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November 5, 1951.

M. Charles K. Wilmers c/o
Sofina
38, Rue de Naples,
Ixelles / Bruxelles Belgique.

Purely personal and confidential.

Dear Charles :

Mr. Maryssael has shown me your letter to him dated October 11 in which you ask for information about Petrofina and its operations in Mexico, and I have also seen his letter to you dated October 20 with which he sent you a copy of a memorandum prepared under date of October 19 by Jimmy Heineman. Mr. Maryssael has shown me this correspondence for my background, as he knows that over a good many years I have had to follow the oil situation in Mexico very closely and that I have a certain continuing knowledge of some of the developments in this field. This letter which I am writing you is purely personal and confidential.

You say that the services of Sofina are studying the situation of Petrofina and it is possible that Sofina may do so from the point of view of making an investment in Petrofina. It may also be because Vicomte van de Vyvere is chairman on the board of Petrofina. The observations which I am making in this letter are very personal and confidential and only for your background. I do not have the time to go into the situation of Petrofina here in detail, because I am so occupied. If Mr. Maryssael has an opportunity to see the person mentioned in his letter to you of October 20, he will undoubtedly be writing you further.

When I was in the Embassy here it was my business to follow the oil situation here in Mexico very carefully and since I left the Embassy in 1946 and have no more official connection with the matter of oil, I have followed it pretty closely because there are many factors connected therewith which are of real interest to the economy of Mexico and in the relations of Mexico and the U.S.

First of all, a basic principle of the U.S. Government is that it does not lend money to governments or to private

companies for oil exploration or development. The attitude of the U.S. Government is that the private companies in the U.S. are in a position to carry forward any oil exploration or development at home or abroad. In spite of the efforts which have been made by Mexico and several other countries to get loans for oil exploration and development, these efforts have been fruitless and in my opinion will continue to be fruitless. On the other hand the U.S. Government has made some loans to foreign governments for the construction of refineries and distribution facilities. These loans have been very limited. In the case of Mexico several loans have been made by the Eximbank for the rehabilitation of the oil refineries and a building of a new refinery in Mexico City.

When Senator Bermúdez became head of Petroleos Mexicanos, the Mexican government oil monopoly, when Miguel Alemán came into office, he was lead to believe by certain interests in Mexico and in the U.S. that Pemex could get a large loan from the U.S. Government for oil exploration and development, more particularly, from the Eximbank. Among those who encouraged Senator Bermúdez to believe this was Edwin Pauley, who used to occupy very important positions in the Democratic National Committee, but whose prestige and power in recent years have practically disappeared. Pauley undoubtedly did everything he could to try to force a loan by the U.S. Government to Petroleos Mexicanos, and he undoubtedly hoped that, if such a loan were made, he would benefit by concessions for oil exploration and development. The story of these loans would fill a book and I cannot go into it except to say that no such loans have been made nor in my opinion will be made because the policy of the U.S. Government is not likely to change.

Pauley did succeed in making a contract with Pemex, the terms of which are now pretty well known. Under this contract, he and a group of other Americans began some drilling which did not prove satisfactory. They put in a good deal of money. Pauley and his associates were pretty well discouraged in the relationship they have with Petroleos Mexicanos under this contract. None of the major American oil companies was willing to make such a contract as Pauley had made because they did not consider that it offered adequate guarantees, and none of the major companies has made such a contract up to now. They are not likely to, because the interest of the major American oil companies has shifted from Mexico to Canada where the treatment which they have received they consider more reasonable and proper and adequate, and you know what development the oil industry has taken in Canada. As a matter of fact, while the major American oil companies remain interested in the Mexican oil situation, they are not interested in the degree that they were in the past.

The disillusionment of Pauley and his associates went so far that they were willing to sell out their interest of a good

part of it to Petrofina. The interest of Petrofina in the Mexican oil situation is natural because sources they had for their refineries in Belgium and France no longer exist and Petrofina is interested in getting crude oil out of Mexico for its refineries. I know nothing concerning the arrangements which Petrofina has made with Pemex, but one thing I know and that is that the arrangements which Petrofina has are no better than those which the American independents were able to get and which have proved unsatisfactory to them, not to speak of the major oil companies which have made no oil contracts at all. I have been told that Petrofina considers that it is making good progress and that it is quite satisfied so far. All I can observe in this connection is that Petrofina has been in the picture only a short time and has undoubtedly a great deal to learn. It would be well, I think, for Petrofina to study very carefully the experiences of the American and British oil companies and the actual situation in the industry today. Petrofina undoubtedly is hoping on one aspect of the situation, and that is that there has been a lot of feeling in the country against the American and British oil companies, and perhaps Petrofina feels that, not suffering from any of these prejudices, it can do better. Perhaps, too, the Mexican oil monopoly is encouraging Petrofina in view of the fact that it has not made much progress with American firms.

There seems to be little doubt that there are pretty well prepared studies of the oil deposits in Mexico. A good deal of the information which American and British companies developed is in the hands of the present government oil monopoly. One thing can be taken as certain, and that is that the Mexican Government will keep its oil resources completely under its control, and up to now the authorities have not shown any disposition to make contracts which are adequately attractive to those who would have to put in the large sums of money which are necessary for exploration and development. Another factor which may be considered certain is that the Mexican Government will not make any contracts with anyone to drill in any area which it believes to be really good, because it will reserve these for itself.

Copy I am not going to go in to any great detail in this letter because the oil problem in Mexico is one on which I alone could write books which would fill a whole shelf, and there are many of those who can do the same thing. I am one of those who ~~know~~ that the oil resources of Mexico will be adequately developed not only to meet the increasing consumption in the country but to provide her with really appreciable exports which will be a valuable item in a favorable exchange balance which Mexico as a rapidly developing country needs. I am personally interested because we are one of the largest consumers of oil in Mexico and it is my opinion that the Electricity industry in Mexico will more and more have to turn to thermal production instead of hydraulic production, which means that it will have to depend on oil and gas for fuel. Whether the oil resources of Mexico can be develo-

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ped under the existing oil policy of the Mexican Government, remains to be seen. I think that it is very likely that under the existing policy of the Government it will be possible for Pemex to increase its production sufficiently to continue to meet domestic demand. Whether under such oil policy an appreciable export surplus can be built up, I am not able to say. But in view of the very large amounts of money which are necessary, most people think that the prospects are dim. Petrofina is interested because it wants to assure itself of a new source of oil for its refineries. That is very understandable. One thing which cannot be forgotten is that, no matter what production Petrofina may develop in Mexico, it will always be the Government which will decide where any exportable surplus will go, and I am not sure that Petrofina or any other company can place too much dependence on getting the oil at all times from the wells which it may bring in.

I have been impelled to write you these few lines which are very inadequate, simply to point out that there have been a lot of people who have been studying this oil situation in Mexico over a number of years and who have a lot of knowledge and experience, and that Petrofina is very new in the picture. I think that its experience is too recent and too short to base much judgment on it as to the future.

I am sending you these lines only for the personal interest which they may have for background and I would not wish this information to be used in any way except for your personal background and without any attribution to me in any way.

With all good wishes,

Cordially and faithfully yours,

George S. Messersmith.

GSM/go

*Parker would not have met his interest, a
major part, to Petrofina, if he had
had more hope !!*