


November 6, 1947

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My dear friend,

Mrs. Messersmith and I on our trip north to New Orleans reached the decision that I would retire from the Foreign Service of my government and, in view of the fact that we had been able to establish so pleasant a friendship with you and Mrs. Brosens during our stay in Buenos Aires, it was my desire to write you to tell you of my decision and to express appreciation of the association which we had been able to have during our stay in Buenos Aires. Little did I think at that time that I would be actively associated with the work of one of the Sofina companies. I did not write you as I had planned as during the first six weeks we were home I really took a holiday and did not attend to any correspondence.

When it became known that I had definitely decided to retire from the Foreign Service, I was asked to do quite a number of things here in the United States which were very interesting and attractive as well as remunerative. I was not particularly interested as I found that it would be very difficult for me to associate myself with business unless it had a very constructive aspect. After so many years in the Government Service it would have been difficult for me to engage in business purely to make money. This seems like a very egotistic thing to say but it is a fact, for after so many years of what I hope was constructive work in the service of my government, I simply could not get myself to do anything in which I did not see some constructive aspects.

When, therefore, Mr. Heineman, who is one of my oldest friends, asked me if I would consider the Chairmanship of the Mexican Light and Power Company, it appealed to me because I know the Mexican situation fairly well and I have always felt that power and fuel and transportation are the basic factors in any program for the development of industry and the improvement of agriculture of Mexico, the Argentine, and the other American countries. After going into the matter very thoroughly I found that the Mexican Government is really prepared to change its policy with respect to power and particularly with respect to the foreign owned power companies. I also found that the company was prepared to go ahead with an adequate program.

I also found that it was possible to anticipate more active collaboration between the Mexican Government and the Federal Power Commission, and the companies, in the matter of power development. This seemed to open the way for a really constructive task and I agreed to accept the chairmanship of the board which involved residence in Mexico, for with the program which we envisage for the company, it is essential that the chairman reside in Mexico.

The program which has been elaborated covers adequately the period from 1948 to 1952. With this program of the company and of the Federal Power Commission, there should be adequate power to meet the constantly increasing needs of Mexico. This I consider essential for if the program is not adequate, it would lead to constantly recurrent criticism of the government and of the companies, and this would make the consolidation of the new policy of the Mexican Government exceedingly more difficult.

The Mexican Government through the Federal Power Commission has a program for developing a number of hydro-electric projects for which it already has aid through ~~correspondance~~ *credit* from the Export-Import Bank in particular for the purchases of material in the United States. The interest of the Mexican Government in the power problem and the new alteration of its policy are shown by the fact that the government on its own initiative offered to guarantee to the Export-Import Bank through the Nacional Financiera the dollar credit which the company would need for the purchase of the material in the United States. The program of the company will involve four new plants including a steam plant at Lecheria near Mexico City, which is becoming a great industrial center. The cost of the program will be around \$49,000,000 for the period 1948 to 1952, of which about \$23,000,000 is for the purchase of equipment in the United States, and the remainder will be in peso expenditures for materials and operations in Mexico.

I am now in the process of preparing the brief for the Export-Import Bank and I hope that we may be able to get the details with regard to the credit arranged well before the end of this year.

The local financing which will be in the amount of 105,000,000 pesos or 115,000,000 pesos will have to be arranged in Mexico. Money is tight there and it would be difficult to raise that amount for any enterprise in Mexico so that we are thinking of asking the first mortgage holders to extend the maturity from 1950 to 1968, and this will enable us to use some \$10,000,000 which have been accumulated to pay off the first mortgage debentures due in 1950 for local works in Mexico. This will give us about 50,000,000 pesos and the

remainder, which is a considerable sum, we will have to finance in Mexico, but the Mexican Government has expressed its willingness to endeavor to help us in this local financing in Mexico through the Nacional Financiera. Even with that it will be a difficult task to raise that amount in the Mexican market, but I think we can do it as not all of the money will be needed at once.

The only source for capital for any such venture is the United States for there is no hope of getting any capital in Europe at this time for a public utility operating abroad. In the United States the private capital market is closed for any company operating a public utility outside the United States, for the treatment which public utilities have been receiving at the hands of foreign governments both national and local, is such that no private capital is prepared to venture in such an enterprise. It is for this reason that the only opportunity for us to get the dollars for the capital expenditures in the United States is through the Export-Import Bank, and the peso expenditures in Mexico will have to be taken care of through the resources of the company to the extent possible and through local financing in Mexico.

The new attitude of the Mexican Government involves a very radical change in the attitude of that government which up until recently, had been following a policy of at least indirect antagonism towards the private companies. The high authorities of the Mexican Government now realize that the Federal Power Commission, no matter how much money it had at its disposal, would not be able to carry through the task, and they know that the private companies are essential in the economy of the country if there is to be adequate power for developing industry and agriculture. It is, of course, the impact of world developments and economic problems which have brought about this change of policy, but the important thing is that the Mexican Government seems to be sincere in its attitude and, in my opinion, the company is safe in undertaking this new program with the obligations which it involves. In any event, if we were not prepared to do so, there would be no future whatever for the company. I will not go into detail as to this as you know the situation.

I have just returned from Mexico where I spent ten days and had conversations with the president and with the cabinet members who are more immediately interested. I find that there is no doubt that they are thoroughly understanding of the necessity of establishing this new policy and of consolidating it, but I realize that in Mexico, as well as elsewhere, it will be difficult for government to carry through such a new policy and our task and the task of government is not going to be easy.

For that reason, I am of the opinion that it is essential for the government and for the companies to consider their entering into a further program of education of the public as to the real significance of power in the life of the country and of the people. I am convinced that not only in this country, but in Mexico and in Argentina and in other countries, private initiative is necessary in the power industry, and if private initiative is to have the return on investment which is needed to encourage it to provide new facilities, it is necessary to have a more general understanding and a more adequate realization that it costs money to produce power and that that money can only be had if there is a reasonable return on it. In order to bring about this public understanding so that it may be the background for adequate rate structures, it is necessary that people understand what a part electricity plays not only so far as their comfort and convenience are concerned, but also their capacity to make a reasonable living is involved. I am convinced that governments, as well as companies have to consider such a program, for if the public is not adequately educated, it is impossible for governments to carry through the measures which are necessary to provide adequate return on investment, and impossible for companies to get the new capital which will be increasingly necessary to provide power.

I told the high Mexican authorities last week that if during the next three or four years the government and the company carried through their program adequately, it will be possible after three or four years for the Mexican Government and the private companies to go into the private capital market in the United States to get the money which they need for further expansion of facilities.

I am entering this new work with a great deal of enthusiasm because I know that this power situation in Mexico is of such tremendous importance in the country and that there can be no development of industry or agriculture without adequate power. I believe that it is of fundamental importance in all of the American republics that adequate power should be available if there is to be an improvement in the economic life of the countries, and that is essential for our security and defense, as well as for any improvement in the standard of living.

You are so understanding of all of these problems and know so much more of them that I hesitate to write you, but I have wanted you to know the lines along which we are thinking and what we are planning to do for the company. It is not going to be an easy task at the best, but I think we have more reason to be encouraged than in the past.

I believe that in the Argentine the president and some of his most responsible advisers are also of the opinion

that a federal program can go along with a program of the private companies and that there should not be any conflict between the two programs, for no matter how much government and private initiative may do in the Argentine, it will not do more than supply the necessary power for the growing needs of the country.

It looks to me, therefore, that in Mexico and in the Argentine we have hope for a more understanding attitude towards the question of power, and that should be a very helpful influence in the whole power situation in the hemisphere. Of course, there are many people in government in the American republics who have these nationalistic ideas which have no basis in reality, and I am not one of those who would fail to take into account that these elements are there and can make a great deal of trouble.

I am very much occupied here now and I shall endeavor not to go to Mexico to live until I get the matter of the credit with the Export-Import Bank settled. It is my hope to be able to go to Mexico some time between December 1 and 15 to establish ourselves there. I am very happy that a friendship which we so happily formed in the Argentine is to have this additional link of our association in related companies.

Mr. Heineman is in Brussels as you know, and I am very happy that events have been taking the favorable turn which they have. The maneuvers of the Spanish Government with regard to Chade are characteristic of such government and I am sure that the government of the Argentine will not allow itself to be influenced by any attitudes of the Spanish Government. I am sure that President Peron and the Argentine Government have a thorough understanding of the realistic factors involved, and will not permit themselves to become involved in any maneuver of the Franco Government. The question of power for the Argentine is too important, and I am sure that President Peron and the Argentine Government know how important both power and fuel are in the economy of the country, and in any expansion of its industrial structure, and in any improvement of its agricultural economy. I am one of those who believe we cannot trust the Franco Government in this matter of the treatment of Chade, and I do not believe that we should permit any blandishments or any offers of good behavior by the Spanish Government to influence the situation with regard to the reestablishment of Sodec. It is the Spanish Government which has precipitated the present situation by its own arbitrary actions, and the interests of the company and of the Argentine are too important to permit them to be controlled by such arbitrary actions of the Spanish Government. I may be wrong, but if I know President Peron, he will not permit any arbitrary actions of the Spanish Government to injure an interest such as Chade which has made such a tremendous

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contribution to the Argentine economy and will be one of the principal elements that will serve our providing further power for the Federal District. I would like to go into this more fully, but you know so much more about it than I do, but I thought you might be interested in my ~~news~~ *news*. I have great confidence in the ultimate judgment and solidness of the decisions of President Peron, and especially when he is aware of all the implications of a problem, I have always found that when President Peron has all the facts, his judgment is good and solid.

This is already too long a letter, but I wish to tell you that I am very happy to have this new association, and I hope that my actuation as Chairman of the Board of the company, resident in Mexico, will be such as to not only help the company, but to make a contribution to the economy of Mexico and of the United States. That is a great pretension, but it is one which I believe is realistic and if I can do anything to help in this American picture, which I believe is so important, I do it with my whole heart.

While I shall devote my attention to the affairs of the Mexican Light and Power Company, I shall in every possible way continue to do what I can to aid in strengthening the economic situation in all of the American republics, for I consider this essential for each and every one of them, and one of the strongest bulwarks which any United Nations Organization for security and peace can have.

We often think of the pleasant hours which we spent with you and Mrs. Brosens, and Mrs. Messersmith joins me in affectionate regard and all good wishes to you both.

Cordially and faithfully yours,

GSM:ss

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