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Paul E. Stuy

AIR MAIL

México, D. F.,
September 27, 1942.

Dear Sumner:

I am sorry to impose this Railway rehabilitation program on you but I am sure that Castillo Najera will be in to see you with respect to certain aspects of it on his return to Washington next week. I have just written a very long despatch but a very important one, No. 4162 of September 26, which is available in the Department at the time this letter reaches you. I would strongly suggest that you have Larry Duggan and James Wright in to see you on this railway matter, and particularly the more recent developments as set forth in the despatch above mentioned, before you see Castillo Najera and before any steps are taken by the Coordinator's office to secure funds for the railway rehabilitation program.

I am sure you know that I am not prone to exaggerate. The fact is that this railway rehabilitation program is at the basis of our whole program of political, economic and military cooperation with Mexico. If the railways are not put in shape to carry the traffic we are demanding and which we need for our war effort, our whole program will break down. This is a broad statement but I wish to reinforce it further by saying that although we are talking about oil and a lot of other fundamental matters with Mexico, this rehabilitation problem of the railways requires our immediate broad-minded and completely understanding action more urgently than anything else. It should be given first priority in our program with Mexico.

The Department has always understood the importance of this railway rehabilitation. The Board of Economic Warfare, I believe, now understands it and is prepared to take the necessary action. The

Office

The Honorable,
Sumner Welles,
Under Secretary of State,
Washington, D.C.

Office of the Coordinator is fully understanding. The War Production Board however, I think remains to be convinced, at least to be fully convinced. The Navy, because of its great interest in the importation of mahogany, has had to study the problem recently and is, I think, now well convinced and ready to take appropriate action. Secretary Stimson and the War Department have, in the last few weeks, shown greater understanding but I still believe that they are not fully prepared to take the fundamental decisions which are necessary because they do not yet understand that failure of this rehabilitation program will seriously impede the war effort.

I have given the above recapitulation of the situation and the agencies concerned because, while the situation is much better and has much improved in the last month, I am still of the opinion that the President may himself have to take a decision and simply inform certain of these agencies that the rehabilitation program must be carried through. You will appreciate that in giving this railway rehabilitation number one priority in our program, I am thinking not of the interests of Mexico but of our own interests and of our major war interest.

We have done a lot of talking about this railway program since January of this year. We have made some progress in convincing various agencies of the necessity of the program. We have, however, made little progress except in talking so far as the program itself is concerned. We have lost very precious time. We have been insisting and waiting, in certain agencies, for the Mexicans to do things when the first steps are up to us. We have now come to the point where the basic decisions have to be made as to the scope of the program, the financing, the furnishing of materials and carrying it through. Realizing the importance of this matter, I have not spared any effort or pains in trying to convince our people at home and in doing the necessary work here.

This letter is for the purpose of saying to you that I think the time is now ripe for the fundamental decisions so that the program can go forward. It will have to go forward rapidly or our war effort will suffer.

I said

I said three months ago that if we did not do the necessary, we would within ninety days or more face a serious situation and what would amount to a practical breakdown in the railways. That point has now been reached, for through lack of motive power a freight congestion in the lines north of Mexico City is becoming greater every day. In the lines south of Mexico City, we are not able to move strategic materials in which particularly the Navy is interested such as mahogany and fibers, because motive power is lacking and certain urgent repairs to track have not been made. Once congestion begins, it become cumulative and I am not exaggerating the situation when I say that unless something is done we will begin to suffer within another four or five weeks at home for the lack of strategic materials from Mexico. The point has been reached where anything can happen unless these fundamental decisions are made by us at home.

The Coordinator has decided to head up this railway matter at home in Mr. Love, a vice president of the Chase Bank, who strikes me as being particularly well qualified to do this job. They are trying to get Mr. Stevens of the Missouri Pacific to head up our Mission here in place of Colonel Hill, who has done a good job but who must be replaced as the job has become too big for him. Love and Stevens have been here for some days and I have given over the major part of my time to talking with them and with Suárez and with the President. The conversations have been most satisfactory as my despatch No. 4162, of September 26, will show, and as the reports of Mr. Love and Mr. Stevens will show when they get to Washington. The President and Mr. Suárez have agreed that we can have some first class railway men here, in a limited number, to work with the head of our Mission and who will be side by side in an advisory capacity with the high Mexican officials who are actually running the railways. You who understand Mexico realize what an extraordinary step this is on the part of the Mexicans, and it would ordinarily be fraught with danger for us and for them were it not for the confidence that I have in Mr. Stevens if he will undertake the job.

One of the fundamental questions to be decided is that of financing. As you know, the Mexican Government

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wants it to be done under Lend Lease. Ambassador Castillo Najera will be, I believe, in his conversations with you very insistent on this. I think the Foreign Office here has the same attitude and I think Castillo Najera, from what he has said to me, will say that the President wants it under Lend Lease and will so insist. I do not believe that the Mexican Government will be in the end insistent on this point and I think if we can work out some other solution other than Lend Lease, which is based on an equitable principle similar to that of Lend Lease, that we will find such a solution acceptable to the Mexican Government.

We will find some resistance in certain agencies of the Government at home to any equitable financing of the rehabilitation program and this will be based on their lack of understanding of the importance of the rehabilitation to us and their failure to realize that rehabilitation is more important to us than to the Mexicans. These people at home will have to realize that while the Mexican Railways are not in good shape and need urgent attention even for Mexican needs, a relatively small rehabilitation program would be sufficient to enable the Mexican Railways to carry the normal and present needs of the Mexican economy, and even what might be called certain war needs from the Mexican point of view of the Mexican economy and Mexican war effort. We, however, are carrying on this enormous procurement and development program in Mexico City, the prime objective of which, on our part, is selfish. Mexico is in many respects now our principal supplier of strategic materials which we need in the war effort and we can get them by rail. But to get them, the railways will have to carry the burden as sea transport will almost certainly be out almost entirely during the war. You get an idea of the burden our war effort is placing on the Mexican Railways when I tell you that we shall, in minerals and metals alone wish to bring from Mexico over the railways seven times the quantity of minerals and metals in 1943 that we imported in 1941. These are sound figures based on our needs and Mexican production possibilities that we have developed already. This means that for our own purposes we want the Mexican Railways to be rehabilitated in a measure that they can carry this traffic, not only in minerals and metals, but in other articles import to us. Even though Mexico can be expected to make her contribution to the war, which is

as important

as important to her as it is to us, it is obvious that of this rehabilitation program we must pay a good share. How we pay it is a question for us to determine at home and in conjunction with the Mexican Government. The important thing is we must decide that a good part of the cost is properly ours.

I personally think it could be best done under Lend Lease as the most convenient method and I agree with the Mexicans that the rehabilitation of the railways is so important a part of the war effort that it falls under Lend Lease principles. I realize our reasons at home, or at least the reasons of some of our people, for not wishing to do it under Lend Lease and some of these arguments are very valid. I realize that we always have to keep in mind the question of precedence. The Mexicans, however, argue that financing railway rehabilitation in Mexico under Lend Lease would not create an undesirable precedent, as no other railway system in the other Americas has anything like the same relationship to our own and to our war effort. I think their argument is a strong and irrefutable one.

On the other hand, I can still see why we will prefer to do it otherwise than under Lend Lease. My thought has been that we could do it in an arrangement with Mexico through an exchange of notes in which we would agree to finance the rehabilitation program of the railways up to a certain amount, either in terms of materials or in cash. The note would specifically say, of course, that as this program is a part of the war effort, and as the burden placed upon the Mexican railways is greater than the normal needs of the Mexican economy and of Mexico's ordinary war needs, we are making this contribution to the rehabilitation program, which would be non-reimbursable, as our contribution for the special burden which our own particular needs are placing on the railways. Such a formality would meet Mexican susceptibilities for the Mexicans do not desire anything which has the appearance of a gift. I mentioned this formality to Suárez and to the President in our conversations during the last few days, and reported in my despatch No. 4162 of September 26, and it seemed agreeable to them. You may wish to have this formality in mind when you talk to Castillo Najera next week.

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There is another aspect of the matter which you may wish to bear in mind in this connection, for it represents an obstacle in certain agencies which may have to be overcome. There has been the thought on the part of some of our people at home that we should simply make makeshift repairs on the Mexican Railways, such as for example repairing iron bridges with wooden beams - in other words, practically that kind of repairs which would be made by an army repairing a damaged railway so that trains could pass. On the other hand, some people in the Mexican Government of course have the idea that this rehabilitation program should cover a complete rehabilitation of the railways for the next twenty-five or thirty years. Either position is untenable under an arrangement such as that we have in mind. It would be utterly unjust to try to force the Mexican Government to make repairs to the railways, that are its national property, which would be purely of a temporary and emergency character just to carry the material which we want to move. Some of our people, however, are still thinking along these lines. We must follow a middle-of-the-road policy with regard to the program but the program must be sufficiently broad to cover our needs. If it is broad enough to cover our needs it will more than cover Mexico's needs and that is another way of saying that we have to bear a good part of the cost; and whatever is done in rehabilitation must not be done in an emergency manner but in a sound way.

We have, therefore, to determine what the program will include, approximately what it will cost and what we will pay. I am not able to say what the program should include, although I have my own ideas. This is a question for the technicians and for agreement with the Mexicans. When we know what the program shall include, then we shall have an idea of what it will cost. In determining what it shall include, we shall have to keep in mind the whole railway problem in Mexico and our demands on the railways; that includes the south of Mexico as well as the north. When we determine an amount, we should at the outset fix an adequate amount on the basis that the program may cover a minimum of two years.

Castillo Najera spoke to me briefly the other day while Suárez and I were waiting to go in to see the President with Love and Stevens. I gathered from him that he had been talking with you about a Lend Lease

agreement

agreement for seventy millions, of which thirty millions would be for rehabilitation of the railways. We were interrupted to go in to see the President so I could not find out just what he had in mind. I think it will take thirty millions of dollars to carry through a complete rehabilitation of the Mexican railway system, but this will include the building of some new lines, relaying certain sections of the track, re-equipment of round houses - that is a long range rehabilitation of the railways on a basis of the next fifty years. This, obviously we could not be expected to contribute to in an equal degree as a war measure which we are now planning: I have always thought, without accurate knowledge, that our contribution to the rehabilitation program, in which we are interested, would probably amount to as much as fifteen million dollars.

The other day when Mr. Love was here, I gathered that the Coordinators Office was thinking in terms of five million dollars. I think this is too little and if we approach the Mexicans in those terms, I think we will create disillusionment to the degree that it will injure us in the carrying through of the rehabilitation program so vital to us. I believe that if we talk in terms of ten million dollars over a term of two years, we can get an exchange of notes on that basis. There is a limit to what can be done in one year, both from the point of view of materials available at home and in Mexico, and from the point of view of the actual work that can be done.

There is one fortunate aspect of the problem which I must mention. We have been talking so far at home and here as though practically all the rail would have to come from the United States. This has made our problem the greater because of the difficulty in getting steel at home. We have been talking in terms of our being obliged to supply five thousand tons of rail a month in 1943. Mr. Stevens, whom we are trying to get into this picture, has already made a very considerable contribution by pointing out that we could not possibly lay five thousand tons of rail a month without seriously interfering with the moving of the freight and the moving of the freight does have to go on while the relaying program, which is essential, is in progress. He believes that two thousand tons of rail a month are all that can be laid and freight kept

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moving adequately. I think he is right. We find that the Monterrey mill should be able to supply these two thousand tons of rail a month, beginning January 1, 1943, so that very little rail would be needed from the United States. This greatly relieves the situation for us so far as the materials are concerned and will be a welcome factor to a number of our agencies at home. I think the Mexicans will be able to accept a two thousand tons per month relay program.

In talking about this with the President, however, the other day, he brought out that this would have to bring about a reconsideration of the financial arrangement which had always contemplated that we would furnish the materials and the Mexicans the labor, etcetera. If practically all the rail is coming from here, there will have to be a compensatory arrangement in the financial end. It would be my thought in this connection that any arrangement whereby we agreed to supply equipment, materials and cash up to ten millions during the two year period of the program, we would supply materials as they were needed and if the equipment and materials contributed did not amount to the ten millions we would supply the remainder in cash.

I have lived and slept with this problem because I believe that it is absolutely essential that we settle it or our war effort at home will suffer, not to speak of our program of collaboration with Mexico. The major decisions, as I pointed out, can no longer be delayed and the decisions are now up to us rather than to the Mexicans. We have insisted that the Mexicans move in the direction of management and have shown scepticism as to their desire or capacity to do this. The President has just told us that he will appoint a new General Manager of the railways who will be a competent man. He has agreed to the idea of Stevens coming here to head the Mission and that Stevens shall have around him a limited number of experienced railway men from home who will be side by side with some of the leading Mexican railway executives in an advisory capacity. He has agreed, and Suárez has so informed us, to see that certain changes are made in the labor contract of the railway workers so that discipline can be enforced and better management and operation secured. I have labored hard to secure these things at this end

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because they are essential but you will realize that these decisions on the part of the President here were not easy. I am convinced of his sincerity and of his purpose to carry through their end. It is now up to us and I am sure that if we make the fundamental decisions necessary, we will get the most complete collaboration from the Mexicans in their end.

The stage is all set to carry through this program and the critical point has been reached when the decisions must be made and carried through. If we do not, I cannot answer for what will happen in the freight situation here and if there is a breakdown here the Army and Navy, which have been reluctant to recognize this situation, will be the first to yell and endeavor to place the responsibility on our Department.

With all good wishes,

Cordially and faithfully yours,

G.S.MESSERSMITH

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GSM/EH