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Buenos Aires, Argentina, November 12, 1946

No. 1196

Subject: With Reference to the Prospects in the Field
of Oil Development, with Special Reference to
American Companies, in the Argentine

TOP SECRET

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to previous despatches of this Embassy and to informal letters in which I have reported on conversations which I have had with the President of the Argentine on the "5-Year Plan" with reference to the importance of private initiative in industry and with particular reference to the assurances which private industry and capital may have in the Argentine. It will be recalled that in these conversations, some of which were on the initiative of the President, he gave very specific assurances of his interest in the maintenance and strengthening of private initiative and expressed his opinion that Argentine industry cannot develop unless private initiative and industry have all adequate guarantees.

I now wish to report on one phase of these conversations which I have not covered in previous despatches and letters--this is with reference to petroleum.

When I assumed charge of this Mission on May 22, 1946, as soon thereafter as possible I reviewed the position of our interests in the Argentine and in connection with this had conversations with Mr. Herman A. Metzger of the Standard Oil Company Argentina and Mr. Theodore A. Post of the Ultramar S. A. Petrolera Argentina, these representing the principal American oil interests in the Argentine. Both Mr. Metzger and Mr. Post expressed considerable concern with respect to the positions of their respective companies, and I found that the situation today with respect to their companies is in many respects the same as it was when I was here in 1928-29-30. In view of the establishment of the Yacimiento Petroliferos Fiscales (Y.P.F.), which is to all intents and purposes an organism of the Argentine government but not a monopoly, the foreign companies have been in more or less a precarious position which has existed to today and in considerable measure, exists today. They have not been able to expand their operations in any degree and they have been hampered in the investment of additional capital by the natural uncertainty which they have continuously felt with respect to their future.

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From the several conversations which I had with Mr. Metzger and Mr. Post, it seemed to be clear that while the arrangement under which they are working would continue for another year without change, the eventual security and future of the companies was not clear nor were there adequate assurances which would enable them to proceed with further investment. The only thing to do seemed to be to maintain the status quo until it became certain as to what the attitude of the present Argentine government would be.

I assured both Mr. Metzger and Mr. Post of the interest with which this Embassy was following their problem and encouraged them to keep in constant contact with me and the other officers of the Embassy with respect to their problems. I told them that I had every reason to believe, on the information which I so far had, that the present arrangements under which they are working would continue for another year. This has since been confirmed by them to me as a result of conversations which they have had with the head of the Y.P.F.

During the conversations already mentioned with the President of the Argentine on the "5-Year Plan", the desires of the Argentine Government to increase industrial development in the country, and on the necessity for appropriate protection and encouragement to private initiative and capital, some three weeks ago I took occasion to mention to the President the importance of the matter of fuel in any industrial program. I said that in many ways their position in this respect was similar to that of Mexico where there were very considerable and valuable oil deposits which were only partially developed. I said that there was the same problem in some respects with respect to water for hydroelectric development. I said that there was in some respects the same problem with respect to coal as in both countries the coal deposits were few and so far as known, inadequate. I pointed out the importance of fuel in any industrial program and that the Argentine was already a considerable importer of fuel, and unless her oil resources were further developed, fuel would remain a very serious problem in any industrial development program.

The President said that he was very keenly conscious of this and that he had been very attentive to this problem the last several years, and that he had come to the conclusion that the only solution in the foreseeable future lay in the greater development of oil resources of the Argentine.

We then discussed the situation as it present exists in Mexico where there is a complete government monopoly in the field of petroleum development since the expropriation of the foreign companies. I told the President that in spite of these great oil resources in Mexico, Petroleos Mexicanos, S. A. had been unable to cope with the problem and although it paid practically no revenue to the state, it was already a considerable charge on the other revenues of the state. I said that the resources of Petroleos

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Mejicanos and of the government had not permitted exploration and adequate drilling of new wells and that Mexico was already a considerable importer of gasoline and would in the relatively near future become a considerable importer of fuel oil unless the development situation in the country radically changed. I will not go into detail, but I gave the President a very full picture of the Mexican oil situation, concerning which the Department is aware I am fully informed in view of my more than four years service there before proceeding to the Argentine on this tour of duty and because of the continuous and intense attention which I gave to this problem. The President was very greatly interested and stated that what I had told him confirmed what he had learned through the inquiries which he had made.

He then went on to say that he was convinced that the Y.P.F. would not be able to adequately carry through exploration and development on a scale necessary to produce the fuel needed by the country. He realized that the state did not have enough money under the best circumstances to aid the Y.P.F. adequately in a broad program. He had come to the conclusion that every encouragement should be given to the foreign oil companies here to expand their programs. At this point I gave him a statement with regard to the precarious position in which the American companies found themselves, and he stated that he thoroughly understood it and that he thought it was an improper situation and one to which previous governments of the Argentine had not given adequate attention. He said that he realized that the oil industry was a very special industry in view of the fact that it required considerable investment of capital, considerable risk, and therefore needed adequate guarantees and protection.

He then asked me whether I thought American oil companies would be interested in entering into a mixed company--that is, into partnership between the companies and the Argentine government. I said that I was sure that the large American oil companies would be prepared to consider such a mixed company operation provided it was on the proper basis and provided that it offered them adequate guarantees for the capital which they had to invest. The President said he thoroughly realized this and this was what he had in mind. I said to him that if he was thinking along these lines, I thought it advisable to discuss the matter with the foreign oil companies established in the Argentine, and I was sure that the American companies would be interested in discussing the matter with him.

Several days later the President sent for me and on his own initiative further mentioned this question of fuel, and particularly petroleum, and on this occasion I emphasized the importance of adequate petroleum development in the Argentine from the defense point of view, and particularly the point of view of the defense of this hemisphere. I will not go into details in this respect as I said to him what I said on various occasions to the government of Mexico under instructions of the Department.

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The President said that he was convinced that he should go into this matter without delay as nothing could be done with respect to industrial development in the Argentine until adequate fuel was available, and he was also keenly conscious of the importance of the matter from the point of view of hemispheric defense. He indicated that he would get in touch with the American companies. As I knew he was fully familiar with the American companies operating here, I did not make any specific mention as I thought this was improper on my part.

Several days later Mr. Metzger of the Standard Oil sought an interview on his own initiative and without any intimation from me with the President. He wished to bring to the attention of the President, as he has informed me since, a copy of a memorandum which he had transmitted several years ago in which his company expressed its interest in a mixed company.

A few days ago in a further conversation with the President on other matters, he stated that he had had a conversation with Mr. Metzger of the Standard and that Mr. Metzger was shortly proceeding to the United States to discuss the conversation which they had had with his principals in New York. On this occasion I said to the President that I assumed whatever plans the Argentine government might have with respect to one American company it would open to other American companies already in the field here, and that my government was not interested in any exclusive privileges or opportunities for any American company or only for American companies.

A few days ago Mr. Metzger informed me that he was shortly leaving for the United States and would like to see me, and I therefore had a long talk with him in his home yesterday. He referred to the conversation which he had had with the President. He stated that as a result of this conversation and of the encouraging attitude shown by the President and the Director of the Power Commission as well as the Director of the Y.P.F. who had been present during the conversation with the President, he was shortly proceeding to the United States, probably within a week, in order to discuss this matter with his principals.

I will not go into detail with respect to the conversation with Mr. Metzger as he will shortly be in the United States and I have suggested to him that after having seen his principals he should discuss this matter with Under Secretary Clayton, Assistant Secretary Braden, and with the Office of Petroleum Adviser of the Department.

As he will fully inform the officers of the Department with regard to his conversations, he can do so more effectively than I as I did not participate in the conversation he had with the President. It is important here to note, however, that while the conversations so far have been between the President and his associates in the government and Mr. Metzger of the Standard, Mr. Metzger

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informs me that in his conversation with the President he made it clear that the Standard does not seek any exclusive privileges. Mr. Metzger, however, has informed me that he has not so far informed Mr. Post or the other foreign oil companies in Argentina concerning his conversation, which under the circumstances, in my opinion, is entirely correct as he has not yet had an opportunity to discuss the matter fully with his principals in New York.

I believe it is safe to say that we have a very real interest in the further development of the oil resources of the Argentine, both from the point of view of her being able to supply herself with fuel instead of importing it, and also from the point of view of hemispheric defense, and possibly even as an eventual source of oil in view of our own dwindling resources. For this reason I believe that the foregoing report of conversations will be of interest to the Department, and it is most encouraging that the Argentine government is not considering any considerable expansion of the government company, the Y.P.F., but is thinking also in terms of collaboration with the foreign oil companies, particularly American, on the basis of mixed company contracts. If the Argentine government is prepared to go ahead on a sound basis with mixed company contracts with American companies, it is a great step forward and is most encouraging so far as oil policy in the other American countries is concerned. If the Argentine government follows this policy of entering into an arrangement with sound American companies on a mixed company basis, it will be setting a very desirable example for others of the American republics in which satisfactory arrangements for oil development do not yet exist.

The Department will recall that during the last four years we have tried to bring about serious consideration by the Mexican government of the mixed company idea but that up to the present, because of internal situations in Mexico, no progress has been made. I have expressed the opinion to the Department, which I still hold, that in due course the Mexican government will be forced to such an arrangement by its own internal needs and by the complete incapacity of Petroleos Mexicanos. It is not likely, however, that the new President of Mexico, because of the same internal conditions in Mexico, will be able to do anything for several years in a constructive way, no matter how pressing the needs may be of the country, both from the point of view of fuel and of revenue. It is, therefore, encouraging that in the Argentine the present government is thinking in more constructive ways of this matter than previous Argentine governments have done.

I think it is too early to form any definite conclusions as to what can be done, but it is clear that the government is viewing with favor the mixed company idea and there is reason to believe that the Standard, and most likely, Ultramar, will view this project with favor. To arrive at a sound basis for a mixed company, which will give the companies the guarantees which they need, will not be easy, and one of the principal questions to be

decided

decided will be to carefully outline in the contract or in government regulations, or in both, the degree to which the state, as a matter of major interest of the state, can intervene in the affairs of the foreign companies operating with the government under such a mixed company agreement. If there is good will and understanding on both the part of the Argentine government and of the companies, there is no insuperable, and in fact no real difficulty in arriving at such limitation, and I understand from my conversation with Mr. Metzger yesterday that he shares this opinion.

It would indeed be a fortunate thing for the Argentine and for this hemisphere if the Argentine government decides to follow a sound policy with respect to oil development in which program the foreign companies, and more particularly those already established in the Argentine, can expand for exploration and development in defined areas on a sound basis and with adequate guarantees.

I have wished to make this preliminary report to the Department, and in view of the fact that Mr. Metzger will shortly be in Washington to see Under Secretary Clayton, Assistant Secretary Braden, and the officers of the Office of Petroleum Adviser, this despatch should be given, I believe, preliminary attention.

In view of the attitude which the Argentine government has taken in the matter of the purchase of the Unión Telefónica and in view of the interest now expressed by the government in the mixed company idea with American companies participating on the basis of adequate guarantees, I believe that this may be considered at least as an encouraging indication of the attitude which the Argentine government is presently planning to take with respect to such important foreign interests.

Respectfully yours,

George S. Messersmith

To Department in quadruplicate

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