

Mn. Wilcocks
~~DelBuck~~ M
Sanuelo

2
-

777

H.407 On 31 OCT 1950

Forma 291-5. M.L.R.

THE MEXICAN LIGHT AND POWER COMPANY, LIMITED

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

DIRECCION TELEGRAFICA }
CABLE ADDRESS } "MELIPOCO"

2A. CALLE DE GANTE No. 20.

APARTADO POSTAL }
P. O. BOX } 124 BIS

MEXICO, D. F.

October 25, 1950.

AIR MAIL

H. 5662

REC'D: 31. 10. 50						
H	VdM	Sm	Eh	VI	Lo	YJ
nn	Ste			Le	Sec	den
	LV	Lu	Ful			Du
REPL:						
FILE: Messersmith						

PERSONAL AND CONFIDENTIAL.

Dear Dannie:

I appreciate very much your personal and confidential note of October 16 (3662) and your two letters of October 17 (3672 and 3694). I wrote you a brief acknowledgment under date of October 23 and immediately after sending you that letter got your interesting telegram of October 24 referring to my letter of October 17 and the contract for the Patla tunnel.

There are so many things that I would like to talk over with you in detail that it is impossible to cover them in a letter, but I did want to reply to your letters above referred to and the telegram in a little more detail than I gave in my letter of October 23. First of all, with reference to your personal and confidential note of October 16 (3662) with reference to Maryssael's letter and mine and his memorandum concerning the interest of certain firms in getting a good deal of our stock, I repeat that we appreciate the attention which you gave this matter. While I am inclined to think that to all intents and purposes the holdings of the Sofina group in preference and common shares is sufficient for effective control, there does exist the possibility that a determined group who wish to get control would be able to do so. I think the possibility of their being able to do so is small. I agree with you in this entirely. On the other hand, it is so important in the interest of the company, and I believe in the interest of Sofina and associates, to take some steps through friends, and real friends, to get about 10 per cent more of the voting power. I am inclined to think that it would be much better if this additional approximately 10 per cent could be acquired in the name of other than Sofina and associates. It will, I think, be better all around if it is that way. Certainly for the company in Mexico, which we always have to keep in mind, it would be better if Sofina group holdings are directly no greater than the present holdings and that this approximately 10 per cent more is in definitely friendly hands. The cost of acquiring the additional holding is not considerable and it is worth making the investment to protect the present investment. It is too early to say just how things will turn out in Mexlight but certainly things are going well and both the common and preferred shares should gradually sell for considerably higher prices than the present market value.

Of

D. N. Heineman, Esquire,
c/o Sofina,
38, rue de Naples,
Brussels, Belgium.

Of course if there is any rapid or concerted buying of either the preferred or common the market price is going to go up very rapidly and that is not good for anybody. I am, however, very happy to know, as is Maryssael, that you are keeping this very much in mind.

Since Maryssael and I wrote you on this matter we have not heard anything further, either from our friends here in Mexico City or from elsewhere, with regard to the plans of Becker and others. I am inclined to think that for the present it would be better for Nat Samuels not to approach his friend in the Becker firm. Our friends in Mexico City who are mentioned in our letters to you and in Maryssael's memorandum are intending to explore this situation and Becker's real intentions directly with them and for all we know are already doing so. I think probably we will get more accurate information as to the real objectives of the Becker firm and associates through our Mexico City friends than Nat could get from anyone in the Becker firm. The Becker firm, according to what they have so far said, are not interested in control, but I think we must take this for the present and until we know more with a good many grains of salt. If they are looking for control it is not likely that they would be very frank with Nat in any conversation he would have with them. I think you will agree, therefore, that for the present it would be better to withhold any such approach until we have heard from our Mexico City friends as to the results of their conversations with Becker and with White in the United States.

With reference to your letter of October 17 (3672) concerning orders, I noted with particular interest the first two paragraphs in which you give your estimate of the broad political situation. You have, in your usual way, in a very few words pointed out some very salient factors and I agree with you that the developments in the Korean war have given us a breathing space, but I do not think that we can take it that it is a breathing space for some years. You think it may be possible during these next years to come to some agreement with Russia. I may be entirely wrong, but I do not think it will be possible to come to any agreement with Russia. I do think that the way things have been developing in the past few months has given her a setback and if the situation is handled with the same firmness and decision and action in our country and in Western Europe it is possible and even probable that Russia may be deterred from her adventure into war. I do not believe, however, that any agreement can be found, but that if the peace is to be maintained it will not be on the basis of agreement, but on the basis of Russia not being able to go ahead or feeling that she cannot go ahead with safety. This involves tremendous expenditure by the United States which if continued too long would bankrupt us, but when things happen they happen not only in one country but in others as well, and I think the strain on Russia in some respects will be as great as it is on us. I agree with you that we have a breathing spell.

Under the circumstances as we can now face them and sufficiently realistically, Maryssael and I have come to the conclusion which you have that it is safe to place certain orders in Europe.

You

You refer to the orders for the Patla generators and turbines and the very much cheaper price at which we could have got them in Germany and elsewhere in Europe. I can assure you that Maryssael and I gave this the most considerate thought and took into account every factor which I believe had importance. We would have liked to place the orders for the generators and water wheels in Europe because of price, for we are keeping very much in mind the same considerations in this respect concerning the cost of the program which you have constantly had in mind and in which you have been so helpful. The deciding factor in determining to place the order on this side of the water was that so far as the generators and waterwheels are concerned we could not take any risk. Of course it may be said that the risk on this side may be as great as it is on the other. I believe, however, all things considered, the risk is less on this side than on the other. The really deciding factor, however, was one of policy here. If we had placed these orders abroad for the generators and waterwheels and something happened to interfere with delivery we would have been criticized locally in Mexico much more than we would be criticized if we had placed the orders in the United States and something happens there. The Federal Power Commission, as I mentioned in a previous letter, could take the risk in placing some orders some time ago for heavy equipment in Europe, but they can take risks so far as public opinion is concerned which Mexlight cannot take. This power situation in Mexico is such that we have to carry through our program according to schedule or it would create serious difficulties for the company, for all the responsibility for not carrying it through on time would be placed by the government and the public on the company. On the other hand, if the Federal Power Commission does not complete its program on schedule there will, of course, be some criticism of the Commission and perhaps even of the government, but it will not be a serious matter for the government or the Commission, for they have the organs available to make their alibi. If we fail to complete our program on schedule the same means will be available to the government to attack us. We have been doing so much in recent years to establish the position of the company. We have a better position so far as the government and even so far as the public are concerned. We must keep this position. While I believe that the government is sincere in its policy of supporting the private companies and of not letting the Power Commission encroach on the private companies, this does not mean to say that there are not some people in the government and some in the public, especially in labor circles, who have stopped their attacks on the private power industry, and who do not wish to weaken it in any way they can. These elements will seek in the future, as they have in the past, to use every possible excuse to put the company into a bad light. We are trying to steer our course in such a way that such attacks against the company are not possible and so that we will continuously more and more consolidate our position. I think we are doing this. Even in the government they realize that Mexlight, among the private companies, is the best company in this field in Mexico, and even in the government they realize, and I think more and more so, that Mexlight is operating much more efficiently in every way than the Power Commission. This is to our advantage for it strengthens the position of the private industry, and one of the things we have to keep in mind in Mexlight constantly is to keep our operations more efficient than those of the Power Commission.

In

In any event the orders for the Patla generators and waterwheels have been placed with Allis-Chalmers, and Le Paige, who was in New York at the time the orders were placed, was in accord that they should be placed over here and with Allis-Chalmers.

So far as the orders for the other material of importance which had not been placed are concerned, we are definitely considering placing orders on the other side. With regard to the towers for the new transmission line from Necaxa to Mexico City we have given this a great deal of thought and Maryssael, Le Paige and I came to the conclusion that we were sufficiently safe in placing these orders with a German firm, the bid of which was over \$200,000 dollars under the lowest American bid. Taking into account the short delivery and all the other factors we came to the conclusion that even if some untoward event prevents the delivery of the towers by the German firm we have a good chance, in view of the importance of the program, of getting them in the United States in time and even as a last recourse of getting them made here in Mexico. Some of the factors which we had to consider in connection with the towers were entirely different from the factors which we had to consider in connection with the Patla turbines and generators. The order for the towers has been placed with this German firm.

We have about decided to place the orders for the penstocks for Patla and the surge tanks with a German firm as well, for the same reasons which determined the decision in the placing of the order for the towers. I have not seen Le Paige and Nikiforoff today, but if these orders have not yet been placed they will be placed in the next few days, as Maryssael and I took the decision in principle a few days ago. I am sure that you will agree with what we are doing in this connection.

With reference to your letter of October 17 (3694) concerning the recent rains with which we have been blessed, and the coal situation in Europe, I am glad to say that the storage at Necaxa today is 118.3 millions. I think we will continue to gain a little bit from the river flow which is still a consequence of the big storm which helped us so much and which saved the day so far as restrictions until the next rainy season are concerned. We have been hoping that we may have the benefit of another storm in the Gulf which will affect the Necaxa area but it is getting pretty late in the season. We are almost definitely certain that the water storage at Lerma and Ixtapantongo will not improve and as you know it is unsatisfactory. There is a slight possibility that we may still increase the storage at Necaxa. In any event, if we can keep the mobile steam plant of 10,000 k.w. from the Navy we will be safe so far as restrictions are concerned. I know what a relief this is to you and I can assure you that it took a load off our minds here which had been weighing very heavily on us.

We had a letter from the Navy Department a few days ago saying definitely that we would have to return the eight Diesels and now that we can dispense with them we are happy to get rid of them and they will be shipped back to St. Louis to the Navy towards the end of November or in the first days of December. The Navy at the same time informed us that the decision with regard to the steam unit had not been made and we would be informed

later,

later, but from what we were told by the Bureau of Yards and Docks while we were in Washington and from what I have heard from friends in Washington since I think we will be able to keep the steam unit. Should we fill the dams at Necaxa, which is of course only the slightest possibility, we could also dispense with the mobile steam plant, but I am of the opinion that in any event we should keep it because it is of sufficient capacity to be of real help in the system if we should have some temporary difficulties in any of our installations. I can only say that at this writing it looks as though we will be able to keep the steam unit and that we do need it in order to make sure that there will be no restrictions until the next rainy season.

I have been particularly interested in what you say concerning the coal situation in Europe, which is even worse than I thought it to be from the inadequate information which I had. I have noted with particular interest the suggestion of Nat Samuels to stock coal in the United States for Buenos Aires and that there is a possibility that this kind of a purchase could be financed by a private commercial bank or banks since the coal would remain in the United States as security and which shipment would be paid for by the Banco Central in dollars as in the normal course of business. I am inclined to think that the Chase or the Irving Trust, and perhaps the National City, would be interested in such an arrangement. It would be easier to work out such an arrangement than a loan or credit from the Export-Import Bank. As a matter of fact, I think it would be very wise to explore this situation very fully with a private bank or banks at home before approaching the Export-Import Bank. As a matter of fact, I think the State Department and the Export-Import Bank could be got to give such a credit by a private bank or banks their blessing. I think it would be a very useful thing for Nat to explore. I believe the attitude of the State Department and of the Export-Import Bank would be sympathetic towards a credit for coal, but as you know the machinery of the Export-Import Bank moves rather slowly. If there is anything that I can do in connection with this CADE coal situation please let me know.

I was very much interested in your telegram of October 24 with regard to the contract for the Patla tunnel. It came after we had received and opened the bids. There are six bidders. The bid of the firm in which the Société Générale d'Entreprise is interested is the lowest and is, I think, around 21,000,000 pesos. The highest bid is from the Rosoff firm, which has just completed the Lerma tunnel, and is 58,000,000 pesos. It is incredible, almost, that there should be such a wide spread between the bids, for the highest bidder, who has just completed a similar job, has put in for three times the amount of the lowest bidder. We knew that we would have to examine these bids very carefully individually and then compare the bids very carefully, but we did not anticipate that the problem of examination of the bids and determination to whom to award it would be as difficult.

Our own people, who have naturally been living with this project and who are pretty familiar with costs, have had in mind that the work would cost around 35,000,000 pesos. The bid, therefore, of 21,000,000 pesos seems to be just as much out of line as the highest bid of around 58,000,000.

Every

Every one of the six firms which has bid is very interested in getting the contract and I think prepared their bids very carefully because they know that Mexlight is going to award this contract in such a way that political considerations and friendships will have nothing whatever to do with it.

I think you know from the letters which I have written that so far as Maryssael and I are concerned, if the firm in which the Société Générale d'Entreprise is interested makes what is on the whole the best and most acceptable bid, we would have no hesitation in awarding the contract to them. I frankly, for the reasons which I have conveyed to you already, would have preferred to see this new company confine itself to bidding on the Falcon Dam. The thing I fear most is that if we decide to give them the contract some of these Mexican firms will say that the firm was organized only at the instance of Sofina in order to get this contract from Mexlight for the Patla tunnel. It will be all wrong and very unjust, but that is the sort of thing one has to expect in the world in which we live. On the other hand, Maryssael and I are of the opinion that if their bid appears to be the best in every respect they should have the contract.

There is, of course, no doubt concerning the engineering capacity and experience of the Société Générale d'Entreprise and if the new company should get the contract I think that they would bear the responsibility of the engineering and construction work rather than the Larrea firm, which is the Mexican firm in the combination. I frankly do not think that the Larrea firm is as competent through its own organization as the other firms which have bid, including the other Mexican firms. We have been told, however, by representatives of the Société Générale d'Entreprise who are here, that if they get the contract they expect to carry the burden of the engineering and construction supervision.

One thing that concerns me about the SGE bid is that it is so low and so much lower than any other bid we have received. They of course have no experience in actually doing jobs of this kind in Mexico. There are all sorts of special problems which have to be met in Mexico on a job of this kind. Then, too, they are planning to use a method of lining the tunnel concerning which Mr. Le Paige has some doubts as to its practicability here on this job. Le Paige and Nikiforoff are seeing the SGE people tomorrow morning in order to learn more about this new tunnel lining method which they propose to use and which, while cheaper, may not be practicable here. Before reaching any conclusions, however, Nikiforoff and Le Paige want to get further details tomorrow from the SGE people.

The information which I am giving you concerning the high and low bids is of course very confidential and I know you will keep it so. We have had to warn all concerned here not in any way to discuss the amounts of the bids of the various bidders. It is of the most extreme importance that we do this. We can naturally not discuss with the SGE people the amount of their bid and others, any more than we can discuss the various bids with others who are interested. We are, of course, seeing some of the bidders who wish to see us for clarification of certain matters in connection with their offer, and some of them we are seeing on our initiative as we wish to have clarification from them.

We got the bids last Friday and our people have been studying them closely ever since and I think it will take us the rest of this week to make the full analysis of the separate bids and the comparisons between them, and we will be lucky if we get through this week. In any event, Maryssael will not leave here until the contract is awarded. We have several other matters of lesser importance, but of importance, which we must complete before he leaves on this trip.

We are keeping in mind your suggestions that if the SGE bid is the lowest it may be possible to have the job carried out by a combination, if necessary, of another American group and the SGE-Larrea group. I doubt if this is feasible, but you may be sure that Maryssael and I will keep it in mind, but it is too early to have even an idea as to how things will work out. We are not really in a position to form any judgments as yet and will not be until we have certain clarifying information from various bidders and have been able to make this most detailed, conscientious study and comparison of the bids.

With regard to the personal arrangements for myself I have noted with interest and appreciation what you say. I have been in touch with Allan Graydon and he has been in touch with Donald Duncan, and the way that they are planning to work it out is more than completely satisfactory to me. I will not go into details for it is all along the general lines you had in mind and were good enough to suggest.

With respect to a new agreement with Sidro, I am glad to note that you are in accord that Sidro should enter into a new agreement and I understand Allan Graydon is working this out. He has been very busy, I think, with Barcelona matters and I have not heard from him for several days, but there is no hurry, as so far as the main arrangements are concerned, they were decided at the Board meeting in Toronto.

I am sure that Marion and I will get a lot of pleasure out of the Cuernavaca house. We just spent our third successive weekend there and it has done me a world of good. I feel really 100 per cent better than I did. We will get lots of fun out of the new building that we are doing there and it is advancing very satisfactorily. I am going to do everything I can to make it an inviolable rule for the present, at least, to leave Friday evening and return Monday morning, as that gives us two full days and three nights there, and that is a real change from the altitude. We are very eager for you and Hettie to see the place and to enjoy it with us. I gather from your letters that you have not abandoned your idea of coming down here soon after your return and I hope that nothing will interfere with it, for Marion and I are looking forward to seeing you all.

Jimmy and June are well and the baby is really a wonderful baby and everyone who knows you says that she looks more and more like you. June expects the new baby towards the end of December and Jimmy and June are thinking very seriously of her going to Dallas or Houston for her to have the baby there rather than in New York. If June goes to New York this time of the year she would have to go by train at this advanced stage of her pregnancy and it is a long and tiresome trip. One can almost count on 100 per cent good weather by air from here to Dallas or Houston, but the air trip from Dallas or Houston north from now on, which usually good, one has

to reckon with the possibility of a little bad weather during part of the trip and that would not do for her. The hospitals and doctors in Houston and Dallas are every bit as good as they are in New York, nor will it cost as much. There are so many well-to-do people living around Dallas and Houston that the hospital facilities and the doctors are really as good as one could find anywhere. June going to Houston or Dallas has the advantage of her being able to remain here longer and make the trip to either Houston or Dallas by air. We are in touch with some friends in Dallas and Houston about hospitals and doctors. I forgot to mention that it would mean, also, that she would have to be away from Mexico City a shorter time and naturally both she and Jimmy would like that. They have not reached any decision but this is what they are thinking about and I think it is a good idea.

Jimmy continues to be very much interested in his work and is making himself constantly more useful.

92
We have just been able to complete and put through with the syndicate a classification of the non-syndicalized posts in the company. We have been wanting to do this for several years and we have finally got it through and today the changed clause in the contract which has been agreed to by the syndicate goes to the Junta de Trabajo for registration. The re-classification really means a reorganization of the executive and higher administrative posts in the company and enables us to fix responsibility more clearly and I am sure that we will have more effective administration. We can now issue a new reorganization chart and make it fully effective and I will be sending you a copy in the near future, as you may be interested in looking at it. Of course the principal problem we have is of getting more non-syndicalized posts, but I doubt whether we can do anything about that until next year, for the syndicate will make a life and death fight of it. What we have been able to do through this reclassification and change in the contract in this respect is very important for us in many ways and we all had serious doubts whether we would be able to put it through and are happy that we succeeded.

The staff meetings which we are holding every Tuesday afternoon are proving to be most helpful and I can already see considerable improvement in our operation practices.

The work on the program is going forward still on schedule and we hope to keep it so.

This is already too long a letter but there are still loads of things that I would like to talk over with you but they will have to wait.

Marion joins in love and good wishes.

Cordially and faithfully yours,

