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A. H.

D R A F T (N. S.)

September 2, 1953

Mr. George S. Messersmith

Dear George,

I have given careful consideration to your views, as expressed in your letter of _____, and I would like to set out my thoughts on the relations of Sofina and Mexlight to each other.

You appear to be very much disturbed by the fact that Sofina holds a service contract with Mexlight when one of the companies in the Sofina group, namely Sidro, is the major shareholder. Your attitude on this point, is, I imagine, influenced by the fact that this type of relationship has been prohibited under the Public Utility Holding Company Act in the U.S. as a consequence of abuses which sometimes took place, and because of your fear that some people in the Mexican government or labor circles might feel that Sidro is obtaining an undue advantage for one of its associated companies, namely Sofina, by virtue of its shareholding.

I think my long experience in developing public utilities in foreign countries has given me some knowledge of the justified and unjustified attitudes which often develop toward foreign investors, technicians, etc. When I think about this problem, I am reminded of the definition I heard the other day of an imperialist - "someone who invested in a foreign country when its own nationals wouldn't do so."

I think, George, that you have to bear in mind that as yet there is not a large and well-developed capital market in Mexico nor a large and well-developed pool of management and engineering talent, and thus the situation of the public utility industry in the U.S. is not necessarily applicable elsewhere.

Sidro came into the Mexlight picture in 19____, and Sofina subsequently came into the picture when it bought Sidro shares from Loewenstein in 19____, at the suggestion of Baring Brothers in London, who at the same time bought Barcelona Traction, in order to prevent a market collapse as a result of Loewenstein's speculation in commodities. Sidro invested \$_____million directly in Mexlight in 19_____ by providing funds to build Necaxa, and received common shares in return. As you know, the financial situation of the company was poor and there had been defects in the quality of technical work.

Sofina's standing in the technical and financial world when it came into the Mexlight picture was, as you know, of a very high order in view of the active role it was playing in the utility field in several countries. Its introduction into the Mexlight picture was of real value for Mexlight. I believe that the technical work and financial advice and assistance Sofina has provided for Mexlight since then has been excellent, but it has been necessary to work under extremely difficult conditions. The attitude of some of the administrations which have been in power in the past has not always been sufficiently understanding or friendly to enable the company to prosper and thereby to contribute as effectively to the welfare of the Mexican economy as the company has always wished to do.

Fortunately, however, owing in large part to the magnificent job you have been doing, there is beginning to appear a greater comprehension of the company's problems and opportunities.

If Mexlight had not in the past had a major shareholder in it who was willing to make the great sacrifice of consistently maintaining the company's position throughout long years vis-a-vis those who would not help it and often sought to undermine it, without receiving any financial benefit whatsoever - not a single sou from its equity investment for over 30 years - and still carry forward all the necessary engineering work for nothing beyond a modest compensation which would have had to be paid to any outside consulting engineers, who had no financial interest and probably at much higher fees, it is my firm belief that the company would long ago have been bankrupted or nationalized, with its shareholders wiped out. I won't guess as to how the bondholders might have fared.

Further, if not for the strong hand of the Sofina group, where would there have been an assurance of highly competent management?[?] Is not the fact that Mexlight has the benefit of first class management due to the fact that Sofina has had the good sense and the understanding to invite you and Maryssael to take your present positions?[?] From what source would the strong and consistent backing for your efforts be assured if you had behind you, instead of one strong shareholder ~~in a dominating position~~ whose interest lies in a combination of financial prosperity and the technical progress of the company, ~~in a dominating position~~, a large number of small shareholders, each perhaps with different motivations for his share interest?[?] I am afraid that if not for Sofina's financial and technical interest, Mexlight would be a

temptation for the speculative type of investor who might see in it opportunity for quick profits and only that.

When the World Bank entered the picture, they were, of course, desirous of knowing everything pertinent to the company's operations, and wished to know the terms of the service agreement. We showed it to them and then made certain changes in it, particularly instituting the time sheet method of computing charges. However, I heard no criticism of Sofina's work either as to quality or to the reasonableness of its charges. In fact, on the contrary, I believe that you informed me, or else I obtained the impression elsewhere, that among the many considerations in making the loan was the fact that there was one major shareholder in Mexlight, so that the Bank knew with whom, in the last analysis, it was dealing.

I firmly believe, George, that the conditions which apply in the U.S. to public utilities do not necessarily apply in Mexico or elsewhere, and all situations everywhere are not alike. Furthermore, while there are an increasing number of shareholders in the U.S. *and Canada,* and I rejoice over this fact, one must bear in mind that the majority of the shareholders are in Europe, and I think I can safely say that their interest in Mexlight is bound up with the fact that Sofina is in the company as the major shareholder providing general financial guidance, and responsible for the carrying out of the technical work.

there are any among the more recent purchasers on this side of the water
Another element important to Sofina which I would like to bring out, and in which I think you would be interested, is Sofina's policy with respect to its future operations. As you know, Sofina has always been interested essentially in engineering, but has confined its technical services, with few exceptions, to its affiliated

If who think there are then I do not know why they bought their shares.

companies. Recently, the company has begun, as a matter of policy, to provide technical services to outside clients and is at present doing work in South Africa, Mozambique, Congo and Pakistan, with other possibilities being actively pursued. We find some American consulting engineers very much interested in the possibility of having us associated with them in work abroad, both because of the company's reputation and because Sofina's fees are substantially less than they themselves can afford to charge.

Sofina has no desire to become simply an investment trust. To say that Sofina could be satisfied with its shareholding interest in Mexlight is to misunderstand the nature of the company and its aims. More than ever, we are interested in technical work and I am sure that Sofina would not for a moment consider retiring from this type of activity in any of the enterprises in which it may be directly or indirectly interested. If it could not provide first rate work at competitive costs, this might be different, but it does provide first rate work and its costs have always been exceedingly reasonable.

I know very well that while your responsibility is to Mexlight, you have always been personally interested in Sofina's welfare. The two go hand in hand and there is not one iota of a conflict of interest. It has been a good many years now that you have been acquainted with the fortunes of the company, insofar as your work in the Foreign Service permitted. In those many years, I have often had the pleasure and the satisfaction of talking to you about the company's affairs, as well as the broad matters of politics and international affairs, and I hope that you too have derived pleasure

and satisfaction from this. For the past six years, I have had the great satisfaction and Mexlight and Sidro and Sofina the benefit of your tremendous effort as Chairman of Mexlight. It has been a great personal pleasure to me to see you follow a brilliant career in the Foreign Service of the U.S. government with an equally brilliant one in private industry. I see no reason why this simple matter of a service contract should bring about any misunderstanding between you and Sofina or affect the relations between Mexlight and Sofina. There is really only one question and that is the matter of Mexican taxes on the service work performed. If it happens that Sofina is required to pay taxes in Mexico under Mexican law, it obviously should do so, but as in any other case where a company is providing services on which it pays taxes, these taxes are one of the elements in the cost of services and are included in the price charged. Why should an exception be made in this case and Sofina, simply because Sidro is the major shareholder in Mexlight, be discriminated against, whereas a service company which might not hold a single share in Mexlight and then be uninterested in its financial prosperity, be treated fairly? Any other adjustments in the contract can be satisfactorily worked out also.

I hope that we can bring this matter to a satisfactory conclusion very soon and concentrate our combined efforts on improving the company's position and the Mexican economy for the benefit of everybody concerned.

Cordially,

*To not necessarily
to use the following*

limited to ~~100,000~~ 100 million

pesos

A board meeting is still re

The directors would be taking a commitment

to submit to the shareholders a

The directors agree to consider the ^{characteristics +} terms of a
new issue of preferred shares to an amount limited
to 100 million pesos, ^{to be sold to the Mexican public,} and of the terms are mutually
satisfactory to the Muni. Govt. & the ed., to submit ^{such a} proposal
to the shareholders for their approval, as provided in
the company by-laws & existing loan agreements