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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.)

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FILE: Messersmith						

London

Dear Dannie:

I am enclosing with this letter a copy of a letter which Maryssael has written to Sofina and which is self explanatory. You will not like the question raised in this letter, but it is one which we have to face frankly and must face now, because a definite settlement has to be reached before the end of December and should be reached by December 20 at the latest as we have to pay certain taxes here before the end of the year. The solution proposed in the letter prepared by Maryssael involves a sacrifice by Sofina, but it is a small one considering all the factors involved.

As Maryssael mentions in the enclosed letter to Sofina, Graydon, Guest and Stewart have been here for about two weeks and we have been discussing every day all sorts of complicated problems connected with accounting in Toronto and Mexico City, tax problems, legal problems, problems arising out of the re-organization plan with respect to the subsidiary companies, and a host of other questions. The meetings have been very useful as we have been able to settle I believe in a satisfactory manner matters which have been pending for a long time and which are of great importance to the company. I do not enter into these many questions as they are not of sufficient interest for you to burden yourself with them.

The principal question in some ways which we discussed is this question of the accounting for the Sofina fees. This has been a matter of concern to us ever since the signing of the new Service Contract with Sofina. We must get these fees or a good part of them, into our rate base, as a good part of these fees are really capital charges and we believe that we can get them accepted by the Tariff Commission. This of course is of great importance to the company from the point of view of return. In order, however, to get them into our rate base we have to get these into our Mexico City books and if we do this certain taxes will accrue on behalf of Sofina and which we must

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withhold here and if we did not withhold them there would be severe penalties. We have discussed this matter day after day to find the simplest and least expensive solution and at the same time one that will protect every interest, and the solution which Maryssael proposes in the appended letter is the one which all of us believe is the best and in my opinion it is the only really feasible one.

You will note that it would involve our withholding taxes for the Mexican government on a certain part of the Sofina fees which would amount during the construction program to about \$80,000 dollars. In other words, the \$2,600,000 dollars approximately which Sofina would receive through the present construction program under the Service Contract would be reduced by about \$80,000. I do not know what the Belgian tax laws are, but I do not believe that the real decrease to Sofina would amount to \$80,000, for if you pay this tax here through our withholding it it is very probable that the Belgian law provides for you to get a certain reduction in the Sofina tax in Brussels.

As Maryssael points out in his letter it is quite obvious that before we can proceed on this solution we will have to have the agreement of Sofina. We will also have to get the agreement of the International Bank, or rather we will have to submit the matter to them as the Bank is probably under the impression that all charges relating to the construction program under the Service Agreement are properly charged in our books in Mexico for rate purposes. We have not been able to do this so as not to raise this tax question, but we cannot put this off any longer. I do not know what the attitude of the Bank will be, but I think as long as the cost of the Service Agreement is not greater to Mexlight than that contemplated, the Bank will offer no objection. You will recall the difficulty we had to get the approval of the Bank to this contract. We must obviously get these charges into our books for the rate base, as the Bank is counting on that and in order to get them into our books here there are certain taxes which have to be paid which would be an additional charge on the company if Mexlight should absorb a Sofina tax. I doubt whether the Bank would agree to any increase in the cost of the Service Contract.

There is, therefore, no way in which I can see that this matter can be arranged properly in every respect unless Sofina agrees to the procedure set forth in Maryssael's letter.

I do not enter into many obvious things which I could say. The Service Contract we have with Sofina is important for us and useful to us and it is important to Sofina. I do not see how we can get these fees into our books without withholding the tax which Sofina would have to pay and I do

*in this
Contract*

Mr. Heineman

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not believe that we could get agreement anywhere that we absorb this tax for Sofina and thus increase the cost of the Service Agreement. We would have trouble all around. It is not the kind of trouble we want and it is not the kind of question we wish to raise and less than ever at this time. There are many things that I could say to you in this respect but as you are so understanding of these situations I am sure that you will appreciate the problem.

The problem is urgent for the reasons set forth in this letter. For this reason Stewart, who is leaving tonight for New York and Toronto, will carry Maryssael's letter to Sofina and my letter to you and they will be mailed in New York. Stewart will stop over in New York and will discuss this matter with Van de Maele and Lorié, and I am going to ask him to see that Duncan is present if at all possible. I will ask Stewart to see that the matter is taken up with Brussels by telephone and I will suggest that they telephone to De Boeck who is familiar with the Service Agreement and the various aspects thereof. You may wish to inform De Boeck that this telephone conversation will take place if this letter reaches you before the conversation is held.

I want to emphasize the urgency of the matter being settled well before the end of December. We simply must get these service fees or most of them into our rate base, and this means that we must pay certain taxes before the end of the year. It may be necessary for Maryssael or me, and probably will be, to run up to Washington to see the Bank in case Sofina agrees.

I wanted to write this personal letter to you so that you may be familiar with the facts and their urgency and importance. We considered other solutions, but all of them would have been more costly to Sofina, as well as more complicated, and difficult to carry through.

I have dictated this letter very hurriedly so that it can leave with Stewart tonight, who will mail it in New York.

With all good wishes,

Cordially and faithfully yours,