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Mexico, D. F., December 5, 1945.

SECRET - FIRST PRIORITY
No. 27,613

Subject: Conversation with President of Mexico With
Regard to the Mexican Oil Policy.

The Honorable
The Secretary of State,
Washington, D. C.

Sir:

I have the honor to acknowledge the Department's secret instruction No. 8098 of November 8, 1945, in which reference is made to the Department's instruction No. 6794 of December 28, 1944, regarding the carrying out of negotiations concerning Mexican petroleum matters. To this instruction is appended a secret memorandum dated October 11, 1945, addressed to the President, and with which was transmitted a draft of instruction No. 8098 of November 8, 1945 under acknowledgment. The instruction under reference states that the President approved the memorandum of October 11, 1945, as well as the instruction under reply.

I have taken careful note of the instruction which I have just received and which confirmed the instructions which I have previously received from the President and from the Department in the matter of petroleum and which I have been consistently carrying through. The only deviation from previous instructions laid down in the instruction under acknowledgment is that in the matter of an oil reserve for common and continental defense, I am not to take the initiative but if this matter arises to state that we continue deeply interested in this as in other phases of the development of Mexico's oil reserves.

I wish at the outset to express to the Department my very deep appreciation of its having sent me this instruction confirming the instructions under which I have been acting, and indicating the procedure which I am to follow. In view of the deep importance of this matter for our Government, as well as for the Mexican Government, I am

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particularly pleased that these instructions with respect to further conversations on oil policy which I may carry on have been cleared with and approved by President Truman.

I should like to say that I am deeply appreciative of the understanding shown by the President and the Department of the reasons which I advanced respecting the desirability of deferring further discussions with the Mexican Government concerning the arrangement with that Government for the re-entry into the Mexican oil economy of foreign oil companies. Since making this recommendation to the Department, the grounds on which the recommendation was based have been more than justified and it remains presently inopportune because of the political situation in Mexico to pursue these conversations on our initiative.

I share the Department's hope that the situation will develop in which I may find it opportune in the near future to reopen the conversations on this subject.

In connection with this matter, I would like to make the following general observations at this time. There is no doubt that it remains inopportune to discuss major oil policy with the Mexican Government at this time and for the immediately foreseeable future. The political situation in Mexico is such that in the midst of a campaign for the presidency neither President Avila Camacho nor any of the candidates now in the field, or who may come into the field for the presidency, can discuss major oil policy which would involve the entry of foreign oil companies into the Mexican exploration and development picture. The President of Mexico cannot take any decision in so vital a matter, the detailed carrying out of which would have to be in the hands of his successor. The candidates for the presidency, no matter what their views are with respect to oil policy, would not be in a position to state them at this time or to commit themselves to any definite policy, as to do so would be to prejudice them with important sectors of Mexican public opinion. From a purely realistic point of view, it is true today as it has been since I wrote the Department on this subject, that any conversations on our initiative with regard to oil policy are inopportune, and could only prejudice the possibility of American and other foreign companies eventually participating in the sound development of Mexico's oil reserves.

In the meantime, however, there is no doubt whatever and there is increasing evidence, that the operations of PEMEX are not successful and that the oil monopoly has already proved itself a failure. The Mexican oil monopoly through PEMEX is operating at a loss when it should be bringing revenue into the public treasury. Although there are important plans for the industrialization of Mexico, some of which are sound and some of which are not sound,

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there is no doubt that some degree of industrialization will take place in the country. Oil remains the principal fuel for industry. Unless there is exploration and development on an adequate scale, the Mexican oil production through PEMEX will in a few years not be adequate to meet Mexican consumption when, in view of her oil reserves, Mexico should be one of the principal exporters of oil, and oil should provide for her one of the sources of revenue for the Government. It will be years before any sound industrial development in Mexico, or agricultural development which is being stimulated, will bring into the public treasury the increased funds which are necessary for the conduct of government. Mexico will face a deficit in her budget next year and this under the most careful management. It is becoming increasingly obvious to those who are familiar with the Mexican economy and financial structure of the country that the development of Mexico's oil reserves is essential in order to provide income for the treasury which is needed for commercial programs and the general conduct of government. It is realized by sound and informed persons in Mexico, and this realization is becoming more general, that no such exploration and development can be carried on, on an adequate scale, by PEMEX, and that the only manner in which to bring about this exploration and development is through the operation of sound and responsible American and other foreign companies in the field of exploration and development and on the basis of contracts of an equitable character. In other words, it is becoming increasingly recognized by sound and informed persons in Mexico, that the development of an oil policy by the Mexican Government, such as that which has been the subject of the conversations of this Embassy with the Mexican Government during the last few years, is imperative.

The delay in Mexico formulating a sound oil policy is a serious handicap to the country and is a disappointment to the sound American companies which are interested in this field, but it is understood by responsible people in Mexico, as I am sure it is understood by the responsible American oil companies, that any premature attempt to bring about the formulation of an oil policy by Mexico, and the implementation thereof by the necessary legislation, would be unhappy in the sense that it would really retard the establishment of such sound oil policy.

The Department is aware that the British and Dutch interests have not yet reached a settlement of the expropriation of the British and Dutch interests in Mexico. The British Embassy has been carrying on conversations with the Mexican Government on this matter now for well over a year. The Mexican Government has insisted that the procedure followed shall in every respect be identical with that followed by our Government and by the American oil companies. It has been difficult for the British Government and for the British oil companies to realize that this is so, and they have been very reluctant to accept this position. Recently, however, they got so far as an agreement on the

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exchange of notes to take place. When such exchange of notes was about to take place, the British Foreign Office again instructed the British Ambassador here that he could not enter into the exchange of notes unless the Mexican Government was ready to settle the matter of claims at the same time. This the Mexican Foreign Office and the Mexican Government have refused to do because they have insisted that the identical procedure be followed as was followed in the case of our companies. So far as I know, not much progress has been made in the conversations of the British Ambassador with the Mexican Government and so far as I am informed, this is due to the attitude of the British Foreign Office. It is obvious that the British oil companies still think that they can get a better settlement in the matter of their expropriations than that which was secured by our Government and by the American companies.

This latter has been one of the disquieting factors in the situation and I took occasion during a recent conversation with the President of Mexico, to refer to this matter of oil. During a conversation which I had with him on the evening of November 30, I referred to the conversations which I had had with him during the last few years on the matter of oil and oil policy, as well as to the conversations which I had had with the former Foreign Minister, Dr. Padilla. I said that I had informed my Government that in my opinion it would be inadvisable to press these conversations on oil policy at this time, in view of the current electoral campaign in Mexico. In view of the happy personal relationship which exists between the President and myself and that these conversations can take place without the presence of an interpreter, I was able to discuss this matter with him very frankly. The President said that, as usual, I had shown understanding of the Mexican situation and that I had shown full understanding of that situation by informing my Government that the Mexican Government could form no decision with regard to oil policy while the electoral campaign was in progress and until the new President had taken office at the end of 1946. The President said that it was regrettable that this was so, but that it was a situation which had to be recognized if sound progress was to be made in this matter. He said that he could not take any decisions in so important a matter which would have to be implemented by his successor and when he did not know with certainty who his successor would be. He said further that no candidate for the presidency now could announce his position on oil without prejudicing himself in his campaign. He said that any candidate for the presidency who took the attitude that the oil companies could not come in under sound and equitable contracts would be hampering himself in his situation after he became President, although he might be appealing to popular feeling during the campaign. On the other hand, a candidate who announced himself in favor of the oil companies coming in on a sound and equitable basis would be raising a very considerable sector of popular opinion against him. The President therefore said in the

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most definite way that it would be desirable not to continue the conversations until after the elections, but that this did not preclude our continuing to exchange views on this important matter.

I went on to say that one of the things which had concerned me was that the British negotiations were in progress for the settlement of their expropriation and that I always had the unhappy feeling that the British oil companies might seek through the settlement of their expropriations a settlement more favorable than our own. I said that in view of the difficulties of payment involved for the expropriations of the British companies, they were nourishing the hope that they might be able to reach a settlement different from ours and which would involve exploration and development rights which were not accorded to the American companies under the settlement which we made. The President smiled when I made this statement and said that he could assure me in the most categorical manner that while it was the desire of the Mexican Government to settle the expropriation of the British and Dutch companies, the procedure would have to follow exactly the lines followed in the case of the settlement which we made, and in a most emphatic way he said that while they wish to arrive at a fair settlement with the British and Dutch companies, that it would be on the same basis as our settlement and it would be no better and not different. He smilingly added that the British could be happy if they got as good a settlement as that which we got.

I told the President that I was very satisfied to have this assurance which in fact I did not need, but which it was most helpful to have. I said that he would recall that in my conversations with him and with the Ministry of Foreign Relations, I had always spoken of the possibility of American and other sound foreign companies coming into the field under equitable arrangements with the Mexican Government, and that I had never tried to seek any exclusive rights for American interests. I said that this remained our attitude.

I then went on to tell the President that I had just received instructions from the Department approving the conversations which I had been carrying on, and that President Truman and Secretary Byrnes had renewed my previous instructions. I said that therefore I was always prepared to carry on conversations on the same line which had characterized our conversations up to this time. I made it clear that there could be no question of any loans, as I had previously stated to him, and I repeated this particular aspect of my instructions as there are always those who are continuing to tell the President that the possibility of a loan is not excluded. The President himself knows that there is no such possibility.

I concluded this phase of my conversation with the President by stating that another matter which gave me some

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concern was that there were some American companies, not so responsible, and not so experienced in the development of oil resources, who were hoping that they might be able to enter the Mexican picture by some back-door arrangement. I said that the efforts of such companies could not have the support of my Government and I felt sure that any such efforts by American companies would not have the support of responsible officials of the Mexican Government. I said that we were interested in the development of a sound oil policy by Mexico which would be helpful to her and to us and in the defense of this Hemisphere and in the economy of this Hemisphere. I said that this would involve the development of an oil policy by Mexico which would be implemented by law and under which American and other foreign companies would be able to participate without favor and without prejudice. I said that if the efforts of some of these American and British companies to seek special favor would be successful, the only result would be disappointment to the Mexican Government and to the unwise companies concerned, and that it would inevitably lead to political complications between the two countries, when we were so happily succeeding in eliminating all such difficulties. The President said that he was fully understanding of this situation and that he appreciated the point which I was making and that I must know that any such efforts by individuals and companies to seek special or privileged position had met with disappointment.

It is too bad that the Mexican Government is not in a position to proceed with the formulation of sound oil policy and to implementing it by appropriate legislation but the Department has shown full understanding of this situation. I am convinced that the best interests of Mexico and of our own country are served by not pressing this matter at this time, and the conversation above briefly summarized with the President of Mexico, who is a very sound and considered man, and who himself realizes the importance of American companies coming into the picture under sound and equitable arrangements, is, I think, an indication that the recommendations of this Embassy to the Department have been well founded.

I shall not fail to use any appropriate opportunity in order to discuss with the appropriate Mexican officials the question of oil policy, and I shall keep this matter alive and also keep it along lines strictly in accord with the instructions which I have had and which have now been so happily and so constructively renewed in the Department's instruction No. 8096 of November 8, 1945. I shall continue to keep the Department informed of any developments.

Respectfully yours,

George S. Messersmith

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To the Department in Quintuplicate.