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Forma 291-5. M. L. R.

THE MEXICAN LIGHT AND POWER COMPANY, LIMITED

(COMPAÑIA MEXICANA DE LUZ Y FUERZA MOTRIZ, S. A.)

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MEXICO, D. F.

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AIR MAIL

VERY CONFIDENTIAL.

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REPL:						
FILE: Messersmith						

Dear Dannie:

I have to refer to my very confidential letter of May 28 with regard to the CADE and the Argentine situation. I must frankly tell you that I have been so occupied with things here that I have not been able to go into this correspondence referred to in the beginning of my letter of May 28 with the care that I should like to, but as I am going to be very much occupied for the next five or six days at least, I want to write you just a few thoughts which I find I failed to cover in my letter of May 28. I will put down these thoughts in a rather disjointed way, for they do not have, in some cases, direct relationship with each other.

The article which I understand appeared in the *ECONOMIST* which Wilmers sent you from Brussels is not bad and there is no doubt that the Germans are going to do everything they can to build up export markets while the United States is busy looking after itself and others, including the Germans. This isn't anything against the Germans more than it is against the British and the French and the Belgians and others. While we are breaking our necks for ourselves and for them and devoting our production machine to the common defense and security, every single one of them is planning to take advantage of our occupations and preoccupations and to snatch our markets away. It is a development which had to be expected and the fact that it isn't nice doesn't change things in any way. The Italians, the French, the Belgians and the British in particular are very busy here in Mexico and there isn't any doubt that they are going to get a lot of business directly, and that they are going to go into business with some Mexicans to produce things here. The same process is going on in Brazil, Argentina and other Latin American countries. By the same token they are invading our own markets in the United States. I suppose that when there is a struggle for existence going on and we at least have the will to survive and to do what is necessary to survive, that we will have to let some of these things go on, but frankly it makes my blood boil and it boils more when I think that a number of these European countries are doing what they are doing to displace us through money which they have from us as a gift.

The terms which the A.E.G. is prepared to give to the Argentines for San Nicolas equipment are apparently not as easy according to Brosens's airgram, which is of course more exact than I was led to believe from the information which Alejandro Shaw gave me when he passed through here. I don't doubt but what the A.E.G. can give the terms which Brosens indicates they have offered to the Argentine; that is, as you well point out in one of your letters, for the heavy equipment. The people handling this in the Argentine do not realize all the equipment that goes into a plant like that and there are perhaps

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several score of manufacturers who are involved in supplying all the material, and that all the material is necessary for the plant. I do not conceive it possible that such terms could be arranged for all of the equipment as the terms which the A.E.G. is prepared to offer and I do not think that the A.E.G. could undertake to furnish all the equipment on the terms which it is prepared to give for the turbines and generators. This is one of the things which Brosens could point out to the appropriate people in the Argentine and of course to the President. We who are building these plants in Mexico know that the securing of all the equipment means arrangements not with a few firms for a few items, but for all the items, or else the whole business serves no purpose.

There is the basic question as to what degree the German Government and the German banks can make it possible for the A.E.G. and other companies in Germany to give these facilities. I am not prepared to make a categorical statement, but I don't believe that the German Government or the German banks can give this sort of facilities except on the basis of what we are doing to help them. You know that I believe that we should help Germany get on its feet in certain lines, but there are some very fundamental measures of prudence which we must take in other fields as well as armaments. There is no reason why we should be complete nincompoops even in times of such crisis as we are in and when we are prepared to make so many sacrifices for ourselves and others. There are limits. I have been giving this a lot of thought and have been considering writing McCloy and Snyder and Martin and several people in the Department, but I have come to the conclusion that it is a very difficult thing to write about and that it is much better to talk it over. For that reason I hope to spend enough time in Washington before going to Toronto to talk over this question with some of the highest officials in our Government concerned to see what can be done to protect ourselves in the measure possible in this time of crisis against disloyal practices by those whom we are helping. I will talk over this phase with you when I see you.

Wilmers raises the question as to the possibility of the Argentine being able to build up favorable balances in Germany and certain other countries through exports. I do not think that Germany can take much meat from the Argentine. I don't know enough about the present cattle, etc. situation in Germany to have any definite opinion, but certainly normally meat imports into Germany from the Argentine would not be great. So far as grains and certain vegetable oils are concerned, the Argentine is a natural market for German imports which Germany does and will need. Whether Germany will import these grains and vegetable oils from the Argentine will depend upon factors I cannot pass upon now for lack of adequate information, but certainly the market will be there for them in Germany in adequate volume to enable the Argentine to build up a good balance in Germany. This applies also to France and Belgium.

The export capacity of the Argentine of certain items must not be underestimated. Through a combination of world circumstances she has just made a lot of money out of wool and wool exports from the Argentine continue to be considerable. This means a lot of money for the Argentine. With the con-

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clusion of the British meat agreement the Argentine situation will be eased considerably in some respects, and she has taken good care not to agree to give the British too much so that she will have meats available for other buyers where she will find it advantageous to build up balances. There is reason to believe that the internal policies of the Argentine which led to decrease in agricultural production are being changed. If the Argentine Government is wise enough to do the right thing and correct some of its internal and external malpractices in connection with the agricultural situation, she is going to improve her buying capacity in European markets very considerably and very rapidly unless there should be disastrous climatic conditions in the Argentine, which it may be noted seldom exist there.

There is a very real probability, therefore, that the Argentine can build up adequate balances in Germany to pay for the equipment which the A.E.G. is ready to sell them, and other equipment as well.

One of the things which I think must be brought home to the Argentines again is that German deliveries are undependable in spite of their desire to export and capacity to produce. It is true that deliveries from all sources may be precarious, but certainly the safest place from which to expect delivery is still and will be under the worst circumstances the United States. In view of the precarious situation which the Argentine Government has permitted this electricity situation to get into by its lack of prevision and sound action, it would really be compounding a felony for the government to place its dependence on deliveries from Germany or European countries. If there were a fairly normal situation in the electricity production situation in the Argentine they could take the risks in ordering certain equipment from Europe. Here in Mexico the Federal Power Commission, knowing that Mexlight had done the wise and proper things in ordering its equipment in the United States, took the risk of buying some turbines and generators in Europe, but they wouldn't have thought of doing that if they had not pretty good assurances that if they don't get delivery Mexlight can follow through the crisis with what it has done. The situation in the Argentine is entirely different because there the shortage already is considerable and it will take several years before they can begin to catch up and they can't run the risks involved in that without jeopardizing the economy of the country over a long period.

I thought we had made these points pretty clear to President Perón when I was down there, but I can see that he has so many things to think about that some of these things do not get his attention the way they should, and that is why I think Brosens will have to press them in on Perón again, as I took the liberty of suggesting in the latter part of my letter of May 28.

I was greatly interested to see in the communications from Brosend that the Economic Council is considering restriction measures in connection with energy which will involve the closing of factories half a day a week. We pointed this out to the President and some of his associates in February. In my opinion and from what I observed in February in Buenos Aires, it won't be long before it will have to be a day a week that the factories will have

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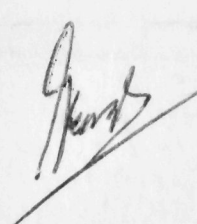
to be closed. I won't go into this in detail, but I pointed out to President Perón in February that the hours of work per day or per week would certainly have to be cut down in most of the factories before long and that the government would likely tell the factory owners that they would have to pay seven hours for five hours work and that perhaps the factory owners could do this for some months. I said that it was inevitable that in the course of some months these factory owners would have to come to the government and simply say "Here is our factory, take it, we can't run it any longer". The only recourse of the government would be to take them over and run them and they could do it paying seven hours for five hours work for a certain period by printing more money. I pointed out that the inflation was already so great that the effect of this procedure of the government would be such that the money would go down in a degree that it couldn't continue very long, and then would come disaster. I recall having said something like this to both President Perón and Mrs. Perón and I thought it had impressed them at the time. Perhaps the government thinks it can keep this going until after the elections in 1952, but it seems impossible to conceive that they could proceed on such a basis, for the debacle of the government would be bound to be worse than any consequences now.

Franco has set a bad example for the Argentine by being able to manage to get along somehow for so long. Although I think President Perón and the Argentines are pretty disillusioned about Franco and Spain, the example is there, and the British have not been too good about giving examples either. There is some basis for the Argentine Government thinking it can get away with most anything,

These are just some further thoughts that I wanted to get to you to supplement my letter of May 28, and I wanted to do it hurriedly today, as I doubt if I will be able to write in the next five or six days.

With all good wishes,

Cordially and faithfully yours,



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