

March 7, 1952

Personal and Confidential

E. A. Graydon, Esq.
The Mexican Light and Power Company, Ltd.
25 King Street West
Toronto 1, Canada

Dear Mr. Graydon:

I have your private and confidential letter of March 4 with reference to the long story which appeared on the Brazilian Traction in the issue of February 23 of the Financial Post of Toronto, written by Mr. McEachern, its editor, who wrote the story from Brazil where he is now visiting. I have read your letter carefully and I have read hurriedly the article in the Financial Post. I will be reading the article in the Post more carefully and I will be writing you again a little later, but this is just a word to tell you that I do not think it would be useful to say anything to the Financial Post about this article. There are times when one can usefully comment to the editors or owners of newspapers on articles which appear in their papers, but it is always a somewhat dangerous thing to do, because the reactions may be very different from those which one would expect. I have full understanding of your feelings with regard to this article and my first reaction would be like yours to say something to the Post about it, but as you know, I have had a great deal of experience over many years with this sort of thing and I have found that it is usually not worth while saying anything and is, as the Spanish say, contraproducente.

I feel sure that Brazilian Traction is not very happy about some aspects of its situation and the fact that Brazilian Traction should be preoccupied does not give me any comfort, but I view it with regret because I am sure that some of the problems which preoccupy it are some of the same problems which preoccupy us, as well as other public utilities, foreign owned and native owned, in Latin America, as well as private enterprise in general. The nationalistic current which made itself so strongly felt in the last years in certain European countries was bound to have its effect in the Latin countries of America and in the Near and Middle East. When France nationalized the electricity industry it set a very bad

example which was noted in all of these Latin countries, for while they know the strengths and the weaknesses of France and her people, most Latin countries have intellectual and cultural ties with France, which although less strong than in the past still subsist, and this is true in countries like Argentina, Brazil, and Mexico, as well as others.

When England proceeded to nationalize the Bank of England, the mines and even the railways, it did not have too much of an effect in the Latin countries and elsewhere because there were certain obvious reasons why it had to be done or why there was understanding for its being done. When, however, England went on with road transport and then with the electricity industry, it was really a serious matter, for although the English are not liked in the Latin countries in the same degree that for instance France and Spain and Italy are, England over many years set norms of conduct in business which were respected. It was quite obvious that the nationalization of electricity would have had repercussions in all the Latin countries, as well as in the Near and Middle East. When on top of this one of the last acts of the Labor Government was to nationalize steel, it was the straw which broke the camel's back and the wave of nationalization and nationalism in the Latin countries of America and in the Near and Middle East really rose to new heights and heights to which few people had dreamed that it would reach. The fact that the Conservative Government may return the steel industry to private hands does not change the effect and the recent unfortunate statement made by Mr. Hardie when he resigned as the head of the British government administration of the steel industry was very bad and it was the act, I think, of a man who is either partially senile or at least who has lost his sense of values and of perspective. Even though the steel industry in England is returned to the private owners, the harm has been done in these other countries.

In the Argentine it has given an entirely new aspect to the nationalization matter. In Brazil it has increased popular feeling in a very real measure in the direction of nationalization. There is no doubt that it has had some effect in Mexico but not as much as in Brazil, where the Communist element is really strong while in Mexico, which has been a Left country for years, the Communist element is, I believe, completely unimportant.

It was the nationalization extremes in Britain which led to the situation in Iran and we are far from being through with that problem.

The statement which Mr. McEachern made in his article and which you quote in which he refers to Spain, Mexico and various countries of Latin America is too broad and sweeping

and made of course by a man who may be well intentioned and even intelligent and well informed, but who obviously does not know Latin America and perhaps cannot be expected to know it.

You know that from time to time I have made certain observations to you with regard to Brazilian Traction and the long range picture. The election of Vargas in Brazil has caused much political uncertainty, because he is politically unstable himself and although he has become somewhat more conservative in the last 5 years, he is still a radical. The Brazilian Traction is in a very vulnerable position because of its control over power as well as trams, gas and telephones in so large an area. I think it is quite right that Brazilian Traction should take note of this situation and one cannot blame them for trying to get favorable publicity for themselves, but in carrying through such publicity about themselves, if they give a wrong impression concerning the acts of government and basic trends in the country, they are not doing themselves any good except perhaps for a very brief period, and are really paving the way for real acts against them by government. I still am of the opinion that for the long range Mexlight is in a better position than Brazilian Traction, but that is not something for us to talk about.

So far as Mexlight is concerned, we have as good if not a better record in the central area of Mexico which we serve than Brazilian Traction has in its area in Brazil. Understanding people in Mexico appreciate this. The unfortunate thing is that even in normal times a completely foreign owned company, and especially a foreign owned public utility, is vulnerable to attack by all sorts of demagogues, labor leaders and irresponsible politicians. In abnormal times like these, the vulnerability is greater and the activity of such irresponsible elements is bound to be greater. We have that situation in Mexico. For example, our syndicate leaders for years have been talking about nationalization, but usually in a spasmodic way and not too strongly. There is no doubt that now the leaders of our syndicate are feeling themselves in a very much weakened position because the workers and the public are tired of them. It is quite natural, therefore, that they are talking about nationalization more than ever in order to distract attention from their own arbitrary acts and in many cases dishonest practices and their complete disregard of the public interest. I feel personally convinced that the leaders of our syndicate, feeling themselves much weaker in the last year, ~~are~~ doing a lot of talking about nationalization and will do some more and will spend a great deal of syndicate money and of the workers in buying up journalists who will write about this. How much effect this sort of thing can have I do not know, but I never underestimate the effect of demagoguery because I have seen too many concrete results in various countries. I do not fear such

activity by our labor leaders nor by certain politicians, but I also do not underestimate the cumulative result of such activities on the opinion of the non-thinking masses. The whole situation really depends upon how wise governments are and how strong they are and how willing they are to use that strength in doing the things which are really in the public interest.

So far as the electricity situation in Mexico is concerned, I think the private companies are passing through a difficult period. The electricity law under which we are controlled is on the whole good, but it has been proved to be inadequate and it restricts the government too much in doing things for the private industry which are necessary. The law, in restricting what it can do for private industry, makes it necessary for the government to do things for the government-owned utility projects because the money comes indirectly out of the pocket of the tax payer instead of through tariffs. There are thoughtful and important people in Mexico who feel that the electricity law must be amended in the next session of Congress beginning September 1, 1952. The trouble is that once such revision is begun, the demagogues get busy and the government may retreat from its sound positions and purposes and one can never tell how such a law will emerge. There is no doubt that the rate of return which the private companies can get in Mexico under the law is not adequate and that that return has to be increased in order to enable the private industry to do its job. The best proof of this is in the fact that the Power Commission is asking the Tariff Commission for a net return of 7 to 8% or even more on its investment, when we are getting a 6% return which we are not really getting. The problems which face Mex-light today are problems which have to be faced courageously, by the industry as well as this company and as well as by the government. In view of the fact that Mexico is so dependent on foreign credits for so much work that has to be done not only in the electricity field but in other fields, and as the United States, a country attached to private enterprise, is still the only source of such credits and will be for a long time, I believe that these problems of the electricity industry will be resolved by the government in an adequate way and that the private industry will remain. There are too many people in the government who realize that the government monopolies and operations so far have been a burden on the Treasury and have retarded development rather than accelerated it.

This is a political year in Mexico and large and small decisions are controlled by politics, but the election will be over in early July but the new administration will not take over until December 1. I personally remain optimistic, but we have our problems in Mexico as you realize, as they exist in Brazil, Argentina and in so many countries. Governments are loath to make decisions these days, whether or not there is a big political issue or election at stake. Recently the Mexican government postponed conversations with the United States with regard

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to the Inter-American Defense Pact only because the election for President is imminent and because they did not want to permit nationalistic elements to make trouble which the government thought it could avoid. All this is bad but unfortunately in politics the same considerations control in most countries. It is only a question of degree.

This is a long letter but I quite appreciate how you felt about this article in the Toronto paper and I am sure it is the Brazilian Traction which is behind it. I have already told you that I do not think the Brazilian Traction is very wise and understanding about some of these things. Sometimes people and companies dig their own grave. We in Mexlight are certainly not going to dig our own grave and we are going to do everything we can to prevent anyone else digging a grave for us, and I think in this effort we have a long record of performance and many good friends here and elsewhere to help us. I do not in any way underestimate the importance of the problem we have to deal with here, but I think we will come out of it soundly and strongly and in a position to continue to serve the Mexican public even better than we have in the past and our record over so many years is good. It means hard work and unremitting effort and attention. In any event, we are not going to do anything unwise along the lines that I fear Brazilian Traction may be doing.

With all good wishes,

Cordially and faithfully yours,

George S. Messersmith

GSM/cbc

March 11, 1952

P.S. Since dictating the letter of March 7 to you with regard to the article in the Financial Post in Toronto written by its editor, I have had the opportunity to read more carefully the article in question and I can only say that more careful reading simply confirms the statements which I have made in my letter. That Brazilian Traction should be engaging in certain publicity is quite understandable and on some occasions in the past I have seen some publicity which they got out or which was inspired by them which was really very good. The present article which you sent me is not very apt or very understanding and I do not think will be useful to Brazilian Traction in the end. I think that there are some pretty grave sins of commission as well as omission in this article and I think that it would have been wise for Brazilian Traction to consider this more carefully before it was issued. The reference to Mexlight, or rather to Mexico in the article is neither wise nor helpful and shows a lack of some understanding of the relative situations. When he speaks of how Brazilian Traction was built up it seems to me that he omits mention of some names which are very important.

The main factor, however, is that undoubtedly Brazilian Traction through this article was trying to counteract the effect of some of the recent action of the Brazilian authorities and the effects of this action in certain financial and government circles. I think they could have presented their case very well. If they are trying to make it appear that Brazilian Traction is in a favored position because it is Brazilian Traction, I doubt very much that that will help them and I hope that the officers of Brazilian Traction are themselves under no illusions as to such special treatment which they may have or get.

There are lots of things which Mexlight should have done in the way of publicity which we have not done for reasons which we know, but so far as the publicity is concerned which we have made, or which we have inspired, we have not I believe fallen into this present error of Brazilian Traction.

The whole question of credit policy of government and private banks and firms and persons towards a number of the American countries is under review, because there is no doubt that there is increasing concern as to the treatment which foreign capital, which has done so much for these countries, is receiving. In my opinion the credit policy which is followed by those who can give credit will be determined by what is done in some of these Latin countries towards giving non-discriminatory and adequate treatment to the foreign capital which has already done so much for the economies of the countries concerned. This is only as it should be.

G. S. M.

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I have been unable to mail this letter and there is another statement in the article in the "Financial Post" which interested me a good deal, where he speaks with pride of the considerable Canadian interest in the Brazilian Traction etc. etc. You know that I believe that the time will come when there will be sufficient capital available in Canada beyond the needs of the country, and that Canadian capital will then be seeking an outlet. I do not know when that time will come, but I feel sure that Canada will be in this position eventually in the same way as the U.S. followed England as the greatest investing country abroad. I am glad to see this Canadian editor speaking of the investment of Canadians in Brazilian Traction with pride. I do not know to what degree the securities of Brazilian Traction are held in Canada. I believe, however, that it is probable that the majority, and probably the great majority of the ownership of Brazilian Traction, is still outside of Canada.

from the editor
The pride which the editor of the "Financial Post" takes in the investment of Canadians in the Brazilian Traction, is a little contradictory to the attitude which seems to be taken by certain officers of the Canadian Government whose operations are outside of the country. During the last six months I have heard responsible officers of the Canadian Government while they were abroad, make remarks to the effect that, after all, Canadians had very little interest in these "foreign companies" which only sought Canadian registration for their convenience. I have heard persons of lesser importance in the employ of the Canadian Government abroad, make remarks to the effect that after all, what protection could such companies expect from the Canadian authorities if they were not really Canadian companies. I have frequently heard the observation that the lack of interest taken by at least certain officers of the Canadian Government in the treatment of the Barcelona Company does not show any comprehension of long-range policy and of where the real interests of Canada lie for the present and future. Out of the long experience that I have had in foreign countries and with respect to the treatment of foreign capital, I would say that it is futile for any company to expect any kind of special treatment in a foreign country. For the present the defense of private interests and private initiative still seems to depend very largely on the attitude which is taken by the U.S. which is at present the only lender country and the only one that can make its views strongly known. It is doing poor service to the protection of any private capital abroad for any government not to take into account all these near-range and long-range factors, and the treatment which Canadian capital is going to get in Mexico or Brazil or Spain or wherever it may be, will depend for some years to come, to a considerable extent on the attitude which the U.S. Government will take. It has endeavored and is endeavoring to maintain the firm position it has always maintained with respect to private capital abroad, but also that of other

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Toronto 1 ,Ont.

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foreign investments in other countries. Other governments are doing poor service to private interests if for such immediate reasons as the payment of small debts they try to avoid the greater issue, and they are weakening the position of the U.S. as much as their own by such a policy. Concretely, Brazilian Traction is not going to get any better treatment than American capital is getting in Brazil.

G.S.M.

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