about them, even if in a lower voice and decreased tempo, without realizing that all this is futile without power. Electricity has not had the attention which in perspective in this picture it should have from the government, and they keep talking of hydroelectric plants such as utilization of Salto Grande when the use of Salto Grande power is something which is for the very long range future and when even the political arrangements which are necessary for the utilization of Salto Grande are still in their infancy and these have to be settled before much else can be done. Then, too, the power from Salto Grande will probably not be available for Buenos Aires under economic conditions for years to come and until electricity can be transported more economically both as to the cost of lines and losses in transmission. The Argentine officials charged with electricity choose to disregard this factor involved in Salto Grande and keep on talking about Salto Grande power being available for the Greater Buenos Aires area, when under the best circumstances this is long in the future.

I see from your letter to Brosens of May 21 your very understandable deception as to the turn of events in the Argentine since Brosens and I had the opportunity in February of talking these matters over with the high government officials, and I see from your letter of May 25 to Brosens, written after seeing his air letter to Sofina of May 16 covering his last conversations there, that this deception is augmented. I can understand 100 per cent your feelings and I must confess that while I have always viewed this Argentine situation realistically, I thought we had made more progress. I felt that at least the President understood this situation. I had the hope that Cereijo and Gómez Morales were beginning to understand it. In spite of everything that has happened in the Argentine before and since my visit in February, I am convinced that the President himself does not believe in nationalization of the electricity industry, does not want it and realizes that it would solve no problems. I say this out of the knowledge which I believe I have of the man from many soul-searching conversations with him in the past and in the recent past. We have to reckon with the fact, however, that Perón is not essentially the strong man that he is pictured to be outside of and even in the Argentine. He is not a weak man but he is not a strong man. He always tries to carry through his objectives by convincing his associates and subordinates. That is a good plan generally, but when a President has to deal with such incompetent and irresponsible associates and subordinates that are unfortunately the only ones Perón can have available, that policy of conviction and persuasion doesn't work when a serious issue faces the country or its economy.

On top of this is the consideration that Perón is not going to do anything externally or internally that he thinks will injure his electoral program in 1952. You will recall that I told you that a very keen observer of the Latin American situation said to me in March on my return from the Argentine that everything that happened in the Argentine and in Mexico between then and the elections in both countries next year would be dependent upon internal political electoral considerations. Nothing could be more true. Everything that I have seen happen in the last two years, whether it is on the surface or under the surface, in Mexico shows that the primary consideration in reaching decisions in the most major external and internal policies is dependent on this electoral consideration. I should say that this is even more true in the

Argentine.

Argentina. In both countries the result of the elections for President in 1952 is pretty well assured and in my opinion completely assured, even if the governments in both countries took the action which wisdom and prudence dictate, but what they want is overwhelming majorities and nothing, in my opinion, is going to deviate them from this. I wish to emphasize that in my opinion this is as much true of the decisions which they are taking in the field of foreign policy as in the field of internal policy.

This means that in Mexico, where the government is engaged in the biggest struggle it has ever had to keep down prices and stop inflation and where it is menaced every day by altogether unjustified increases in the price of primary foodstuffs produced within the country, it is going to endeavor to postpone at least for some months and until the end of the year if not into early next year, certain tariff increases for Mexlight which the law authorizes and which the circumstances justify and make necessary. The government realizes that these tariff increases are necessary and that it is in its own interest to increase these tariffs, and it knows that it will eventually have to increase them not only to help the industry but also to maintain external obligations which it has undertaken. But notwithstanding all this, they will find ways and means to delay the application of the necessary increases. I must say that I have here in Mexico a certain understanding of the position of the government, because it is difficult to increase electricity tariffs which affect everybody at a time when it is going through this major struggle to keep down the cost of bread and tortillas and primary foodstuffs. I can understand it better here, not only because of these circumstances but because the government realizes the need for increasing the tariffs, the obligation of doing so, and it has the will to do so and I believe will do so.

In the Argentine where the matter of tariffs, relatively high as they are due to the high cost of thermal production and the complete dependence on thermal production, the government is going to take the same attitude. The situation is more serious in the Argentine than in Mexico for many reasons, because there the tariff increases needed to put the companies into a sound position to carry through their job are relatively so great. I gather from what Brosens says in one of his communications that the government is disposed to have the adjustment clause for fuel apply now in those parts of the Greater Buenos Aires area in which there is an adjustment clause for fuel in the tariffs, but this is only partial and very partial relief. Real tariff increases will not be given, no matter what the urgency of the electricity situation is, until after the elections. The only thing that can be got that I can see at this time is formal assurances from the government to the Export-Import Bank and to the company that it will apply certain specific tariffs immediately after the elections if certain credits necessary for the government and the Cade projects are made available, and I feel sure that if the government gives such a formal agreement to the company and more particularly to the bank that it will keep such agreement. To expect Brosens, however, to get for the Cade, even through the President, the tariff increases now needed I see as almost an impossible task. I should say it was impossible.

What I would like to bring out is that, while we have our troubles here in Mexlight, we get an understanding hearing and we are getting understanding action. It is a constant struggle and under the best circumstances it is

not

not going to let up, but as I have pointed out, the odds are in our favor. In the Argentine, although the President may understand the situation and want to do the right thing, I doubt whether he will do it before the elections in 1952 except in the way of giving certain promises as to what will be done as a quid pro quo for a credit from the Eximbank. I am sorry to have to say this, but I think that is the situation and I think that Brosens realizes this even more than I do, for he lives with this problem every day. The problem in the Argentine, as I have said previously in this letter, is unique, and I have pointed out some of the reasons for that. If there were more responsible collaborators available to the President, as there are in Mexico for example, the situation would be better. If Perón had the political skill and strategy which Alemán has the situation would be better. If he had the full control of the situation which the government here has, and there were not so many fears constantly before the government the situation would be better.

On top of all this is the complete lack of competence, not only on the part of certain of the most important advisers of the President, but also this complete lack of competence on the part of those in the Dirección de Energía. And on top of this there is lack of understanding on the part of industry in the Argentine of the problem which is facing it through the scarcity of power. Some of the industrialists realize it but the great mass of the public as well as the greater part of the industrialists still do not understand the situation. It is a question to what degree they could make their fears and the results of scarcity prevail on the government to take action. Certainly their influence on the government is less than it is in most of the countries of Latin America for the present.

All these are factors which have to be taken into account by those of us who are so concerned with the Argentine situation and have to be considered in taking into account what Brosens can be expected to accomplish and what he cannot do.

Perón is sore about a lot of things. He has done much to offend other governments and public opinion in other countries. Some countries have done things to make him sore. In that respect the situation is a difficult one. Perón has gotten himself out on a limb by saying so much in public about not needing credits from abroad and not taking them. A big step forward was made when he agreed, instead of the direct guarantee of the Argentine Government, to give the guarantee of the Central Bank for the \$125,000,000 credit from Eximbank. Perón knows he needs the credits and he is ready to take them, but he would prefer in his heart to get them from anywhere except the United States. The low prices which the Germans and others are quoting are not the only reason why they are looking for this equipment for San Nicolas in Europe and why they would like to force the Cade to buy its heavy equipment in Europe. My own opinion is that if the Argentine Government orders the San Nicolas equipment from Germany and forces the Cade to buy in Europe, and I don't see how the Cade can buy in Europe even if the government can, neither the government nor the Cade are going to solve their electricity situation. In my opinion the major thing the Argentines have to be convinced of is that they must, for safety's sake, buy this heavy equipment in the United States, not only for technical and delivery considerations, but also for practical considerations and for safety, and this irrespective of the lower prices and in my opinion

illusory

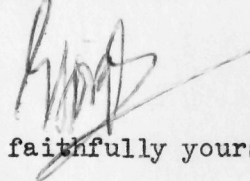
illusory promises which may be made by the A.E.G. and others. I do not say that Bucher, for the A.E.G., does not believe he can do what he says to the Argentines the A.E.G. can do, but I don't believe that he can perform, for as you have pointed out in your letters, it is not only the A.E.G. which is concerned, but other suppliers as well. It takes many items other than generators and turbines and boilers to build a thermal plant.

I intend to think certain aspects of this whole matter over so far as materials are concerned and the promises of delivery from Europe, and to write you further. The purpose of this letter is principally to say that in my opinion Brosens must make a supreme effort with Perón. Perón is friendly to Brosens. He is not unfriendly to Cade. He is scared of what will happen in the Argentine in so many ways as a result of scarcity of power. He appreciates the incapacity of his associates and of the people in the Dirección de Energía. Brosens can see him when he wishes. Brosens has been carrying on his conversations with Cereijo and the others and he has made some progress, but the basic points both as to financing and programs remain untouched, or at least unsolved. Brosens can talk to the President frankly. It is in my opinion the only way to talk with Perón. I know that Brosens does not wish to go to Perón unless absolutely necessary for any number of reasons, and the reasons are good reasons. It naturally makes Cereijo and the others sore when Brosens goes to the President. My own feeling is that the time has come when Brosens will again have to see the President and just lay the cards on the table. The unfortunate thing is that he can make no promises as to credits but this is no fault of his. If the Argentine does the necessary I think the way will be open for sound credits from the Eximbank for the government and for a Cade electricity program. It is the only way that these plants are going to be built. All these other efforts are just futile exploration and conversation. I do not mean to say that everything has to be put on the results of a conversation with Perón, but I do think that the next step is for Brosens to see Perón.

One of the things which Perón could do to help in this electoral campaign would be to show that he is taking this electricity problem from every angle and is pushing forward a government program and aiding the Cade program. That is the positive approach to the matter politically. If he doesn't make this positive approach it is going to bring the failure of adequate supply and is going to have economic and political repercussions of the first order in the Argentine and may threaten the government itself. I don't know that Brosens can make such a political suggestion to the President, at least in not so bald a form, but I think it can be brought to the President in adequate form for him to understand it. It may appeal to him.

I have written you a very long letter on the general considerations which I think are among those which have to be kept in mind. I will try to make some more specific comment within the next few days on the actual materials question. I am sending you this letter in triplicate should you wish to make any use of the copies. I only wish to add that I have the greatest sympathy with Brosens's problem in the Argentine, which I think I understand as fully as anyone, and I know of no one in whose hands this matter can be left better. I only wish that I could be more helpful to him in this problem.

With all good wishes,


Cordially and faithfully yours,