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Forma 291-5. M.L.F.

## THE MEXICAN LIGHT AND POWER COMPANY, LIMITED

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

CA } "MELIPOCO"

2A. CALLE DE GANTE No. 20.

APARTADO POSTAL  
P. O. BOX }

124 BIS

MEXICO, D. F. June 12, 1949.

Mr. Wilmers  
Cette lettre demande  
E. de réponse ?

PURELY PERSONAL AND NOT FOR THE FILES

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MM Heineman  
W. Wilmers  
for Mr. Le Paige

Dear Dannie:

I think I should write you some thoughts of mine with regard to the service contract. I have just received a letter from Mr. Allan Graydon dated June 8 with which he sends me a copy of a letter of the same date which he has sent to Mr. Wilmers and to which is attached a long memorandum prepared by him dated June 7 on the service contract between Mexlight and Sofina. I find this memorandum most helpful and constructive and characteristic of the sound comment and broad understanding we always get from Mr. Allan Graydon.

First of all may I say that I regret the delays there have been in completing the service contract? I do not think that these can be attributed particularly to Brussels or Mexico City or Toronto or New York, and certainly not to the World Bank. You will recall that we had the principal considerations which have to do with compensation under the contract ironed out with the World Bank early this year when Mr. Maryssael, accompanied by Mr. Le Paige, had conversations with Mr. Iliff and Mr. Burland in the World Bank. It was left that we would work out a service contract on the basis of the ideas agreed upon and present it to the World Bank for its approval. Since that time there has been a good deal of conversation and exchange of letters and further drafts have been worked out but up to now we have not had a draft that we can submit to the World Bank on which there is agreement. It is unfortunate that there has been this delay but all of us have been surcharged with work so that I do not think the delay can be attributed to anyone in particular. I have had a letter from Mr. McCloy recently in reply to one I wrote him concerning the reorganization of the capital structure of Mexlight and the long-term loan, of which you have a copy. Under separate cover I will send you a copy of Mr. McCloy's very constructive reply. Mr. McCloy mentions among other things which should be completed in the very early future the matter of the service contract and I think it is essential that we place ourselves in accord on this matter in the next few weeks and definitely approve a contract by the Board of Mexlight at the Board meetings which will be held in Toronto on June 29 and 30. Before the Board acts thereon we shall have to be sure that the contract is agreeable to the World Bank and if at all possible I shall endeavor to clear it with them in Washington before I go to Toronto for the abovementioned Board meetings.

Aside from the delays which have taken place due to a number of us here and elsewhere being surcharged with work, it would be useless to endeavor to conceal from ourselves that there are certain fundamental differences in concepts with regard to a service contract, and particularly this service contract,

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D. N. Heineman, Esquire,  
38, rue de Naples,  
Brussels, Belgium.

which have delayed the final redaction of the contract and it is concerning this that I wish to write you, for I believe it is important for the company and for Sofina that we view this matter from the same point of view.

Concerning the relationship which has existed between Sofina and Mexlight and which in my opinion has been constructive and mutually helpful it is not necessary to enter into details. It is a fact that Sofina has had and has an effective control of Mexlight through the ownership of Sofina and affiliated companies of Mexlight securities. That Sofina has exercised its intervention in a constructive way is evidenced by the fact that in spite of all the difficulties which the company has experienced of one kind or another its plants are in good shape and the company has continuously up to now been able to meet the demand for power in the area which it serves.

We are, however, living in a different kind of world from that in which we lived for many years, and rightly or wrongly, we have to modify certain concepts and practices in order to meet the new conditions with which we have to deal. One thing we have to recognize is that public utilities are having a hard time in almost every country. We have to recognize that public utilities like Mexlight which are completely foreign-owned and operating in a country in which there is no direct holding of its securities have a particularly difficult time. We have to recognize that the movement towards the nationalization or operation by government, not only of public utilities but even of other industries, has made a good deal of headway even in countries in which a few years ago we did not anticipate it and in which we expected sounder and more understanding realization of fundamental economic facts. We have to recognize that even backward countries in some cases are making a good deal of progress and that public opinion is much better informed and in some cases more intelligent than in the past and considerably more vocal and effective. We must recognize that there is an increasing repugnance and definite opposition to the operation not only of public utilities but also other industries located in a certain country, from outside the country. These and other facts we have to take into account and if they are intelligently and understandingly met, interests which are important to their owners and to the economy of the respective country can be conserved and strengthened.

In the case of Mexlight we have, as you know, suffered in the past from public and syndicate attacks and also from lack of understanding by government, and this has caused serious problems for the company. You know that during the last few years there has developed in Mexico a better understanding by the public of what Mexlight has done and is trying to do for the economy of the country. You know that the government is more understanding of what Mexlight has really done and is endeavoring to do and that this has found concrete expression in the Mexican Government having guaranteed our interim credit with the World Bank and being prepared to guarantee the long-term credit. You know that the Electricity Law which provides a reasonable return on the investment of the electricity companies has not been implemented, but that as a result of greater understanding and appreciation of fundamental and irrefutable considerations we hope to get before the end of this month a fixed rate of return on our investment and new definitive tariffs which are reasonable and which will give us a reasonable return on our investment. You know that so far as our syndicate is concerned, which is one of the most difficult to

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deal with in Mexico, we have been able to enter into a different type of relationship with it which is slowly bearing fruit. There has been practically nothing in the press in Mexico in the last two years attacking Sofina and Mexlight and this is the reflection of a good deal of well-considered and continued effort to bring about understanding. We are in a better position in this country than we have been at any time in the history of the company in Mexico.

Sofina has this controlling interest in Mexlight. Under the reorganization of the capital structure which we are now endeavoring to carry through Sofina will retain effective control. This is a fact which has to be recognized by us in all its implications for it will not escape the attention of the Mexican Government or people or our syndicate and all our own security holders. It is therefore in the interest of Sofina, as it is of Mexlight, that there should be no possible basis for any attack or criticism of Sofina or Mexlight on any detail. This has important implications in many respects. The fundamental interest of Sofina is that Mexlight should prosper and have an assured future. It serves no purpose for Sofina that it should "direct" the activities and operation of Mexlight. It does serve the interests of Sofina that Mexlight should be a going, developing and earning company. Completely aside from this Mexlight could not be a going, developing and earning company if it were to be directed from outside the country. This is fundamental.

The service contract has a very direct relation to this whole matter. There is, as you know, an aversion in governments and in public opinion generally to a company such as Mexlight having its service contract with a company which is also so large a holder of its securities. Whatever we may think about this attitude we must recognize that it exists. We must also recognize that in some cases certain companies holding so large an interest in a particular company with which it has a service contract has abused its position. This is not the case so far as Sofina and Mexlight is concerned and I think we have gone far to convince the Mexican authorities and the World Bank that the relationship between Sofina and Mexlight has been helpful and constructive.

So far as the service contract between Mexlight and Sofina is concerned there is no need for placing in it some of these protective clauses for Mexlight and Sofina because there is no question of Mexlight and Sofina endeavoring to abuse their position under the contract. Nevertheless, there is a tendency to put clauses and phrases into the contract which imply the need for such protection and these make a very unhappy impression on those who examine the service contract, and we know that such service contracts are open these days and will be open in the future to the most critical examination.

Then there is the further consideration that Mexlight must be free to enter into a service contract with any competent company rendering such services with which it may wish to make such a contract. It would be against all current opinion everywhere to consider that because Sofina has this large interest in Mexlight and happens to be in a position to give certain services that we want, that Sofina can impose a service contract on Mexlight or that Mexlight must make its service contract with Sofina. Mexlight would not think of making a service contract with anyone except Sofina because there has been a happy, constructive and helpful relationship and Sofina is in a

position



position to give us the service we want in Mexlight, and in my opinion in a better position to give it to us than any other company that I know of. What is the use, therefore, of putting protective or exclusive provisions in the service contract we are about to enter into, because they serve no purpose either for Sofina or Mexlight but they do give ground for suspicion and criticism outside for which there is no basis but from which both Sofina and Mexlight can suffer very badly?

There is no doubt that in the minds of some working on this contract there has been the thought that certain provisions must be put therein which will safeguard the exclusive rights of Sofina. There is no doubt also that some of us, having in mind the realistic problems which Mexlight has to confront, have taken the position that under these circumstances Mexlight must be protected. It is this which has led so much to the quibbling over the drafting of the contract, and this on top of the lack of understanding of certain fundamental considerations I have pointed out in this letter which have to do with the world in which we live, which we have to take into account.

I will not go into further detail. What is important in this contract is, one, that Mexlight has the services of Sofina and that Sofina has the financial advantage which comes to it from having the contract with Mexlight, two, that the contract fix reasonable bases of compensation, and three, that there be just, sufficient operational clauses in the contract to provide for its smooth functioning. Aside from this there is no reason for their presence, for Mexlight wishes to continue this happy relationship with Sofina under previous service contracts and I am sure Sofina wishes to continue it, and I cannot see the possibility of any real difficulties or differences arising through the operation of such a simple contract in which both parties would show good faith.

We have to settle this matter now in the immediate future. Mr. Allan Graydon, in his letter to Mr. Wilmers of June 8 with which he sent him a very constructive and understanding memorandum dated June 7, has stated that he is redrafting the contract incorporating in it the ideas expressed in his memorandum and that he is sending a copy of this new draft to Sofina and to us and to Amintas, etc. I have given a great deal of thought to this matter and I know that Mr. Allan Graydon has done the same and it strikes me that his comment in his memorandum is most pertinent and understanding and I am inclined to think that the draft contract which he is going to send us should be very acceptable to Mexlight and Sofina. It is my hope that in Sofina and by all of us concerned Mr. Graydon's draft will be considered in the line of the concepts expressed in this letter and which I believe it is likely that Mr. Graydon had in mind in the making of his observations in his memorandum and in the draft which he will send us. It should be very easy for us to place ourselves in accord on Mr. Graydon's draft and as soon as we have it here in Mexico City, as I am sure is the case in Sofina, we will give it immediate attention so that what further exchange of views may be necessary can be carried through very quickly and that we may get a resolution of this matter when I am in Washington before going to the Board meetings in Toronto at the end of the month.

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I would have liked to leave here earlier and really by this time, but in view of the rate question which is, I believe, in the last stages of decision, I have delayed and am delaying my departure and it may be that I cannot leave here until around June 24 for Washington. By that time we should be able to be in accord on this service contract so that I can present the draft to the World Bank around the 25th or 26th of June in the hope of getting their approval and then we can approve in the Board meeting of Mexlight in Toronto before the end of the month. Mr. McCloy has made it clear that in his opinion this is one of the matters on which an early decision should be reached.

Believe me, with very good wishes,

Cordially and faithfully yours,

A handwritten signature in dark ink, appearing to be 'G. H. B.', is written below the closing text.