

AIR MAIL

THE MEXICAN LIGHT AND POWER COMPANY, LIMITED

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

DIRECCION TELEGRAFICA } "MELIPOCO"
CABLE ADDRESS }

2A. CALLE DE GANTE No. 20.

APARTADO POSTAL } 124 BIS
P. O. BOX }

MEXICO, D. F. July 12, 1949.

see l. July 13

*Mr. Heineman
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Samuels on
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H. 4137

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PERSONAL AND STRICTLY CONFIDENTIAL.

Dear Dannie:

I will have to write you quite fully in reply to your telegram #205 of June 28 regarding the possibility of the Eximbank financing for CADE, which telegram you sent me through Amintas. I replied to you from Toronto under date of June 29 stating that I would endeavor to explore the matter while I was in Washington if I did not have to return to Mexico immediately after the Mexlight meetings in Toronto. Fortunately I was able to remain in Washington from July 3 to July 7 when I had the opportunity to go into the matter quite fully.

You will recall that in my telegram of June 29 I informed you that I was sure the Eximbank would not consider such a loan to the Argentine or to any firm in the Argentine without a strongly favorable attitude towards such a credit at the very outset on the part of the State Department and that in view of factors which the State Department has to consider such favorable attitude on its part would have to be determined at the highest levels and in several other Departments.

I telegraphed you on July 7 stating that I had explored the situation as fully as possible and that while the possibilities of loans to or in the Argentine by the Eximbank were not excluded either by the State Department or by the Eximbank, no such operation could be carried through without a great deal of study and the lapse of a good deal of time. I intended to write you on Sunday on my return to Mexico City, but even if I had had someone available at the house I could not have written, as Maryssael and I were busy with some of our staff all the weekend on matters connected with the definitive tariffs. I am taking my first opportunity to write.

Up to a few months ago, and in fact up to a month ago, I did not think that anyone in the State Department or in the Eximbank would have considered thinking in concrete terms of any loan to the Argentine or to firms in the Argentine, no matter how good or productive the purpose. The practices of the Argentine Government, particularly through the IAPI had created such a deep feeling in government as well as in private banking and business circles in the United States that there could be no thought of any credits of any kind for the Argentine. You will recall, however, that the Foreign Minister, Bramuglia, when he got back from Europe and from the United States,

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was able to bring about the removal of Miranda and to put in two of his men in key posts. You will also recall that when Maroglio, formerly head of the National Bank, returned from a trip to the United States towards the end of last year, during which trip he painstakingly informed himself as to feeling in government, banking and business circles concerning the Argentine, he reported faithfully what he had learned and made some very sound observations. I know that he passed on to President Perón the observations which I made to him during a long conversation in the Waldorf. You know that Maroglio could not save his job as head of the bank but that nevertheless what Bramuglia and he reported had its cumulative effect. The Argentine Government began to make changes in the powers of the IAPI and indicated through its Ambassador in Washington that it would continue with these changes and that it would restrict slowly but definitely government intervention in business. These moves in the right direction went forward very slowly and I always said at home that this was quite understandable because in a matter of this kind the Argentine Government could not move too rapidly in the other direction when it had moved for two whole years in the direction of restriction. Besides that Bramuglia has to contend with very strong opposing elements even with Miranda in Uruguay and discredited.

These moves in the right direction caused some encouragement but there was a strong feeling in government and in banking and in business circles that it was a question of waiting and seeing. Responsible people in the United States do not accept promises for deeds from certain states. Then, too, there was a good deal of talk as to whether President Perón would be able to carry through along the new line which he seemed to wish to take and there was a policy of expectancy rather than of action in all circles in the United States. The gradually more favorable impression which was being created by certain acts in the right direction in the Argentine was seriously affected by the inclusion in the Constitution of Article 40 when the disastrous consequences of this in certain directions had been pointed out to the government before the Article was actually adopted by the Constitutional Convention. At the same time there was this pressure against the packing houses and the storm was brewing around the electric industry.

All in all, up to a month ago no one in Government in the United States would have considered a loan to or in the Argentine.

On my arrival in Washington on July 3 I was able to see a few friends even though it was a Sunday, and these are usually well informed on Argentine matters. I got the impression from them that neither the State Department nor the Eximbank would in any way consider loans to the Argentine and that it was still premature to even raise this question in an exploratory manner. The fourth was a holiday but I was fortunately able to see Mr. Atwood, who is the acting head of the Argentine section in the State Department. I naturally had to tell him frankly what my interest was in asking certain questions. I told him that the electricity problem in the Argentine was very much the same as in Mexico and that the companies needed very considerable capital to carry out necessary expansion of production facilities. I said that the CADE was by far the largest producer of electricity in Argentina and that it was faced with considerable capital expenditures which involved dollars as well as very considerable Argentine currency. I was not in any way associated with CADE but that I had been asked by you to explore what the present situation was

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with regard to loans to the Argentine by the Eximbank. Atwood replied that he was somewhat encouraged by the situation in the Argentine. The packers had been able to reach an agreement with the government through which they were being paid their losses but that it was of course a situation which could not last forever but in any event the pressure on the packing houses had been relieved and there had not seemed to be any continued intention of taking them over. The pressure on the electric industry had somewhat reduced but he was of the opinion that the government had not abandoned its desire to take the industry over as soon as possible. He felt pretty sure that the pressure on American & Foreign in the Argentine would continue even though it was now less. I asked him if the implementing law to Article 40 had been passed and he said that it had not been and the impression was gaining ground that the government might not pass the implementing law. It was in the field, however, of the IAPI that very real progress had been made. He went into a good deal of detail as to the measures which had already been taken by the government to restrict the intervention of the IAPI in actual trading and control of trade and other measures which had been taken to lessen pressure by the government on private business. He spoke of 20 per cent of the dollar exchange available being set aside for payments to importers in settlement of past accounts and that the government had declared its intention of increasing this percentage as rapidly as the dollar situation of the Argentine permitted. He said that the Argentine Ambassador was assuring the Department that the government would go along this line of lessening government control of and intervention in private business as rapidly as it could, but that he had recently been in the Department to say that the government had gone about as far as it could without some help from the outside. I expressed the opinion to him that the Argentine could not be expected to go all the way before some aid was given because I feared that if they were not given some help when they had gone a certain part of the way there would be a reaction to the old state of affairs. He said he agreed with this point of view and had been expressing it. I asked him if he could tell me what the attitude of the State Department would be towards financial assistance by private banks or the Eximbank. He said that there were still plenty of people in the State Department and in other agencies of the Government who would be against any help to the Argentine at this time but that so far as the Department was concerned he felt pretty sure that the position had been changed to the degree that the Department would not oppose any sound loans made to the Argentine in reasonable amounts and for proper purposes whether made by the Eximbank or by private banks. He said the Department might not be very enthusiastic yet in its support of such loans but he felt sure it would not oppose them ~~them~~ in certain situations.

So far as the Eximbank is concerned Mr. Atwood said that he felt sure that they were just as strongly opposed as ever towards doing anything in the Argentine and that he did not think that any approaches to the bank would be helpful at the time although it was always useful to explore the situation. He mentioned that some of the secondary officials of the Eximbank had recently expressed themselves strongly against any aid to the Argentine in the way of loans.

I saw Mr. Paul Daniels, who although he is now, with the rank of ^{Ambassador} ~~Minister~~, representing the United States in Washington in the various interamerican organizations, is still naturally very much interested in Latin American affairs.

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He has just turned over his functions to the new Assistant Secretary, Ed Miller, formerly of Sullivan & Cromwell, who will have charge of the general supervision of Latin American affairs in the Department. Daniels confirmed to me what Atwood had said concerning the position in the State Department. With respect to the Eximbank he was not quite so categorical as Atwood and expressed the opinion that the bank might be prepared at least to begin to look into Argentine matters. He was glad that I was going to explore the matter with Mr. Gaston in the Eximbank.

Mr. Miller, the new Assistant Secretary, had dinner with me and we spent several hours going over various matters and while he is not as familiar with Argentine matters as he is with developments in some of the other American countries such as Mexico, he has a very broad understanding and fully subscribed to the idea that the Argentine could not be expected to go all the way towards these radical changes which are necessary in its economic practice before it will be necessary and possible to give her some well-considered financial aid. I may say that Mr. Miller will approach Argentine problems as well as those of the other American republics in a completely unbiased and constructive manner, but as he frankly stated, he had just been on the job for a few days and was not yet in a position to know even what the Department's attitudes were or what the real progress of developments in the Argentine in the right sense had been.

I went to see Mr. Gaston, who as you know is an old friend. I told him frankly that I had been asked by you to explore the situation in the bank with respect to the possibility of a ten year loan for the CADE for new production facilities. I said that I simply wished to explore the situation. We then had quite a long talk on the Argentine. Mr. Gaston then went on to say that the bank had not been giving any consideration of a serious character to applications from the Argentine for a long time. He said that they had not even been following closely the more recent developments in the Argentine as they had felt any action was impossible. He said that Coronel Behn, of the I. T. & T., had been pressing the bank for a dollar loan for the International Standard operations in Buenos Aires. The company was having great difficulties because they could not get the necessary dollar exchange from the Argentine Government to pay for the materials which the International Standard factory in the Argentine had to have for the production of telephone equipment in the Argentine for the now Argentine Government owned telephone system acquired from the I. T. & T. He said that Coronel Behn had first asked for \$14,000,000 dollars to cover the arrears of the Argentine company to the parent company in New York, and had later been willing to reduce this amount to \$6,000,000 dollars. He said that the bank had told Coronel Behn that they could not consider the matter at this time and that the turndown had been, for the present, definite.

I spoke with Mr. Gaston about the electricity situation and its basic character in the Argentine economy, as it is in Mexico. Mr. Gaston said he recognized this and electricity production was certainly one of the things the bank wanted to be helpful in, whether it was in the Argentine or elsewhere in the Americas. He reminded me, however, that there were some American

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firms in the United States having branches in the Argentine who needed dollars very much and who had been in touch with the bank for loans and so far had been turned down.

I told Mr. Gaston that while I could not speak with authority and was not adequately informed, I had been told in the State Department that there were some favorable developments in the Argentine. I expressed the opinion that the Argentine might not be able and probably would not be able to go the whole way towards these drastic changes unless it got some help along the road and that by failing to give well-considered help in the right places and at the right time we might destroy all these favorable currents which may exist in the Argentine. He said that this was quite so.

Mr. Gaston said that the Eximbank and the Department had not recently gone into the Argentine situation together. He said that the political end was for the State Department and that the banking end was for the Eximbank. He said that even if the State Department considered certain loans desirable the Eximbank could not make any loans until it had gone into the Argentine situation with a fine tooth comb. They would have to know what the real financial situation and economic situation in the Argentine was. They would have to know what present and prospective capacity for transfers of principal and interest were. They would have to go specifically into each project which might be brought to the bank. The most careful studies would have to be made not only of each new project to determine its merit from the point of view of the criteria which the bank applies, but also to be able to form an opinion as to the relative merit of the project among those which would come to the bank. He did not know whether, even if all the conditions were present, the bank could make a loan to the CADE. He did not say so directly but what he wished to convey to me was that the bank would certainly have to consider first the requests from American firms in the United States or in the Argentine who needed dollars for projects in the Argentine. He spoke of the lending capacity of the bank and while he did not exclude the possibility of making electricity credits when this was possible in the Argentine, I gathered the distinct impression that the fact that there is so little United States interest in the CADE ownership would be a factor in determining when a loan could be made within the lending capacity of the bank. This is, of course, an understandable point of view and the only factor which could counteract that would be if the bank would find that electricity took first order in lending. *(Also perhaps question of U.S. orders (us.))*

I told Mr. Gaston that I had reason to believe that the Argentine Government would be willing to guarantee a dollar loan from Eximbank for the CADE in view of the importance of increasing electricity production. Mr. Gaston said that this was quite possible as he knew that the Argentine Government had expressed its willingness to guarantee the loan asked for by the International Standard through the I. T. & T., but that it had not been possible for them to make the loan. He also knew from other American firms having industrial plants in the Argentine that the Argentine Government had expressed its willingness to guarantee the loans of such firms.

Mr. Gaston

Mr. Gaston said that as far as he could go at this time was to say that he thought the time had come to at least restudy the Argentine situation and he was going to get in contact with the State Department to learn what its present views were, to get full information on recent developments in the Argentine, etc. He would also ask his people to immediately gather information on the financial situation of the Argentine, the transfer problem, and the other factors with respect to the Argentine economy on which the bank always informed itself in connection with a loan. He did not say that the bank would be prepared to consider a request for any credit from anyone for the Argentine. What he did say is a step forward but it is only a first step. I am sure that Mr. Gaston will be in touch with the State Department, where he will find the attitude which I have already expressed to you. I am sure that he will have his own people, who are very competent, begin to make certain studies. It would, I believe, be completely premature for any direct representations to be made to the bank by the CADE or on behalf of the CADE. All I have been able to do is to get something started and it will be, I believe, another month before another approach can be made.

After talking with Mr. Gaston I saw Mr. Atwood, Mr. Daniels and Mr. Miller and gave them a brief summary of my conversation with Mr. Gaston, and I think that Mr. Miller will take the initiative to talk soon with Mr. Gaston regarding the general Argentine situation. All this means so much and no more. I need not tell you that the State Department as well as the Eximbank will move with great caution and there is nothing that can hurry them. In the first place they want to be absolutely sure about certain things before any political or major economic considerations will have any weight.

Incidentally I may say that while there has been strong feeling in all circles in the United States with regard to certain aspects of the British-Argentine trade agreement on meat recently, etc., I think it is generally recognized that the Argentine had to do something as well as Britain in the matter of meat and that this involves some other arrangements also. I do not believe that the existence of this agreement by itself will cause prejudice to eventual lending to the Argentine. It may be, on the other hand, that the recent British-Argentine agreement may stimulate more active consideration of in what ways the Argentine can be helped. At present there are only three possible methods by which the Argentine can get dollars, in my opinion. The first is through the ECA and that would be the easiest and quickest, but is also the least likely and the amount of dollars would be too small to really help. The second method is through the increasing of Argentine exports to the United States. This is being very actively studied in the United States and in the Argentine and I believe that a good deal can be done in this direction but it is the work of time. For that reason it is a feasible method of Argentina getting dollars but a slow method and too slow to meet the situation. The third method is through dollar loans by the Eximbank to the Argentine Government or to firms or by loans by private banks. The private banks are not going to move under present circumstances unless they see the United States Government moving through the Eximbank. The Eximbank is going to have to do a lot of studying before it will make any credits.

The net result of my exploration is that the possibility of loans to the Argentine is now not excluded either by the State Department or by the Eximbank. It is going to be, however, a relatively slow process. I think the

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process of study and decision will be accelerated by circumstances. Even under these circumstances it is still premature to make any application for CADE. Under the best circumstances the Eximbank will first consider loans to American firms needing dollars for their business in the Argentine. The State Department and the Eximbank will not yet listen too much to any preference which the Argentine Government may express in favor of any particular firm or industry. The atmosphere with regard to the Argentine is better but it is not yet the propitious atmosphere in which loans are readily effected.

One of the things about which there will have to be caution is that the Argentine Government itself may balk at some of the conditions which the Eximbank requires in connection with the guarantee of a loan. The Argentine has not been a borrowing country in recent years. It has no experience with the Eximbank and is not even a member of the International Bank. It has therefore no such knowledge of the demands made by the Eximbank in connection with guarantees and loan agreements such as Mexico and Chile and Brazil have learned. In view of the arbitrary attitude of the Argentine Government at all times and of its pride and frequently lack of understanding of commercial and banking transactions it is not improbable that when they see loan contracts such as those entered into by the Eximbank they may at the last minute refuse to subscribe to some of these undertakings which are essential. I am going to try to get a copy of a few loan agreements which have been entered into by the Eximbank with firms in Latin America with the guarantee of the government so that they can be sent to Brosens for his study. I think I will be able to get these although it is my understanding that these contracts are not considered as public documents. They are not exactly reserved documents and certainly not secret documents but it is not customary to publish them. I will take up this matter the next time I am in Washington.

I see no objection to your sending a copy of this letter to Mr. Brosens if you can send it to him in Montevideo where it can be picked up for him. I do not think it would be wise to encourage either Brosens, or through him the Argentine Government, in the sense that the way will soon be open to loans by the Eximbank. The prospect is much more encouraging than I thought it could have been several months ago. A lot of things have happened in the Argentine, apparently, and elsewhere. A lot of things, however, must still happen in the Argentine before we can expect to see loans.

I do not know when Mr. Brosens is planning to come north but I think that when he does so it would not be improper for him, and perhaps not even premature, to make at least a call on Mr. Gaston and on Mr. Miller and Mr. Atwood in the State Department. I have opened the way to this but I can assure you that it would be still only a very preliminary move on the part of Brosens for the CADE. I do not believe that it would be advisable for Sofina to make any moves in this direction. The moves will have to be made by the CADE as an Argentine company. I say this advisedly and must emphasize it. It is not because of any prejudice against the Sofina by the Department or the bank, but I do wish to emphasize that the approach cannot be made directly or indirectly through Sofina. While I have been willing to make this preliminary exploration and while I will be able to explore the matter further and follow it up a bit when I am next in Washington, it would not be proper for me, for many reasons, to negotiate or to endeavor to negotiate such a credit for the

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CADE. I am working for Mexlight and they all know that I have my hands full with that and that if I branch out in other fields some of my best friends would consider that I was working for a fee and that would destroy any usefulness that I have, not only for Mexlight but for CADE. I also wish to emphasize at this point that it has made a very favorable impression all around that we did not use anyone except the personnel of Mexlight to negotiate the credits for Mexlight. There isn't much doubt that as soon as CADE does begin to seek a loan from the Eximbank there will be all kinds of persons in the Argentine and in the United States who will wish to be "helpful" for a consideration. I wish to express to you my very considered opinion that it would be not only disadvantageous but definitely prejudicial and dangerous to endeavor to negotiate eventually a credit for CADE in any other way than the one we have been negotiating for Mexlight. Brosens will be able to do this very adequately when the time comes and he should initiate, in my opinion, the general conversations at the opportune moment. He can turn them over later to someone in CADE but not at the outset, for they will wish to deal with the principal officer of CADE at the outset for any number of reasons. I need not tell you that when the time comes Brosens will make an excellent man to take up the matter with the bank and the Department. Aside from his excellent knowledge of English he will make an excellent impression and will know how to handle the matter. The approach in these matters is so important and it is very fortunate that a man of the capacities of Brosens would be making the approach for the CADE.

There are a good many observations which I could make which are pertinent but I believe that I have adequately covered the situation as I found it. I think it would be premature and unfortunate to press the matter now and it would be unwise to say anything about it. The Department and the Eximbank are examining the situation with regard to loans in general to the Argentine and they will have to go far on that road before they will look at any application even in a preliminary way. It is very probable that I will have to go to Washington very soon and when I do I will see the people whom I have seen before and see how far the studies and the situation have developed and keep you advised.

With all good wishes,

Cordially and faithfully yours,

