

SUBJECT: CONVERSATIONS WITH THE MEXICAN GOVERNMENT ON THE OIL QUESTION DURING THE TIME THAT I WAS AMBASSADOR TO MEXICO AND GENERAL OBSERVATIONS ON THE OIL SITUATION AND PROBLEM IN MEXICO.

This memorandum will necessarily be incomplete and subject to a great deal of correction. I am dictating it entirely from memory and without any reference to letters or despatches which I wrote on the oil situation in Mexico. The chronological order which I may follow in these notes may not be correct. My purpose in dictating this memorandum is simply to get down in rough form the main items which I wish to cover in the final notes on the subject.

The first paragraph of this memorandum, or rather the first part thereof, will deal with the background of the oil situation and problem before I became Ambassador to Mexico. I will not endeavor to cover this in this memorandum, merely noting that the first refinery in Mexico was established I believe near Tampico in 1897 by the Pierce Oil Company. It used imported oil. The first drilling for oil took place many years later, or at least a number of years later on the Isthmus of Tehuantepec by Lord Cowdray. The whole story of the exploration and development of the Mexican oil resources up until expropriation is a most interesting and fascinating one. The developments to which I shall refer in this memorandum and in which I was a factor require a resumé of this oil development as background. I am informed that a book by Percy Furber is one of the most accurate accounts of the developments in the Mexican oil situation until expropriation. I will consult this book and other books on the subject in preparing the first paragraphs of introduction to this memorandum.

The oil expropriation took place in 1938 under the presidency of General Cardenas. I will not endeavor at this point in this memorandum to cover any aspects of the oil expropriation, as I wish to cover this more fully and devote the present memorandum to my own part ~~thereof~~ in the conversations on the oil problem which did not begin until 1942. It is important, however, that as background to the conversations which I had with the Mexican government that I cover at least in

a few paragraphs the expropriation and developments between 1938 and 1942.

My first connection with the oil problem and in fact with any problems connected with Mexico in our relations with that country, was during the latter years of my stay in the Department as an Assistant Secretary of State. The political aspects of my work as an Assistant Secretary had to do with Europe and I had no direct connection with Latin American affairs. These were handled directly under the supervision of Sumner Welles, then Under Secretary of State, and of course of Secretary Hull. Because of the close friendship, however, which existed between Secretary Hull and myself and his habit of consulting me on a good many things, he discussed with me various aspects of the conversations which were then going on, principally in 1939 and 1940, between Castillo Najera, the Mexican Ambassador in Washington, and the Department, principally with Sumner Welles and the legal officers of the Department. The United States government was endeavoring to reach a settlement of this oil problem which had been created between the United States and Mexico by the expropriation of the American companies in 1938. The fact that expropriation had taken place and that no compensation had been paid was a matter of deep concern to our government. We were desirous for many reasons of improving our relationships with Mexico. As long as proper compensation was not made for this expropriation, it was difficult to consider in the proper atmosphere other problems between the United States and Mexico in which both countries were deeply interested and desirous of reaching some settlement.

Ambassador Castillo Najera was very close to General Cardenas, the President of Mexico. Castillo Najera was a physician by profession and a good one, but he was a man of broad education and culture and with considerable experience in politics. He was a man of great understanding and perception. He himself realized that it was desirable, in the interest of Mexico, that the relationships between the two countries should be put on a more collaborative basis and that this meant

the solving of some fundamental problems, among which were the compensation for the American oil companies, as well as the settlement of the many claims which so many American citizens had against the Mexican government on account of land expropriations, loss of property during revolutions and other acts over which they had no control. The so-called General Claims Commission between Mexico and the United States had been in existence for many years. This commission had been studying for years the merits and the details of the particular claims which American citizens had against the Mexican government. It was quite natural that many of these claims should be put in by the claimants at exorbitant and exaggerated figures. Others were put in at very reasonable figures. It was the business of the mixed Claims Commission to find the just amount which each claimant should receive.

There seems to be little doubt that General Cardenas himself was not interested in reaching any settlement, either on the compensation of the oil companies or on the compensation of American claimants on the basis of the cases which were before the claims commission. General Cardenas himself had deep prejudices with regard to the United States. He had no particular interest in improving relations between the United States and Mexico. He was a man governed very largely by his prejudices. The people whom he had around him were governed by the same kind of prejudices. Nor did he have any interest in the settlement of the claims of American citizens against the Mexican government for damage which they had suffered through the agrarian laws in Mexico and through the expropriation of their land, or through losses in revolution. General Cardenas was responsible in the main for the oil expropriation being carried through. A good many of the claims had arisen through acts of his administration. On the other hand, some of these claims went many years back of the presidency of General Cardenas. A great deal of credit is due to Ambassador Castillo Najera in getting General Cardenas to agree even to a negotiation of these two important

matters. Few people in Mexico today realize the importance of the basic work that Ambassador Castillo Najera did in bringing about the two agreements which settled the oil compensations and the general claims. It was the settlement of these two matters which laid the basis for the better relations which increasingly have existed between the two countries. It was really the work of a statesman, and the work that he did in convincing President Cardenas was really a tremendous and constructive task.

The important fact is that he did convince General Cardenas that these claims had to be settled and the sooner that it was done the better. I do not know what definite instructions Ambassador Castillo Najera had from General Cardenas, but they must have been of a general character leaving Castillo Najera a good deal of latitude.

The settlement of the compensation of the expropriated American oil companies was very much complicated by the fact that the Mexican government was insisting, as a matter of principle, and in this attitude Castillo Najera thoroughly agreed that the sub-soil rights were the property of the government and could not be alienated by the government in concessions to anyone, native or foreign. The attitude of the United States government in this respect was that the oil companies which had received certain concessions from the Mexican government and which were given in accord with Mexican law entitled them to these sub-soil rights. It developed early in the conversations between the two governments that the attitude of Mexico on this point of the sub-soil rights being the property of the government and that they could not be alienated through concessions, represented an unalterable stand of the Mexican government and one from which under no circumstances it would recede. On the other hand, the United States government took the position that the legal rights of the companies to the sub-soil were established in the concessions granted in accord with Mexican law and that therefore the arrangement for compensation should take note of the value of the

sub-soil rights.

The second important question was the amount of the compensation. The third important question was that the United States government insisted on prompt, adequate compensation. On this point the Mexican government raised many difficulties as to what the words "prompt" and "adequate" meant.

It is greatly to the credit of President Roosevelt and Secretary Hull and Sumner Welles and the officers of the Legal Division of the Department of State that they approached this matter in a statesmanlike manner. The United States government finally took the position that the time had passed that any government could insist that the sub-soil rights were the property of those who had been given concessions. Whatever the legal aspects might be, it was becoming increasingly obnoxious to many legal authorities as well as to people with broad business concepts to think that these sub-soil rights could be indefinitely alienated concessions, to natives or foreigners. The United States government decided to take the position that the sub-soil rights were the property of the government. In other words, we went so far at least as to take the position that in the agreement which we would make with Mexico, we would recognize that the sub-soil rights remain the property of the government and of the nation and that the value thereof could not be a part of the compensation which the companies claimed against the government for expropriation and which the United States government would <sup>give their</sup> support. On the other hand, the Mexican government agreed on the principle of prompt and adequate compensation in terms satisfactory to Secretary Hull and Mr. Welles. This is of course a very inadequate resumé of this important situation and I may have to elaborate it for the purpose of clarity and exactness in a further and final memorandum on this subject. The fact is that on November 17 or 19, <sup>1941</sup> I will have to determine from the records, an exchange of notes took place in Washington between the United States and Mexican governments, laying the basis for the settlement of the oil company expropriations. This

exchange of notes provided that there were certain claims of American citizens who had been affected by the expropriation in 1938 which were not specifically covered in the exchange of notes and which the two governments agreed should be considered further, for appropriate settlement. The exchange of notes provided, so far as compensation was concerned which was the third difficult point, that the two governments would each name an arbitrator. These arbitrators were to examine the whole situation with regard to the expropriations of the Mexican government of the American oil companies and to arrive at the amount which should be paid to the companies, with appropriate interest from the date of expropriation. The two governments agreed in the exchange of notes that they would accept the findings of these two commissioners, one of which was to be appointed by the Mexican government and to be a Mexican and the other to be appointed by the United States government and to be an American citizen. This exchange of notes was one of the most memorable events in Mexican-American relationships and a great step forward. It carried many implications, for we recognized the principle which had been maintained by the Mexicans with regard to the sub-soil rights being unalienable and the property of the nation, and the Mexicans agreed to the principle of prompt and adequate compensation. These two principles, once accepted as they were in this exchange of notes by the two governments, naturally would affect future negotiations and settlements of similar matters by the two governments. Both governments in making this exchange of notes were aware of all the implications of the documents which they were signing.

It is interesting to note in this connection that on the same day that the exchange of notes between Mexico and the United States took place on the settlement of the oil expropriations, that the exchange of notes was signed settling the long standing claims of American citizens against the Mexican government, known as the general claims. The amount fixed upon in the exchange of notes was \$40,000,000 dollars, which the Mexican government agreed to pay over a

given period of years. This money, that is this \$40 million dollars, was to be paid in equal installments over a fixed period of years to the United States government and it was the United States government which would make itself responsible for apportioning the money to the American claimants in the amounts which the American government deemed proper on the basis of the long studies made by the appropriate officials of our government. While the 40 million dollars was much less than the American claimants had been asking for, it was, in the opinion of all those who knew the facts, a reasonable and acceptable settlement. Again both governments went very far in showing their desire to bring the relations between the two countries on a sound basis and on which they could develop as they should. It was no simple matter for the Mexican government to agree in principle and in practice to pay so large an amount of money. It was no easy matter for the United States government to accept an amount which was so much below the amounts claimed by the American citizens affected.

These two exchanges of notes on the same day effected a profound change in Mexican-American relationships and the beneficent effects of these two settlements are being felt every day in the relations between the two countries. Those responsible for this action showed statesmanship and courage and understanding and deep vision of the major interests of the two countries.

I had little intervention in either the negotiations or in the exchange of notes which followed the negotiations. With regard to the mixed claims matter, I was not consulted at all while I was Assistant Secretary. With regard to the oil matter, I was consulted on several occasions by Mr. Hull. He was very much troubled by the whole matter. Up to that point and the point of agreement with Mexico on the exchange of notes, the attitude of our government had been as unalterable that the sub-soil rights were the property of the one to whom a legal concession had been given, and as strong and determined in that respect, as the attitude of Mexico had been to the contrary. Secretary Hull knew that it was a

step which bound our country in the future not only in this Mexican matter but in other matters of expropriations which might arise. It was a far reaching step and it had to be done with great care and deliberation. Mr. Hull was convinced that ~~while~~ so far as the Mexican <sup>expropriation</sup> ~~action~~ was concerned, it had been improper, hasty and ill considered. He was convinced that the expropriation would prove to be an unwise measure so far as its repercussions in Mexico were concerned. He was, however, an enlightened statesman and he knew that it was impossible in the world in which we live to maintain the principle that the sub-soil rights were not the property of the nation. He realized that there would be criticism, not only from the oil companies affected but from other interests in our country, and he knew that interests in other countries not directly affected by the exchange of notes and the settlement with Mexico would feel that a general basic principle accepted up to that time had been changed. Mr. Hull lived in his time and was a man of courage, and in the attitude which he took on this matter he was supported by the President. It was on this particular phase of the matter that I was consulted, and I expressed consistently the opinion that it was inconceivable that in the world in which we live and would have to live in the future that nations would not claim what was under their soil as their property, and that the concessions which they would give would be for exploration and development and for operations on bases agreed upon, which did not, however, involve the actual oil or minerals under the ground being the property of the person or firm to whom the concession was given. I felt that it was only a question of a few years in any event before we would be forced to the recognition of this principle and we might as well do it then. Sumner Welles of course was very much of this opinion.

During conversations which I had with President Roosevelt and Secretary Hull and Sumner Welles before going to ~~Subsistent~~ Mexico to take up my work there in early 1942, they told me that the Mexican and American arbitrators had been

appointed or would be appointed shortly. I was told that they would carry on their work independently of the Embassy and of the Department, but I was told that their instructions were, in accord with the exchange of notes, to arrive at the amount to be paid to the individual companies in compensation for the expropriated properties, that is for the properties covered by the exchange of notes, and that those expropriations or damages not covered by the exchange of notes would be taken up after the arbitrators had reached their decision, and that these were subject to further consideration on the part of the two governments. I was told that while I was not to press the matter in the immediate future, that I was to bear in mind that it was the desire of the United States government to see that the oil resources of Mexico were explored and developed in the benefit of Mexico, as we had a very real interest in securing Mexican oil for our own consumption. I was given no specific instructions except very general instructions to the effect that I was to look into this matter and to make recommendations as to the bases on which the Mexican oil resources could be adequately developed in the interest of Mexico and in the common interest.

It was shortly after I arrived in Mexico that Mr. Zevada, the Mexican Commissioner, and Mr. Cook, the American Commissioner, began their work, and while I knew Mr. Cook and while he came in to see me from time to time during his stay in Mexico, he did not discuss with me in any way the details of the examination which he and Mr. Zevada were giving to the claims, that is with particular respect as to the amount to be awarded to the companies. It was I believe towards the end of 1942 that Mr. Cook came in to see me and told me that he and Mr. Zevada had reached agreement and that the agreement was about to be submitted to the two governments. He mentioned the amount which had been awarded to the American companies involved in the claims covered by the exchange of notes and it was approximately 25 million dollars, together with interest accumulated making total payments of some 28 million dollars. He said that he and Mr. Zevada had reached complete agreement and that the decision was to be made known that same night to

the two governments in Washington and in Mexico City. I could express no opinion on the amounts decided upon for I was not in a position to do so. The two Commissioners had spent laborious months in going over the many documents submitted by the companies and all the accumulated evidence. They had made without any question a sincere and a determined effort to reach an equitable amount. While the amount fixed upon was one which I was sure would not be satisfactory to the American companies and claimants, I was as I said before not in a position to pass any judgment upon the adequacy or inadequacy of the amounts. I knew Mr. Zevada as an enlightened man. I knew that they had conscientiously gone into the matter and I felt confident that they had done their best. The exchange of notes provided that the agreement reached between the two Commissioners as to the amount would be accepted by both governments. There was therefore no question of our government or of the Mexican government accepting the decision of the Commissioners. It was another mile stone in Mexican-American relationships.

I had in the meantime, while this matter was under settlement between the two Commissioners, mentioned when I had the opportunity to the President, General Avila Camacho, and to the Minister of Foreign Affairs, Dr. Ezequiel Padilla, the desirability of reaching certain agreements and arrangements which would involve more rapid and adequate exploration and development of Mexican oil resources. These conversations were of a general character and purely preliminary. The matter was not discussed in any specific terms. After the Cook-Zevada award had been made public and accepted by the two governments, I began more definite conversations with the President of Mexico and the Minister of Foreign Relations, Dr. Padilla.

At this time the Mexican government had before it a program of public works, particularly roads, hospitals, schools, railways, public services and many other public works of a constructive character. The tax resources of the Mexican Treasury were inadequate to meet fully these programs. The programs were

on a very reasonable basis. They were not exaggerated in any way. It was quite obviously in the interest of Mexico that these public works programs should go forward and go forward as rapidly as possible. It was equally obvious that it was desirable for us, that is for the United States government, to do what it could to help in the carrying forward of this program. This would involve loans from the United States.

Up to the signature of the agreements on the oil expropriations and the general claims mentioned in this memorandum, Mexico had not for a period of approximately 30 years been able to secure any foreign loans. The failure to pay interest for so many years on the foreign obligations which Mexico had contracted under various administrations had brought her credit to such a low ebb that as a matter of fact there was no such thing as Mexican credit in the external money markets. The fact that the Mexican government had signed these agreements covering the oil expropriations and the general claims had a very helpful effect not only in the United States but in other countries. It was quite obvious that the Mexican government was looking upon the question of foreign obligations in an entirely different spirit. The idea of repudiation, at least in the minds of the government and responsible businessmen and bankers, had disappeared. They realized that further steps had to be taken to establish the credit of Mexico. The first step of course was to meet promptly all the installments for amortization and interest in accord with the two agreements on the oil expropriations and the general claims. There was no doubt that the Mexican government had determined that it was going to pay these claims in accord with the terms of the agreements. As there was still no borrowing capacity this meant that these claims would have to be paid out of current income. In view of the heavy demands on the government for this public works program, it meant that unless the government could get some external loans that it would be necessary to cut down the very important part of the public works program. It

was in the interest of our country, not only in times of peace but as we were at engaged in this great war of survival, that we should begin to give credits to Mexico. The attitude of our government in general was favorable but it was obvious that we would have to go slowly and carefully and only on the basis of sound, well-prepared projects and so far as possible those which would be productive.

I had no very specific instructions on this matter from the Department, but I knew what the general policy of our government was with respect to Mexico and that it was our desire to help. It was therefore within the framework of that broad instruction that I carried on my conversations.

One evening the President asked me to come to Los Pinos to his house fairly late in the evening. When I arrived he said he wished to talk to me with regard to the matter of credits. He spoke of the public works program. He spoke of the great demands on the Treasury. He spoke of the limited<sup>tax</sup>/resources in particular of the country. He said that he wished to discuss with me the possibility of securing a considerable loan from the Export-Import Bank. He said that the Minister of Finance, Lic. Eduardo Suarez, had made a study of this matter. He had come to the conclusion and had recommended to him that Mexico should ask for credit of 150 million dollars. This credit was to be asked for from the Export-Import Bank and to be given the guarantee of the Mexican government. I asked him if a definite determination had been made as to the projects which were to be included in this 150 million dollars. The President said that he and the Minister of Finance had discussed the principal projects involved but that no definite program had been laid down.

As Mexico had not been ~~assisted~~ able to secure any foreign loans either from public or from private sources for some time, except perhaps a few short term credits from banks, and as the amounts needed were considerable, I explained to the President that the only source of loans for the present was the Export-

Import Bank in Washington. I told him what the practices of the Bank were. I explained to him the purposes for which the Bank had been organized, that it was an instrument of the United States government, that the money which the bank had to loan came out of the United States Treasury and that the moneys in the Treasury, as in Mexico, came from the taxpayer. I went into a good deal of detail to explain to the President not only the organization of the Export-Import Bank but its lending practices. In this latter respect I had to tell him rather painstakingly that I did not think that the United States government, that is the Export-Import Bank, could consider a request for a global loan of 150 million dollars, even though it had the guarantee of the Mexican government. I said that it was the practice of the bank to make loans for specific projects either by governments or by private enterprises. These projects had to be carefully studied and presented. This would require a certain amount of time. I therefore stated that while I understood thoroughly the recommendation made by the Minister<sup>s</sup> of Hacienda to the effect that Mexico should ask for 150 million dollars, that in view of the lending practices of the bank and the procedures which it invariably followed thereunder, that it would be much preferable not to make mention of any specific amount to the bank, especially such a large amount, but to begin the careful preparation of projects in which the <sup>Mexican</sup> government felt that it needed a part from foreign loans. I said that the first thing I thought it was necessary to do was for the President and appropriate officers of his government to determine which were the most important projects which required attention first and to concentrate on the study thereof and the preparation of all the technical and financial details so that proper studies could be presented to the bank. I said that I felt sure that these would receive the very careful attention of the Export-Import Bank. I could not guarantee what action would be taken thereon. I could, however, say that a request for a global loan of 150 million dollars, making reference in only general terms to the way in which it was to be used, could not be favorably considered by the bank. On the other hand, if specific

projects were presented with all the necessary details, that adequate attention and sympathetic consideration would be given without delay to these applications.

The President was very understanding of this matter. He was obviously a little disappointed but it was largely because he did not know what the lending practices of the Export-Import Bank were. I think that he realized the reasonableness and the correctness of the bank's practice and that it was really a practice that was in the interest of the Mexican government or of any borrower. He expressed his appreciation of the helpful information which I had given to him and said that he hoped that he could count on my collaboration and help in their securing these loans. I said that he could count on my consideration of any project that they might present/<sup>but</sup>that my recommendations to my government would of course have to depend upon my examination and appreciation of the projects. The President said that he thoroughly understood this position, which was the only one which I could take. I endeavored to make it clear that I could not express any opinion beforehand as to any specific project. I explained to the President how important it was that these projects be presented in the clearest possible way to the Export-Import Bank, that it required a lot of preparation and study. I said in a very nice way that as the Mexican authorities had no experience in applications of this kind that in any way I could be of assistance in giving information as to the practices of the bank, I would be very happy to do so to the appropriate officers of the government who might approach me in the matter. Parenthetically, here I may say that during the period that I was Ambassador in Mexico, that is from February 1942 until May 1946, I believe my memory serves me correctly that the Export-Import Bank made loans to the amount of something like 97 million dollars to Mexico, all for sound, constructive projects which have been most helpful in the Mexican economy and have borne much fruit not only in the economy of the country but in improving the atmosphere of the relationships between the two countries. I may also add that since May 1946 very considerable further amounts have been lent

to the Mexican government or to private companies in Mexico by the Export-Import Bank of Washington and by the International Bank for Reconstruction and Development. Every single payment of amortization and interest on these loans has been made promptly, just as has every installment due under the oil agreement been paid promptly and every payment under the general claims agreement has been paid promptly. In some cases the <sup>annual</sup> payments have been made by the Mexican government with some days of anticipation.

It was in connection with these conversations on loans which I had principally with the President and with the Minister of Foreign Relations, Dr. Padilla, and the Minister of Hacienda, Lic. Suarez, that I was able to mention the question of the adequate exploration and development of Mexico's oil resources. I pointed out to the President, as well as to Dr. Padilla on many occasions, that if the Mexican government took the appropriate steps in order to make possible the participation of American companies together with Pemex in the exploration and development of the already proved oil resources of Mexico, it would hardly be necessary within a few years for Mexico to borrow any money. I said that I knew what the President's ideas were with regard to improving the lot of the common people. I said that I realized the necessity for the programs for which the Mexican government was contemplating loans and using its own tax resources. I realized the importance of the school program on which he was so wisely engaged and which he was pressing so hard. I realized the importance of further hospitals, sanitary works in all parts of the Republic, and also of the sound road program which the Mexican government had already undertaken and which was a costly program but which was bringing such great returns. I said that without loans in very considerable amount the improvement in the Mexican economy would be slow. I said that while loans would have to be resorted to for the present, that a sound approach should really be made to the problem in increasing production in general, and one of the immediate things to be done was the increase

of production in oil. I said that if appropriate agreements were made with regard to the exploration of Mexico's oil resources and their development, not only would the domestic supply for fuel and oil be assured but there would be considerable margin available for export, and the proceeds of these exports would practically eliminate the need for loans, if not altogether eliminate the need for loans, but would also make possible a vastly increased and accelerated program of the public works which the President had in mind and which, I repeated, was so urgently needed. I said that naturally, even if the Mexican government decided to undertake a policy of accelerating <sup>exploration and</sup> development of her oil resources, it would mean that there would have to be a period of three or four years, and I believed that four years would be the maximum, during which she would have to resort to loans, but that after that the proceeds of the oil exports would be sufficient to meet the needs of the broadest program of public works which I could envisage, at least the broadest and widest program which could be carried through soundly and properly. I said I had only the broadest and most general instructions to carry on conversations on this matter, but that we were profoundly interested in the economic development of Mexico. I said that President Roosevelt was in a way just as anxious that the Mexican economy should develop as he, President Avila Camacho, was. Both of them realized that an increase in the standard of living in Mexico was not only essential but any improvement in such standard would find its reflection in the relationships between the two countries.

In connection with this oil problem I also mentioned the desirability of increased production in grains, particularly wheat and corn in which Mexico was in deficit. The imports of wheat and corn were a heavy drain on the foreign exchange available to Mexico. The President and I discussed at great length during these conversations the agricultural problems of the country and particularly the necessity for improving the production of corn and wheat and certain other agricultural products and lessening exports. We had other immediate problems

at the time, such as even the transportation of the corn and wheat, which could be purchased in Canada and in the United States to make up the deficit. In view of the transportation problem during the war and the shortage of cars, it was often difficult to secure the freight cars in order to carry the corn and wheat and other grains. Sometimes, in certain areas of Mexico, the supply of corn and wheat available for the mills was only for four or five weeks and at times it was not even that. We discussed the methods which could be resorted to in order to increase production per acre of wheat and corn. We discussed the various climatic and soil factors which the Mexican government had had to deal with for years. We discussed the possibility of increasing production through better seeds, and in this connection I told the President that I thought the Rockefeller Foundation could lend very valuable assistance in this connection and I was sure it was prepared to do so. Incidentally, the President seized on this idea and what the Rockefeller Foundation has done in this connection has been a stupendous achievement. While Mexico was importing hundreds of thousands of tons of corn and wheat in 1942, it has within the last few years become self-sufficient in corn, even though consumption with the higher standard of living which has increasingly prevailed has increased, and this year it will be self-sufficient in the production of wheat. While this means a certain loss of American markets for corn and wheat in Mexico, it means that the exchange formerly used to pay for this deficit of grain production in Mexico is now available for other purposes, such as the purchase of equipment of all kinds for the development of the industrial program of Mexico which is going forward so rapidly, and these importations of equipment of all kinds are very much in excess of what we were getting in payment for corn and wheat.

I am mentioning the broad range of the subjects discussed by President Avila Camacho with me in order to show that the oil problem was not taken up in any arbitrary way or with any specific desire to get the American companies

back into the picture in Mexico. We realized that the oil expropriation was there to stay. We knew that it was very difficult for the Mexican government to back-track on this matter, even though it had found that the expropriation may not have been the wisest thing to do. We realized, however, that with the resources available to the Mexican government that her oil resources would be developed very slowly and perhaps inadequately even to meet internal demand. This would make a further demand on the foreign exchange available to the government. Our interest in the oil problem at the time these conversations were begun was primarily on the basis of improving the Mexican economic situation in general. One of the principal things that could be done seemed to be this improvement in and acceleration of oil exploration and development, which we felt could be best done by private companies through appropriate arrangements with the Mexican government and with Pemex.

These conversations continued and were very useful. I carried on very long conversations with the Minister of Foreign Affairs, Dr. Ezequiel Padilla, who was in my opinion the most enlightened statesman in the chancery of any Latin American country at the time. He was a man of great vision, intelligence and understanding. He was a great Mexican. He was deeply interested in improving the economy of the country and the economic condition of the great masses of the population. He was in fact a great humanitarian, and while an idealist he was very realistic in his approach to economic problems. He realized that the only approach which could be made soundly and effectively was a realistic approach. Early during my stay President Avila Camacho had informed me that I could talk over these matters that I was talking over with him with the Foreign Minister, and he had also so informed the Foreign Minister so that the President was constantly aware of what I was talking about in the Foreign Office.

Not much real progress was made in any concrete discussion of the oil exploration and problem, that is of furthering/developments ~~and~~ because it was quite obvious that in view of public opinion which had been created and public prejudices which had

been aroused and national pride which had been stimulated, that any new approach, no matter how reasonable it would be and how advantageous it would be to the country had to be made slowly and carefully. Conversations, therefore, all were of an informative and exploratory character. I found the President very much interested in these conversations. I was deeply interested therein. It was clear to me from my conversations with both the President and with the Foreign Minister, Dr. Padilla, that they were in touch on these matters and discussed between themselves the problems which I had discussed in conversations with them. I saw increasingly a more receptive and always an understanding attitude towards the problem from both the President and the Foreign Minister. I did not in any way press them, important as the problem was, as I knew that it would be most unwise. I knew that it was a problem which could not be settled in a day nor in a year.

I kept Secretary Hull and Mr. Welles, as well as the President, informed of the character of these conversations. They were pleased that I was doing this. It was after I had been in Mexico I believe ~~several~~ years that the President indicated to me, no, it was not several years, it must have been after I had been there a year or so, that he thought it would be very desirable if I could make a more concrete approach. ~~THE~~ President Roosevelt, who always thought in very broad lines, and whose approach at the same time was idealistic and realistic, realized the importance of oil being available in adequate quantities not only to us in the United States but also to the other American Republics. The war was pressing these problems in on us. The President said that there was no doubt, from what he had been told, that there were these tremendous resources in Mexico which were not being proved and developed. He realized the problems of the Mexican government in anything which might appear to be a change of policy. On the other hand, it was quite obvious that we could not lend them any money for oil development and exploration and should not do so. It was therefore a question of finding a way by

which the Mexican government would permit American ~~for~~ foreign companies of proved capacity to come in and carry on the work which they were doing in the United States and in other parts of the world so effectively. There should be a way to find such a solution which would in every way be satisfactory to Mexico and which would not affect the existence of the oil monopoly, Pemex, in Mexico. The President said that he was greatly disturbed over the possibility of oil shortage in the United States and in the Americas. He hoped, therefore, that some dual arrangement could be worked out. He hoped that some arrangement could be found of an equitable character to the oil companies and to Mexico under which they would be able to come into Mexico and, together with Pemex, in certain areas designated by the Mexican government carry on exploration and development. At the same time he said he was interested in the development of certain resources in areas which would not be touched and used in times of peace. He therefore presented the unique idea, which he authorized me to discuss with President Avila Camacho and the Mexican government, that preferably in the north of Mexico and as close as possible to the United States where there was reason to believe that oil was present, that exploration should take place. He said that the United States government would be willing, he was sure, to pay for the cost of exploration and development. After these fields had been proved and developed and placed in a position to actually produce oil, appropriate storage facilities should be built and stocks of oil be accumulated in these tanks. The wells could be shut off when the capacity of the tanks was filled. We would pay all the cost involved in exploration, development and building of the tanks and the appropriate facilities. It would be understood that the oil was not to be used and that it was not to be exported except in time of war or by agreement between the two countries. This would provide Mexico with a proved field that was set aside for special purposes and make available a supply of oil to her when other supplies might be cut off, and it would make available to us at least in part Mexican resources of

oil in time of need. The President went on to say that there should be nothing which would prevent the Mexican government from accepting such an offer from the United States government. It would be something which we would be willing to finance as a government in the benefit of the two governments and in the benefit of the other American Republics. It was an idea which he felt would have real appeal to the Mexican government and people. Such a measure of collaboration between the Mexican and the United States governments should have its appeal to the other governments of Latin America and the peoples of Latin America, as it would show the degree to which the Mexican and the United States governments were really interested in the problems of inter-American collaboration and defense.

There is no doubt that in putting forward this idea that the President had in mind that it would make more palatable to the Mexican government the idea of American companies and other foreign companies, if the Mexican government so wished, coming in and under proper contracts and arrangements with the Mexican government and with Pemex, aiding in exploration and development of Mexico's resources for her benefit and for the common benefit on an equitable basis. I may say that the President never had in mind any arrangements with the Mexican government which would permit the private companies to return to any area of Mexico which would involve any improper advantages for the American companies. He was thinking in terms of agreements which would be entirely equitable in character, bringing a proper return to the companies and a proper return to the Mexican government and therefore to the Mexican people, making available to them these underground undeveloped resources which could be turned into money and which could be used for all sorts of programs, which would mean increased welfare of the great masses of the Mexican people.

Although I had given the oil problem a great deal of thought as a result of the instructions which I had received on coming to Mexico, I must say that this idea had not occurred to me and it struck me as a good one. It required a man of

vision such as that which President Roosevelt undoubtedly had to think of this. I do not know whether the idea was original with the President or whether the matter had been proposed or discussed with him by some of his advisers or friends. In any event, he was the only person outside of Secretary Hull and Mr. Welles in the Department who discussed the matter with me and it was the President who proposed the idea to me originally. I always had the definite feeling and conviction that it was an original conception of his, and it was a sound and wise one. The President was so deeply concerned with the defense of the hemisphere and his thinking was accentuated by the grave problems of the struggle for existence in which we and a good part of the rest of the world were engaged against Germany and her allies. He was thinking in long range terms.

After this conversation with the President and on my return to Mexico I discussed the matter with President Avila Camacho and with Dr. Padilla, the Foreign Minister. I do not think I discussed it so much in detail with Dr. Padilla as I did with the President. I realized that in a matter of this kind the President would first have to be convinced of the desirability and the feasibility of the idea before any useful conversation could be carried on with any one else in the government. The President liked the idea very much and we discussed it in a good deal of detail. The President, under the pressures of the war and of the Mexican economy, <sup>in my opinion</sup> had become convinced of the necessity of doing something to supplement the activities of Pemex. This decision in his own mind which I believe he had made, and of course I cannot affirm this, was I believe accentuated and definitely defined when he realized that no money would be available for oil exploration and development in Mexico. This is another important problem which I will have to go into in some detail.

There were those in Petroleos Mexicanos, the government oil monopoly, and others in the government and persons like President Cardenas, although he did not like the idea of getting a loan, who believed that it would be possible to get a

very large loan from the United States government through the Export-Import Bank or perhaps by direct legislation of our Congress, for oil exploration and development. I do not know what conversations may have taken place between the Mexican Embassy in Washington and the Department of State on the subject of such a loan. It was, however, broached to me constantly and most of the time indirectly. I therefore had to seek instructions on this point. I personally was definitely opposed to the idea of our government making a loan for oil exploration and development in Mexico. I knew that we had not done it anywhere else. I was convinced that we were wise in not having done this. The oil industry is a very special type of industry. While there is much said about the large oil companies in the United States and in England and in other parts of the world, there is no doubt that in this particular business it can only be carried on by private enterprise and by private enterprise which has available to it large sums of money. It is an industry in which there is tremendous risk. It is an industry of adventure. In our own country our tremendous oil resources have been developed entirely through private initiative and through private capital. It seemed to me unthinkable that we could consider lending such large sums of money which would be involved either in Mexico or in any other country in a venturesome business such as the oil business, and to risk the American taxpayer's money in the hands of other governments, when in our own country the industry had been so ably developed and carried forward by private initiative and capital. I found that this was the opinion of the President and of Secretary Hull. I knew that it was the opinion of the State Department as a whole and of most of the people in responsible positions in our government. I was told that when this subject came up for discussion I could say that under no circumstances would the United States government make any loans for oil development or exploration in Mexico or elsewhere. I therefore, in my conversations with the President and with the Foreign Minister made this very clear. It was at first rather difficult for them to understand that this

was not possible. I think that probably one of the most difficult and one of the most effective pieces of work which I was able to do in Mexico in the way of making clear our attitudes and the sound reasons therefore was ~~that~~ in this particular field, that is that our government would not make loans for oil development and exploration. It was at first a great disappointment, I am sure, to President Avila Camacho himself, but I am personally convinced that he came to the realization that it was not possible and that it was for this reason that he began to look with favor on this proposal of President Roosevelt with respect to the establishment of a common oil reserve in the north of Mexico at the expense of the United States government but for the benefit of the two countries in times of emergency and for the defense of the Americas, coupled with the idea of permitting the American companies of proved capacity and resources to come in and to work with the Mexican government and Pemex under appropriate, equitable contracts to develop rapidly and adequately the oil resources of the country.

I kept the President and the Department informed continuously of the results of my conversations and I did so mostly orally, in view of the delicacy of the matter. It would not have been helpful in the public interest in either country and especially as we were in the midst of war, that it be known that the two governments were thinking in these terms. I should add at this point that when I talked with the Mexican authorities with regard to the opportunity for the American companies to collaborate in the development of Mexico's oil resources I always did so on the basis of American and other foreign companies. I did this under instruction. I never spoke only of American companies. I spoke of American and other foreign companies of proved capacity and resources. I used <sup>the</sup> words "proved capacity and resources" as it would of course have been of no advantage either to Mexico and her economy or to the United States for companies, whether American or other nationality to be given opportunities to work in oil exploration and development in Mexico if they were not in a position really to carry through with

the engagements which they undertook. It would merely have meant a further complication of the whole situation.

It was at this point in the conversations of this informal character, for these were all informal conversations carrying no commitment on either government, that President Avila Camacho spoke to me about a trip to the United States to talk with President Roosevelt on this matter.

As a result of these long and numerous conversations with the President and with the Foreign Minister, the President had finally reached the conclusion that it would be possible for Mexico to enter into an agreement with the United States. ~~Mexico to enter into an agreement with the United States.~~ He asked me if I was planning to go to the United States in the near future. I told him that I went very frequently and that I could make a trip at any time that he had anything that he considered I should take up personally with the President or Mr. Hull. The President said that he had come to the conclusion that something should be done to increase the rate at which the oil resources of the country were being explored and developed. The idea of the oil reserve in the north to be used in case of emergency by Mexico and the United States appealed to him very much. He thought that it was a feasible project. He was also of the opinion that the time had come to talk concretely about ways and means through which American companies could come into the field of exploration and development in Mexico and in fields not presently exploited by Pemex. He said that it seemed to him that arrangements could be made between responsible oil companies in the United States and the Mexican government and/or with Pemex, under which arrangements they would be able to work. This could be done, he believed, without changes in the Petroleum law, but if such changes in the petroleum law were necessary they should be carried through. He thought it would be desirable if I were to inform President Roosevelt of his thoughts in this matter and his readiness to discuss the matter in a concrete way.

I was naturally very much surprised at this definite statement of the

President. It was an act of courage but a wise one. The President said that he had talked this matter over with various people, including General Cardenas. He had explained to General Cardenas the lines of the conversations that we had been having and of what he planned to say to me. He said that General Cardenas was in accord. In view of the close friendship existing between President Avila Camacho and ex-President Cardenas, this was of course very important and it was of course very important from the point of view of public opinion. I had always told the President that the question of what should be done in oil policy in Mexico was really, in my opinion, not as complex as so many people made it out to be. I was convinced that not only intelligent and reasonable people in the country but the great masses of the people who did not think very much and who were very poorly informed would thoroughly understand and appreciate any action of the government in order to develop the oil resources adequately, provided the advantages thereof were adequately explained by the government and perhaps by the President himself. It would require a clear statement of what the government had in mind so that it could not be said that it was going too far. It would be necessary to explain in detail what the advantages to the government and to the people of Mexico would be if these oil resources were adequately exploited. I had always emphasized in my conversations that while such an attitude of the government and the statement thereof to the public would require a certain amount of courage, I was convinced that it would be almost universally welcomed except by a few prejudiced people, and I had in mind naturally among these General Cardenas. I always felt and still believe that when a matter of this kind is adequately explained to the people and its advantages fully made known in a reasonable and a proper and in no exaggerated way, that public support can be secured for such measures which to many seem impossible to carry through. I think that the President had reached this conclusion and I am inclined to think that when President Avila Camacho had spoken to General Cardenas about his inten-

tions in this matter that General Cardenas realized that any opposition, in view of a reasonable attitude by the government, would be useless.

The President said that he had told General Cardenas that he wished him to talk with me before I went to Washington to see President Roosevelt, and he said that General Cardenas had indicated that he would be very glad indeed to talk with me and that I could come for lunch the following day. The President said that General Cardenas had indicated that Mrs. Cardenas would be present at the luncheon, as well as General Urquiza and his wife, and that I was to bring Mrs. Messersmith. I realized that the purpose of having the ladies was to give an appearance of a purely personal and unimportant aspect to this luncheon.

Mrs. Messersmith and

The following day/I went to the home of General Cardenas in Mexico City. He lived in a very simple home in the city. General and Mrs. Urquiza were there with General and Mrs. Cardenas. We had lunch almost immediately after we arrived. After luncheon the General took me into an adjoining room and he told me that President Avila Camacho had indicated that I wished to talk with him. I did not raise any objection to this way of putting it, but I said that I wished to tell him of the trip which I was going to make to Washington with regard to this oil matter. What followed was really not a conversation, as it was inevitably my setting forth to him a good many of the observations which I had made to President Avila Camacho and to Dr. Padilla on the advantages of some arrangements. I also explained most painstakingly what form these arrangements would take, at least in principle. The details of course would have to be worked out. General Cardenas offered very little comment during the conversation. At several points he asked some questions which I answered, seemingly to his satisfaction. His attitude throughout the entire conversation was courteous. At the end of the conversation General Cardenas indicated that he saw no objection to the arrangements which were planned by the President and to what I was intending to convey to President Roosevelt.

I was naturally very much pleased, as I thought it was another great step forward not only in the development of the internal economy of Mexico but also in the relations between our two countries. I left for Washington by air the next morning. It so happened that we were delayed and I believe it was in Birmingham that we had to spend the night instead of reaching Washington that evening. I therefore did not reach Washington until the night after I had planned to arrive. When we arrived at the airport in Washington I found to my surprise that a representative of the Mexican Embassy was there, who indicated that he would be very glad to take me up town to the Metropolitan Club, where I would be staying. I knew he must have some reasons for having come to meet me, so I told the people from the Department who had come to meet me at the airport that I would be driving into the city with this member of the Mexican Embassy staff.

Driving into the city, I was told that President Avila Camacho had called during the day, that is the afternoon of the day I had left Mexico City for Washington and had asked that I be met at the airport and informed that there had been certain developments which made it impossible for me to convey at the moment and during this trip the message to President Roosevelt which I had been authorized to convey. I realized that something important had happened and when I saw President Roosevelt and Secretary Hull I told them that I felt sure that after my departure, General Cardenas had gotten in touch with the President and raised objections again to any arrangements of the kind contemplated. I attended to some normal business in Washington and returned in a day I believe to Mexico City. The day of my return to Mexico City one of the President's aides came to see me and said that the President would be very glad to have me come and see him at Los Pinos. I went to see the President and he was visibly embarrassed and said with a wry smile that he was very sorry that he had had to send me the message which he did, but that after I left for Washington there had been developments which made it necessary to postpone any definite arrangements for the time being. I learned

afterwards that after the luncheon which I had had with General Cardenas and to which reference has been made, General Cardenas came to see the President and told the President that he had informed me that he could not go along with these arrangements. This of course was entirely contrary to the facts. I should have added that when I saw the President on this particular visit to Los Pinos and after he had made his excuses for having had to send me this message, he asked me to be good enough to repeat to him exactly what I had said in substance to General Cardenas at the luncheon at General Cardenas' house before my departure. I did this in considerable detail, As I gave this resumé to the President I could see him nodding and looking grave and there was no doubt that he thoroughly appreciated that I had conveyed to General Cardenas exactly the substance of what was in mind.

I do not think it is advisable nor is it necessary to make any further comment with regard to the part which General Cardenas played in this particular matter on this occasion. There are those who know Mexico well who would say that it was characteristic of General Cardenas. Naturally, as a result of the foregoing, the conversations on oil were interrupted for the time being, both with President Avila Camacho and with Dr. Padilla. At this time I think it is convenient to make mention of Ed Pawley, then Treasurer of the Democratic National Committee in the United States in the oil problem in Mexico. This is a very unpleasant story. When I arrived in Mexico as Ambassador in 1942 I was informed that Pawley was endeavoring to get an oil contract for exploration and development in Mexico and that he had the support of important people in his endeavors -- that is, in Washington. I soon learned of the difficulties which existed between Secretary Hull and Secretary Ickes. As it is I think a matter of common knowledge there is no reason not to state it here that Secretary Ickes was supposed to be tapping the wires of a number of Cabinet officers, and particularly their wires to the President. As a matter of fact, when I was Assistant Secretary of

State from 1937 to 1940 we had reason to believe that the wires of the Department and particularly the telephone wires of some of the higher officers of the Department, including the Secretary, were tapped. I was instructed to have a very thorough investigation made as I was the administrative officer of the Department during those years, of the possibility that our wires were being tapped. After having made some confidential investigations and not finding any such tapping, it was finally decided to have a very complete investigation made. For any number of reasons the relations between Mr. Hull and Mr. Ickes were not on a cordial and friendly basis. The temperament of the two men was entirely different, to begin with. Mr. Hull was a liberal but he believed in private enterprise and initiative. Mr. Ickes was not only a liberal but an extreme liberal, and while he may have been friendly to some forms of private enterprise, he was certainly not friendly to the oil companies. The efforts of Mr. Pawley to get this oil contract in Mexico led to a correspondence between Secretary Ickes and Mr. Hull, which on the part of Mr. Ickes was extremely rough and crude and improper. It was the character of these letters that Mr. Ickes addressed to Mr. Hull that accentuated the personal situation between them, so that they had as few words with each other as possible. It was known that Mr. Ickes was supporting Mr. Pawley's efforts to get this contract. Mr. Ickes was Petroleum Administrator for War. He delegated a good part of his authority as such, as was quite understandable in view of the broad duties of the Secretary of the Interior, to Mr. Ralph Davies, who was to all intents and purposes the administrator for petroleum. Davies was a close friend of Pawley's and they worked together very closely in business. Davies was supporting the Pawley contract and Mr. Ickes was supporting the contract, probably because of Pawley and of Davies.

I secured a copy of the proposed Pawley contract which was under consideration by the Mexican authorities. I read and studied it carefully. I found it to be the most one-sided contract that I had ever seen. It provided such

special advantages for Pawley that it was quite an improper contract and under no circumstances could our government have supported it. Secretary Hull refused to do so and we had many conversations on the subject.

One day President Avila Camacho asked me to call at Los Pinos. He told me that he was greatly concerned about the Pawley contract. He asked me if I knew about it. I told him that I did. He said that since I knew the contract it was not necessary to go into the substance of it. He said he was greatly concerned about the matter because he understood that Mr. Pawley had made it clear that if the Mexican government did not agree to this contract and sign it, that he would be in a position to make difficulties for Mexico in securing the manufactured articles and raw materials and foodstuffs which she needed to keep her economy going. The President said that he naturally had to keep this in mind, and while he considered the contract an improper one, there were other things which were more important for Mexico because the population had to be fed and this deficit in grains made up through importations from the United States, and that the whole economy of the country depended upon imports of machinery and equipment of all kinds, as well as a broad range of articles. He knew that these were difficult to get because he knew that under the best circumstances the United States government had to put into effect these export controls and export licenses were a natural part of the whole procedure. He was very worried about the whole matter.

I told the President that he should not have any concern about the matter. I was sure that Mr. Pawley had been throwing his weight around in various ways, and perhaps in improper ways, by calling attention to the positions which he held. I told the President that in our country we still held to certain practices and that we would not treat Mexico in any way that was unfair and inequitable. He knew from the many conversations which we had and from the discussions which we had had on Mexico securing certain materials from the United States which were in short supply, that our government was making every possible effort to meet Mexico's needs. It was our desire to keep the Mexican economy going. We could

not give Mexico any special privileges that our own people did not have at home. That was quite understandable and I was sure he would appreciate it. The President said that he did. He went on to say that he was quite sure we were giving Mexico not only equitable and fair treatment, but very understanding treatment. He was worried that something might happen to stop the flow of these materials. I told him that there was no one man who was in a position to do what Mr. Pawley had evidently indicated he was able to do. I said that in spite of all the problems that we had in connection with the great war effort we were required to make, that we were still a quite orderly government, and that certain principles and practices prevailed. I told him he could quite forget about anything that might happen about Mr. Pawley being resentful over his contract not being signed.

The President said that as this was a purely personal conversation he would like to ask me a question and that was, what I thought of the contract. I told him that he knew what I thought about the desirability of proper things being done to increase <sup>the tempo of</sup> Mexican oil exploration and development but that this had to be done on a correct and equitable basis. I considered the Pawley contract an entirely improper one because Mr. Pawley was seeking special advantages which the strongest and most important oil companies which were in a position to help would not be asking. I said that I considered it an iniquitous contract and that under no circumstances did I think Mexico should sign such contract. I went on to say that I had discussed this contract with Secretary Hull and that I knew what Secretary Hull thought about it. The President said that he had been told that President Roosevelt and Secretary Hull considered the contract an improper one. I told him that I had not discussed the contract with President Roosevelt but that I had discussed it with Secretary Hull and that I could categorically assure him that the Secretary felt about the contract the same way that I did.

The President was greatly relieved. He said that it was most helpful for him to be able to have this contact with me and that I had relieved his mind

tremendously.

I do not know how long afterwards but as I recall at this time it was not so long afterwards, my secretary, Mrs. Helen Hall, who had been with me since I arrived in Mexico City, came in and said with a rather surprised look on her face, "Ed Pawley is outside and wishes to see you." I confess that I was surprised. I had known of Mr. Pawley for many years. I had known a good deal about him. We had never met. I asked her to bring him into my office. He came in smiling and shook hands and I asked him to sit down. I was going to take him to a sofa near my desk but he sat on a chair opposite my desk. I seated myself at my desk. The following is I believe practically a literal statement of the conversation which took place. There were no preliminaries whatever. Mr. Pawley said, "I understand that you are against my contract." I said, "Yes, Mr. Pawley, you are correctly informed, I am against your contract. He said, "I came in to tell you that the contract is going to be signed." I replied that it was interesting to hear him say that but that I had every reason to believe that the contract would not be signed. Mr. Pawley said that no matter what my position on the matter of the contract might be, that he had called for the purpose of telling me that it would be signed. I said that it seemed to be rather useless for us to be sitting there, his saying that the contract would be signed and my saying that the contract would not be signed. I was convinced that the Mexican government would never sign such a contract and that I thought its attitude in this particular case was entirely correct.

All during this conversation Mr. Pawley sat there smiling at me and no voice was raised during this conversation. It was an entirely amicable one. After my last observation just noted he said, "Well, perhaps the next time I come here and sit in this chair, there will be somebody else sitting in your chair." I smiled and said, "Mr. Pawley, I am equally convinced that if you do come down here again and someone else is sitting in this chair, he will say exactly what

I have said." I said, "It is quite possible, because a good many things are possible, that some day you may come here and there will be somebody else sitting in my chair, but I am just as sure as I can be that the answer will be the one which I have just given." With that I rose and he got up, I started to walk towards the door and as we reached the door I held out my hand and we shook hands. He had a broad smile on his face and was completely sure of himself. It was the only time that I ever saw Mr. Pawley to talk with him. I afterwards saw him on a number of occasions at a distance in Mexico City and in Washington and elsewhere, but never exchanged a further word with him.

It was some time after this that I read in the newspapers that Mr. Pawley had been nominated by the President as Under Secretary of the Treasury and that the Senate Committee to which the nomination had been referred was going to hold hearings on the nomination. I naturally followed the matter in the press rather closely. There was a great deal of opposition in the Senate and of course in the country to Mr. Pawley being confirmed for this post. One day I received a telegram, I will not be able to determine from whom the telegram came until I have access to my papers. My recollection is that the telegram came from a friend in Washington and I do recall definitely that it was to the effect that it was very likely that I would be called by the Senate Committee to testify in connection with the hearings on this appointment. I took the telegram immediately across the garden from the Chancery to the house and showed it to my wife and said to her that I would never be able to testify before the Senate Committee on this matter. I would be under oath and I would have to say exactly what I knew about Mr. Pawley and all of his activities. There was no doubt that questions would be asked me about various things and which might bring in conversations which I had had with my superiors in Washington. I knew that political capital would be made out of the frank and honest answers which I would have to give, and that things which I would say would be distorted and used for political capital. I felt that the only thing would be for me to resign in case I was asked to testify. I was

naturally upset about it because I was interested in my career. I was particularly interested in my work in Mexico. I thought it would be too bad if I had to leave my post in the midst of the war when I was so in touch with things happening in the country and with our programs and our work in general. My wife thoroughly understood and she said that it would be too bad if we had to quit, but we had in mind in any event not remaining in the service too much longer, and in any event she understood that I could not testify.

My relief can be imagined when I read in the papers the following morning that the nomination had been withdrawn and that the Senate hearings naturally automatically stopped.

As further background to this matter and as it had such a definite bearing on the Mexican oil situation, I will at this point in these notes have to make reference to a conversation which I had with President Avila Camacho. I knew of course that ex-President Cardenas and the head of the Mexican oil monopoly and certain others in Mexico had not given up hopes that Mexico would be able to get a large loan from the United States for oil exploration and development. I knew, however, that the President of Mexico and the high officials of the Mexican government knew that such a loan was not possible. The President sent for me one day and he said that he had a very delicate matter that he wished to discuss in an entirely unofficial way. He said that General Cardenas had informed him that he, General Cardenas, had been informed by Ambassador Castillo Najera in Washington that the United States government was prepared to make a large loan to Mexico for oil exploration and development. From the information which he had this information had been given to Ambassador Castillo Najera by Secretary of Interior Ickes. The President said that he had told General Cardenas that it was his understanding and definite understanding that our government could not and would not make any such loan. General Cardenas was very insistent on the nature of the information. The President said to me that in view of the circumstances, he had to talk with me in order to determine what the position was.

He could not disregard what General Cardenas had said to him and what Ambassador Castillo Najera was understood to have said to General Cardenas. Parenthetically I may say here that this part of the conversation could not have been pleasant for President Avila Camacho, who was a very correct and courteous man. It was quite clear that the principal loyalties of Ambassador Castillo Najera were to General Cardenas rather than to the President. These things do happen even in well ordered countries. I told the President that I knew nothing about any conversations which might have taken place between Secretary Ickes and Ambassador Castillo Najera. I had the definite conviction that President Roosevelt had not made any such statement to the effect that his position with regard to an oil loan had changed. I said that I felt sure that if such a change of decision had been made that I would have been informed. The President said that that was the first thought that had occurred to him. I told him that of course sometimes things did happen without Ambassadors being informed but I did not believe there was anything to it whatever. I knew my country too well and I knew the policy of our government too well, so that I had this conviction that no change of policy would take place. It was just one of those things which we could not do. The President said he thoroughly understood, but that in view of the fact that General Cardenas had been to see him he would appreciate it very much if I would find<sup>out</sup>/just what this was all about. I told him that I quite understood and that I would make a trip to Washington to discuss the matter.

While I will have to examine my papers in order to determine the dates, my recollection is that this took place about the time that President Roosevelt had returned from Yalta. His health was on the decline. I went to Washington by air and I called on Secretary Hull and asked him if he knew anything about all this. I told him verbatim the conversation with President Avila Camacho. He said he knew nothing about it. He said that the best thing for me to do was to talk with the President himself. He had talked so much on this question that he did not

wish to discuss it again. I think it was because Secretary Hull realized that Secretary Ickes might have some part in this. I told Mr. Hull that in spite of my great affection for the President and for him, and in spite of my great interest in the work which I was doing and that the last thing that I wanted to do was to retire at that time, I would, in case the policy had been changed and that the President was now in favor of granting such a loan, to immediately resign, as I could not be a party in any way to such a loan. The Secretary said I was entirely right, that that was the only thing that I could do. It would be too bad if I had to quit but I could certainly not be associated with anything of that kind. I realized that if the Secretary took up the matter with the President, it would be a difficult conversation if it should so be the case that the President had changed his mind with regard to such a loan. It might lead to the Secretary's resignation. I realized that I was much less important than the Secretary and that it was therefore up to me to see the President. I knew the President was not well. I had not only this great admiration and affection for him, but also such great respect. It was difficult for me to have any difference with the President on such an important matter which made it necessary for me under certain circumstances to tell the President that I was asking him to accept my resignation. I cannot describe my feelings on my way over to the White House for this conversation. I don't know when I really felt so badly.

I saw the President the same day. When I came in to his office I was shocked beyond measure by the change in his appearance. The President received me very cordially. He talked in a low voice and was obviously under a strain. For at least ten minutes we talked about generalities and personal things. I found it necessary to come to the point. As I was about to do so and had really started to say that I had had this conversation with the President of Mexico, etc., President Roosevelt turned to me and he said, "George, I understand that there is some talk about our making an oil loan to Mexico and that the position of our government

has changed. I want you to know that there is nothing whatever to it. Our position has not changed.

Again I cannot describe the feelings which I had. I was not only relieved that the President had not changed his opinion on this matter which was so fundamental and vital and which I knew he could not in any event carry through even if he had changed his mind, but I was also relieved that the relationship between the President and me could continue on the same terms that I had been privileged to enjoy for these years, and I was also relieved that I would be able to continue my work in the service. I can completely honestly say that I was more relieved even because I did not have to be put into the position of having to say that I wanted to resign and would have to resign if such a policy was to be carried through or should be intended to be carried through. I said to the President I felt sure that that was the way the thing was, but in view of President Avila Camacho's conversation with me, the President realized that I had to come to talk to him about this matter. The President then said that it was quite unthinkable for us to make such a loan. That it was the kind of loan that the Export-Import Bank in any event could not make and it would be the kind of loan that would require the approval of Congress and such congressional approval could not be secured. I said that this was the situation and I thought the Mexicans really understood it. I was sure that President Avila Camacho understood it. I then said to the President that as this matter was coming up all the time that it was really desirable that something be done of a definite character to put this policy on record, and I suggested that it would be advisable to make a brief memorandum and put it in the files in the White House and of the State Department. The President said that he agreed. He said, "Go into one of the next rooms and dictate it to one of the confidential secretaries and come back with the memorandum and I will initial it and we will put a copy in the files here and you can give a copy to the Secretary to put in the files of the Department. I went out and I recall definitely dictating a single paragraph. It was a very brief

paragraph to the effect that it was the policy of the United States government not to make any loans for oil exploration or development anywhere. That it was the policy of the United States government that oil exploration and development should be carried on by private enterprise and not by the government.

When the memorandum was written up I went back into the President's office and he read it and he initialed two copies. He kept one copy on his desk and gave me another copy to give the Secretary for the files of the Department.

I said to the President that I thought Mr. Ickes should be informed of this decision. I did not go into any explanation. The President said, "Yes, it would be a good thing for Harold to know." I suggested to the President that he inform Mr. Ickes. The President said to me, "No, now that you are here why don't you go over and see him right away and tell him about this." I told the President that I felt sure that Mr. Ickes would not let me say this to him, that it was a matter on which he felt strongly and that he would feel very strongly that this was a matter which should be communicated to him by the President and not by me. The President smiled and said, "I would like you to go over now and you can tell him about this memorandum. You can tell him that I asked you to go over." I knew it was not the proper thing to do and that Mr. Ickes would probably not let me talk to him about the matter, but I could not gainsay the President. I had been with him for some time and he was obviously tired. I felt so depressed and so badly to see my friend in the condition that he was that I could not refuse at least to make the effort to see Mr. Ickes. I did ask the President to be good enough to call Mr. Ickes on the phone and say that I was coming over, which the President did in just a few words over the phone. He did not say to Mr. Ickes the purpose of my visit.

President Roosevelt was a man who had extraordinary intuition. ~~XXXXXX~~  
I am sure that Mr. Hull had not informed him that I was in Washington for this particular purpose and that I had just discussed the matter with him. I think he

realized intuitively and instinctively why I had come in. He knew how I would feel about it and he knew me well enough to know that I would have no part in any such ~~decision~~ loan. I think one of the things which the President liked me for was my attachment to principle and that I placed it above holding a job or any personal consideration. On many cases I had seen the President show this intuitive knowledge of what someone was going to say or what his visit was about. He saved me all embarrassment by after the general conversation in which we first engaged referring to the matter himself in apparently a casual way.

I immediately went over to the office of Secretary Ickes, which as those who know it appreciate is a very large room. When I came to the ante room I found that there were a half dozen porters carrying folding chairs out of the Secretary's room. Mr. Ickes' secretary informed me that Mr. Ickes had just finished a press conference and that as soon as the chairs were out of the room that he would take me in. After a few minutes I went into Secretary Ickes' office and he received me at his desk and was quite cordial. I started immediately to say what I had to say. I had a certain respect for Mr. Ickes but certainly had no reason to have any liking for him or for many of his ideas or his practices. There was no reason, therefore, for any preliminaries before I delivered my message, as any such preliminaries and amenities would have been farcial and he would have known that they were a farce, as I did.

I opened my mouth to start delivering my message when he started to talk. He began to deliver me a lecture on the iniquities of the big oil companies. For at least five minutes he spoke in the most violent terms of the practices of the oil companies. When I was able to get in a word I said that I did not agree with anything that he had said. My views on this matter were entirely different. I then started again to deliver my message. He then started to deliver me another lecture on other aspects of the practices of the oil companies. In short, for practically an hour I endeavored to deliver my message and he kept

talking to me about the iniquities of the big oil companies. I realized that he was not going to permit me to deliver the message. I did not blame him for not permitting me to do it. He had every reason to take the attitude that if such a message was to be delivered to him that it would come from the President and not from me. I therefore gave up and I said to Mr. Ickes, I think I recall pretty textually what I said and it was as follows: "Mr. Secretary, we do not know each other very well personally. You know a lot about me, I have been told. I know a lot about you. People say many things about you, as I am sure they do about me. Some of them are true and some of them are not true. Whatever people may say of you, I have not heard anyone say that you are not an honest man. I believe that you are an honest man, and having that belief I would recommend very strongly to you, Mr. Ickes, that you read the Pawley contract before you go to bed tonight. If I were you, I would not go to bed tonight before reading the Pawley contract. It is a long document but I do not believe that you have read it. I would read it." I got up and we shook hands and he was very courteous. He had not permitted me to deliver my message but by indirection I had said something which I thought Mr. Ickes should know. I had often felt that he had not read the contract, for I did not see how he could be for it if he had read it. The sequel to this conversation with Secretary Ickes is a very interesting one. In connection with the hearings in the Senate Committee when considering the nomination of Mr. Ed Pawley for Under Secretary of Treasury there is a very interesting item in the Congressional Record, or at least in the records of the Senate Committee. The newspapers at the time reported that at one of the hearings Mr. Ickes, who was no longer Secretary of Interior, was called as a witness. It was, I believe, Senator Tobey of the committee who said to Mr. Ickes, "Mr. Ickes, I understand that when you were Secretary of the Interior you favored a contract which Mr. Pawley was endeavoring to negotiate with the Mexican government with regard to an oil concession." According to the newspapers Mr. Ickes replied,

"Yes, I favored it until I read it."

Whatever the failings of Mr. Ickes may have been, and he had many as a public servant, lack of honesty was not one of them. I think that when Mr. Ickes read the contract after my conversation with him just recounted, he was no longer for the contract. It was too obvious to anyone who read it that it was a one-sided contract and one which should not be forced on another government. Mr. Ickes would not do anything like that. In this respect he was superior to Henry Wallace, for Henry Wallace was quite prepared to force contracts on other governments when he was head of the Foreign Economic Administration which were obnoxious so far as the laws of foreign countries are concerned.

Parenthetically, I may say here that I have tried to read the books which Mr. Ickes has written. They show that he came to Washington with an inferiority complex. They show that he was overwhelmed by the attentions which he received from people whom he considered important and whom he <sup>had</sup> thought he would never <sup>meet</sup> ~~best~~. He had never dreamed that he would be in the kind of position that he was. This same inferiority complex, however, made him take a superior and arbitrary attitude. So far as his economic and social views were concerned Mr. Ickes <sup>was</sup> ~~is~~ entitled to hold them, like any other person in our country, but in some respects they were dangerous, there is no doubt. On the other hand, the incident just described indicates that there were limits beyond which he would not go, either for personal friendship or to carry into effect certain convictions which he had.

The one thing for which I personally cannot forgive Mr. Ickes is the difficulties which he caused Secretary Hull. Secretary Hull was carrying at that time burdens greater than had ever been carried by a Secretary of State before. Today the responsibilities of that office are greater than they were at the time that Mr. Hull was there. Perhaps the responsibilities are not greater but they are certainly broader and the burden of work is even heavier. Mr. Hull was as devoted and as conscientious and as intelligent a public servant as I have

known from my reading of history and from what personal knowledge I have, that our country has ever had. There is no doubt that these letters which Mr. Ickes wrote him and which were entirely unjustified by the facts, as Mr. Ickes would himself I believe later admitted, caused Mr. Hull great mental concern. Mr. Hull was very susceptible to this sort of thing. He did not like personal difficulties but he did not shrink from them. Knowing how conscientiously and how well Mr. Hull was doing his task of such great importance to our country, I could not but resent that Mr. Ickes should cause him this unnecessary embarrassment and concern and distraction. *Mr. Hull was a great man and Mr. Ickes a small one.*

It is interesting ~~in this connection~~ with regard to Mexico's desire to secure an oil loan to note that these efforts have not stopped. They have continued ever since the conversations which I have made reference to in this memorandum; although our government could not have made its attitude more clear these efforts are still continuing at this writing in March 1955. It is worth noting that when President Truman came to make a visit during the administration of President Aleman, President Aleman raised with him the question of a large oil loan. I have not seen the documents and they are not available to me, but I understand that President Aleman spoke in terms of a loan to the Mexican government for Pemex in the amount of 400 million dollars for oil exploration and development. Whatever may have been the reasons for President Truman's position, I understand that he assured President Aleman that he would endeavor to do his best to assure that such a loan would be made. My understanding is that when the President returned home and began to look into this matter, he found that it was this inalterable policy of our government not to make loans for oil exploration or development anywhere. Mexico could not be an exception. The President found that even if we could consider making such a loan to Mexico, which we could not, that it would immediately be followed by a request from Brazil for an equal or larger amount, and that we would have a request from Chile and from Bolivia and

and other Latin American countries. If the Mexican request were granted, these other loans would have to be granted as well. Completely aside from this, however, the President learned that the Export-Import Bank under no circumstances would make such a loan, as it considered it beyond its province. He learned that such a loan would have to have the approval of Congress and that Congress would not give its approval to such a loan. President Truman was a very wise man in many things and he was a good politician and he knew public opinion and he knew that no such loan could be approved by Congress.

The President was placed in a very difficult position. He had made these assurances to the President of a friendly country. He found he could not keep them. A way out had to be found. It was therefore proposed that a loan should be made, that is a commitment should be made to Mexico to make loans for approved projects by the Export-Import Bank in the amount of several hundred million dollars. *other than oil development*  
The matter was discussed by the President with some of his associates and advisers and also with the Export-Import Bank. It is to the eternal credit of Mr. Herbert Gaston, who was the head of the bank at that time, that he expressed himself to the President as unalterably opposed to making any such large commitment. It was contrary to the policy of the bank. The bank was prepared to examine sympathetically loan requests from Mexico, as from other countries. It was not the practice of the bank to make global commitments in large amounts under which projects were to be later submitted. Mr. Gaston made it clear to the President that the policy of the Export-Import Bank could not be changed without doing great injury to our credit policy, as well as doing injury to the countries themselves which were seeking such global amounts. There is I think no doubt that Mr. Gaston would have resigned as president of the Export-Import Bank rather than to go through with this. Others whom the President consulted counseled him in the same manner. There was really an impasse. The President had made what were practically promises to another Chief of State that a loan for oil development and exploration would be

given. He found that it could not be done. He felt that the prestige of our country and the prestige of the Presidency made it necessary for something to be done. It was finally decided that a line of credit of 150 million dollars was to be given to Mexico to be used up for ~~appra~~ projects submitted by the Mexican government to the bank for examination and approval, and that these projects would be subject to the same rules and practices and to the same examination as precedent required. (

President Truman had either been inadequately briefed by someone before he went to Mexico on this trip on the questions which would probably be raised while he was there, or he was badly advised by someone in whom he had confidence.

One would think that what happened in 1944 in this connection as recounted in this memorandum and what happened later when President Truman came to Mexico would be sufficient to discourage the efforts on the part of certain persons in Mexico to secure such a loan for the oil monopoly in Mexico. The present director of the oil monopoly Pemex, Mr. Bermudez, who is in many other ways a very understanding man, still believes that such a loan can be secured and is continuing to make efforts to secure it. There are certain members of Congress who have given him aid and comfort in this hope. There are certain persons who undoubtedly for personal benefit, certainly not out of conviction as to the desirability of such a loan, are encouraging the idea. The only effect that this unhappy belief that a loan can be granted has is that it delays certain action in connection with the reorganization of Pemex and delays the making of certain oil arrangements, which are so desirable in the interest of Mexico and her economy and people. A more realistic attitude is being taken at this time on this matter and the drains of the operations of Pemex are becoming such a heavy burden on the national treasury that remedial measures are being sought, or at least being explored. These will be the subject of another memorandum.

The British government felt so strongly with regard to the oil expropriations

that it broke off diplomatic relations with Mexico. The British Minister at the time of expropriation, whose name I believe was Sir Richard Ovey, I will have to check the name, was recalled and no successor sent. Feeling naturally ran rather high in Washington over the expropriation and feeling ran very high in our country. The relations between the two countries, however, were not seriously affected. The official relationships between the governments in Mexico City and in Washington remained very much the same except that there began a series of note exchanges between Mexico City and Washington already referred to, in which the tone was anything but cordial and which one high official frequently referred to as an exchange of "dirty notes". Our government realized, however, that no purpose would be served by an interruption of diplomatic relations. In fact, the very contrary.

As I recall from information which I have, Ovey, the British Minister, was most imprudent in language which he used with regard to Mexico and the Mexican government. There is a possibility that if Ovey had remained in Mexico and had not been recalled by his government, that the Mexican government might have declared him persona non grata. This is a point I will have to check, as I am not sure as to whether the statements of Ovey had very much effect on the question of the interruption of diplomatic relations. What is certain, however, is that the British government felt that by such a strong measure as the interruption of diplomatic relations it could bring pressures on Mexico. This feeling was a reflection of that which existed in the Foreign Office in London for many years and which had been used in many cases. As a matter of fact, although British interests in a good many of the Latin countries were becoming increasingly important and British investments had assumed real significance in a good many of these Latin countries, there was very real knowledge in London either in business or in government circles as to what was going on in these Latin countries. They

were looked upon definitely as second and third rate countries with which one must use from time to time strong language and show of force. While there is no doubt that the owners of the British oil companies expropriated exerted a good deal of pressure on the Foreign Office perhaps in the sense of breaking relations, there is also a good deal of reason to believe that if these pressures had not been brought by the British interests concerned directly, that the Foreign Office would have taken the same position. Breaking diplomatic relations with certain countries of secondary importance was a negotiating and diplomatic weapon which was favored by the Foreign Office over a long period of years.

After the exchange of notes in Washington on November 17, 1941, which laid the basis for the settlement of the expropriation of the American companies, the British interests and the British government began to take note of this new situation. After the actual announcement of the Cook-Zevada settlement in 1942, there is no doubt that they began to take further notice of the changed situation. The feeling in the companies in London affected by the expropriation and of the Foreign Office was definitely that the United States had been weak in this negotiation with the Mexican government. Neither thought that we had been right in recognizing the principle that the subsoil rights are the property of the nation. They thought the price which we had accepted as a result of the award of the two arbitrators was too low. Nevertheless, the British companies sent as a representative to Mexico City Mr. Ian Davidson, a very intelligent and capable man. There had been of course representatives of the companies continuously in Mexico, but Davidson was a man of superior stature. He was married to a very charming young Mexican woman who was the daughter of the Marquesa Mojeranda. She was young and extremely beautiful and very charming. In addition to this she was very intelligent. She knew her country and her countrymen very well. When I came to Mexico in February 1942 I found Davidson representing the expropriated British interests, which by that time of course also represented whatever Dutch

interests there had been and which had been absorbed in the British companies.

I saw Davidson came to see me from time to time and I did not hesitate to keep him informed as to the progress in matters of the oil negotiation so far as I knew them and so far as it was proper for me to give them to him. It was I believe some months after I arrived in Mexico City as Ambassador that the British government decided to open diplomatic relations and sent a man named Bateman as Minister. He had been long in the British government service in one way or another and had served during the war in the Near East or in the Middle East and had there contracted some disease which he had not been able to get rid of entirely. When he arrived he was obviously not in the best of health. His wife was a very charming woman and I always thought a good deal more intelligent than Bateman, at least she was a great deal more understanding of the problems with which the British Legation had to deal than he was.

Naturally from the outset Bateman, after having made his usual visit of courtesy and to the other Chiefs of Mission in Mexico City, and I had frequent contact with each other. He came to see me frequently to the Embassy, asking for information on various things affecting Mexico. While his attitude from the outset was always courteous, he was anything but an agreeable man or one easy to deal with. As I had been told of his illness and of his experiences during the war, I naturally made allowances for his rather unusual behaviour at times. He was sometimes quite abrupt in his conversation with me and not infrequently critical of the United States. It was not long after his arrival that he for the first time seriously mentioned oil. He made it very clear to me that his government and the British companies and he considered that the settlement which we had made with Mexico was a very inadequate and a very unjust one. It did not take into account the rights of the American owners of the expropriated companies, the monetary settlement agreed upon was too small, and our government had been weak in handling the matter with the Mexican government. The way he touched on this whole

matter was most objectionable and if he had not been the British Minister, I would have asked him to leave my office. I told Bateman that the American oil companies were satisfied with the settlement. They naturally felt that they should have had a better settlement. They were certainly not happy with the settlement, but they had accepted it. Personally, I did not wish to pass any judgment or to express any opinion on the settlement, beyond saying that I was glad that it was settled as I thought it was in the interest of both countries and of the American companies themselves.

It was not long afterwards when Bateman returned to the same theme during the course of a conversation we had in my office. He repeated more or less what he had said before in criticism of us and then went on to say that the British government would never negotiate such a settlement as we had made, nor would it negotiate a settlement which did not provide for better compensation for the British interests affected. I told Bateman that I knew nothing about what he was saying. All I knew was that the British government and the companies were not taking any definite steps to settle this outstanding matter. I said that the passage of time I did not believe was helping them. Obviously the British government and the affected interests had believed that this passage of time would help them. We had seen that it did not help them. So far as the British companies getting a better settlement than the American companies had received, I told him that I wished to make some very definite comment. I was making it entirely on my own and not on the basis of any instructions I had from my government. I told him that it was my opinion that under no circumstances would the British government and the British companies ever get a better settlement than we had received. I said that I had every reason to believe that any settlement which could be arrived at between the British government and companies and the Mexican government would be entirely along the same lines as the one which had been made with us. I thought the same procedures would be followed

and the same principles applied as to determining compensation. I also said that I wished to express the personal opinion, since he was raising this matter with me, that the sooner the British government and the companies started to talk with the Mexican government on this matter the better it would be for British interests in general. Bateman, whose name by the way is Charles Bateman, replied in a very disagreeable way that they were not going to negotiate with the Mexicans until they could do it on a different basis from the one that we had.

It was shortly thereafter that Bateman came in to tell me that he had instructions from his government to start negotiations with the Foreign Office. He did not tell me anything about the course of these negotiations, but from Mr. Davidson, who represented the companies, I learned that he was rather unhappy about the way things were going and about the way in which Bateman was approaching the problem with the Foreign Minister, Dr. Padilla. It was during this same period of course that Dr. Padilla and I continued to talk as indicated earlier in this memorandum, on the petroleum problem. In one of these conversations Padilla said to me that he wished to tell me that the British had finally begun negotiations with the Mexican government on the settlement of the British claims. He said that he was very happy that they had done this as they wanted to get this matter settled. It would have to be settled some time and the sooner it was settled the better. He said that the British Minister, Bateman, was endeavoring to negotiate on a basis different from that which we had negotiated and settled. He said that this was of course quite out of the question and that he had told the British Minister that any settlement which was arrived at in connection with the British companies would have to be on the same basis as that of the one with the American companies. He said it was quite impossible for the Mexican government to negotiate with the British on any other basis because it was the only proper basis in the opinion of the Mexican government, and he added with a smile, "Of course we couldn't make any agreement with the British which

was better than the one which we made with the Americans."

It was some time later that Davidson came in to see me and said that he wished to have a very frank talk about this whole matter. He said that he did not think that the negotiations were going along very well and that that was too bad. I said to him that talking with the same frankness that I thought nothing could be accomplished until the instructions which the British Legation had from London were different. It was quite obvious that the Foreign Office was endeavoring to get a settlement on a different basis from that of the American companies, and in the first place I was sure that the Mexicans would never agree to anything like that and as a matter of fact I didn't see how they could. I told him that after all, the trade relations between Britain and Mexico were on a relatively low scale as compared with those between United States and Mexico. I said that Great Britain took very little in the way of imports from Mexico and would likely not be taking very much, under the best circumstances that might develop. On the other hand, Britain was more interested in selling to Mexico than she was in buying. The United States was the principal market for exports from Mexico and would remain that for many years to come. Besides that, for many reasons the United States would be the principal supplier of Mexico in many lines of imports that she needed. There were geographical and all kinds of considerations which had to be taken into account. It was perfectly natural for the Mexican government not to be disposed to make any arrangement with Great Britain on the oil expropriations which was any better than the one with the Americans. Davidson said he thoroughly understood that and it was a very ridiculous attitude to take and he thought the attitude of the Foreign Office and that of his companies was not the correct one. They would have to change their position.

I told Davidson, as we were talking in such a frank and personal way, that there was another matter that I wanted to mention. It was a rather delicate one.

It was my understanding from things which I had learned that the British companies were endeavoring to get a settlement which would involve, in addition to the payment of compensation, the right for British companies to come in to explore and develop. I said that in any conversations which I had had with the Mexican government on the matter of oil and the possibility of the foreign companies coming in again in one way or another on an equitable basis, I had always spoken of American and foreign companies and had not confined what I said to American companies. I said that I thought it was very improper but most unwise for the British interests or for the Foreign Office to support British interests in trying to get a special position. I was sure that the United States government wanted to see a settlement of these claims of the British companies. I did not see how, however, my government could look with complacency upon any settlement which provided either better treatment or special advantages for the British companies. I was sure that in any way that properly we could, the United States government would facilitate any settlement with Mexico but on the basis of a settlement such as the one we had arrived at. I said that I was equally sure that if there was any endeavor on the part of Mexico, which I was sure there would not be, to give special concessions to British companies as a part of such a settlement, that our government would have to become interested in the matter. If the British companies got any kind of a better settlement or better treatment than American companies had had, it would inevitably reopen the whole question of the settlement with the American companies, which as he well knew had been carried through with the blessing of the United States government. The United States government therefore could not stand aside from any settlement which involved discriminatory treatment of the American companies by any other country. Mr. Davidson said he thoroughly understood all this and he appreciated it fully and that it was a very dangerous thing to endeavor to get such special concessions. I told him that I thought it was about time that someone gave a realistic

picture of the situation to the Foreign Office and to the British companies.

If I recall correctly Davidson made a trip to England and on his return came in to see me and said that the basis for the negotiations would be changed and that certainly there would be no request for any special consideration for the British companies or for any better treatment. The idea now was that the approach to the Mexican government should be on the basis of having evaluation of the expropriated properties made in the same way that it had been in the case of the American companies, and then to reach an agreement for payment. I told him I thought this was the only sound thing to do. I gathered the definite impression that Davidson had made the real situation clear in London. I shall have to make reference to my papers in order to get the chronological order of events straightened out, but if my memory serves me correctly the negotiations started on this basis just indicated and were not concluded before President Avila Camacho left the Presidency. The settlement I understand came after President Aleman had taken office and Mr. Antonio Bermudez had become the head of the Mexican oil monopoly, Pemex. The settlement I believe called for payments of a total of around 128 million dollars, including interest. The annual installment to be paid by the Mexican government ran into something like seven or eight million dollars. The agreement did not call for any special concessions for the British companies. The settlement was made and the evaluations were made on the same bases that had been employed in the settlement with the American companies. Up to now X payments have been made by the Mexican government and all the payments have been made on time. There is every reason to believe that the Mexican government will meet this obligation, just as it has consistently met its other obligations since 1941.

The British settlement, it may be observed, was in dollars and not in pounds. It was rather surprising to everyone that the settlement should be in dollars instead of in pounds, and it caused a good deal of comment at the time.

I never was able to explain to myself or have anyone explain to me why it happened to be made in dollars instead of pounds. It would have been so natural and proper to make the settlement in sterling instead of in dollars. As I recall, only one or two payments had been made in dollars before the pound was devaluated. As it has turned out, the settlement has been a very advantageous one for the British companies.

While the conversations between myself and President Avila Camacho and the Foreign Minister on the possibility of establishing the oil reserve in the north and of American and foreign companies coming in on a certain bases continued until shortly before my departure for the Argentine in early May 1946. Little progress was made and nothing concrete was accomplished. It was clear to me that as President Avila Camacho's term was approaching an end that he would not do anything about the matter and would leave it to his successor. In view of the practices prevailing in Mexico, it was quite obvious that no action would be taken by President Avila Camacho before he left the presidency, and I thoroughly understood as did my government. After I had officially informed President Avila Camacho that I was going to the Argentine to undertake the mission there, he indicated that he would like to have several conversations with me before I actually left for the Argentine. I saw him several times at Los Pinos before my departure. The President and I had become really good friends. I had learned to have great admiration and respect for him and I think he respected me and considered me his friend. During the last conversation which I had with him, which was a very long one at Los Pinos, and after we had reminisced about the years that I had spent in Mexico and during which conversation he said some very nice things about my actuation and which I will cover in another memorandum because of certain significance which things which he said had, he said rather wistfully, "We have been able to accomplish a great deal together. We haven't been able to accomplish everything." He then went on to say that he hoped that I left satisfied with

the results of our work. I told him that I thought considering all the factors involved, that a great deal had been accomplished and it had been accomplished through his understanding and his conviction and the real desire which he had to improve relations between the two countries. He then asked me what I thought were the principal things which we had not been able to accomplish during my stay. As I will refer to this conversation in another memorandum I will only refer in this memorandum on the problems of oil to the one problem which I mentioned first as the one on which we had not been able to reach any definite settlement or ~~reach~~ make any appreciable progress, and that was the question of oil. I told him that I was very sorry that we had not been able to reach an agreement on the points which we had been discussing. I was so convinced that it was in the interest of both countries, but I was convinced that it was even more in the interest of Mexico. The exchange situation was better but it would be a problem in Mexico for years. The tax resources of the country were improving but it was a slow and steady process. It could not be accelerated by any artificial means. This meant that Mexico would continue to have to resort to loans. I had been very glad to be helpful in the getting of some loans which I was sure were good loans. They were turning out very satisfactorily. It was too bad that Mexico had to continue to make these loans for the next years, when she had this oil under her soil which if properly exploited would remove in a very few years the necessity for loans and give her in addition the money which she needed to accelerate the program of public works, schools, sanitation, etc. I wanted him to know, however, that the reason we had not arrived at a settlement in my opinion was not due to any efforts on his part or those of the Foreign Minister, or to any <sup>lack of efforts</sup> efforts on the part of President Roosevelt and Secretary Hull and of my government. I said that I thoroughly appreciated the situation in Mexico and that he would be leaving the presidency at the end of the year. I knew that this did not give the time to bring about a settlement before he

left the presidency, and that in any event it was customary in Mexico not to make such important settlements or arrangements during the last year of the term of a President. It was a problem which I could well appreciate he would have to leave to his successor. President Avila Camacho said that he was very appreciative of my understanding and that he hoped that I would have my government understand this. He said that it was quite impossible for him to do anything during the remainder of his term. He would have to leave it to his successor, who he hoped would bring about a settlement along the lines we had been discussing and which was on such equitable bases. He said that he believed that his successor would do so. It was a source of deep regret to him after all the efforts that had been put into this matter that it could not have been settled during his presidency. He would have liked to do it. I am sure that the President was completely sincere in what he said.

President Aleman took the oath of office as President on December 1, 1946. There is a good deal of reason to believe that President Aleman had made up his mind before he took the oath of office that he would settle certain internal problems in Pemex which were giving the government great concern, and also would take steps to bring about more rapid exploration and development of the Mexican resources. There is even reason to believe, and I believe good reason to believe, that the President seriously considered going ahead with a program which would have permitted the foreign companies to come into Mexico on an equitable basis. I go further to express the opinion that it was one of the principal things which President Aleman had in mind.

Shortly after he became President the leaders of the Syndicate of Petroleum Workers began to make grave difficulties for the government and for Pemex. The President took very energetic action. He intervened in the matter in a way in which no President had intervened in a labor matter for many years. It was an act of courage at the beginning of his administration. He undoubtedly took this

strong attitude towards the syndicate leaders in Pemex because he had in mind that there were certain things that he wished to do in the petroleum industry and these questions within the industry itself in Mexico, especially the arbitrary attitudes of the syndicate leaders, would have to be repressed from the beginning or he would not be able to make any progress in any major matters, especially one affecting policy. While the leaders of the syndicates, that is the unions, in Mexico are unusually arbitrary and have really very little regard for the interests of the workers but have more in mind their own personal interests and in many cases political influence and preferment, in this particular case of the petroleum workers syndicate the leaders had a good deal of support from the workers. The number of employees in Pemex, like in the National Lines which are also a government monopoly, has always been much higher than it should be. This has been one of the drains on the operation of the petroleum monopoly. After the President had taken this strong stand with respect to the leaders of the petroleum syndicate, he seemed to take an easier attitude which became increasingly easier during the following years of his administration. The energetic action which he had taken in this matter of the oil workers at the beginning of his administration gave really a great impetus to President Aleman's popularity and great things were expected from him. Political considerations and political expediency undoubtedly began to have their play as the problems which President Aleman had before him became more obvious, and he did not intervene as strongly again as he had at the outset of his administration.

When I returned to Mexico in December 1947 after having completed my tour of duty in Buenos Aires as Chief of our Diplomatic Mission there and asked for my retirement and had completely retired from the government service, I naturally had no further connection with this matter of oil and any conversations with the government ceased. As the oil problem, however, remains still one of primary importance in the Mexican economy and perhaps increasingly so, because of my general interest in all that concerns the maintenance of the economy in Mexico

and its development, I kept following in the ways that were within my power, being outside of government, the developments with regard to the oil situation. I think that it may be said with correctness that while there have been conversations since 1947 with the Mexican government on the oil problem, it has not been on the basis of a return of the American or foreign companies. The conversations have related more particularly to the settlement of certain claims which were, as I have stated previously in this memorandum, not included in the exchange of notes of 1941 and in which exchange of notes were definitely left for further consideration between the two governments. The Department of State has very properly been pressing certain claims which were not covered by the 1941 settlement, the principal one being the claim known as the Sabalo claim. I will make reference to this in a separate memorandum because of its importance in the whole oil problem. Whatever ideas President Aleman had with regard to arriving at a settlement of the oil problem to provide a basis for broader exploration and development, were evidently abandoned. He decided not to go ahead. It was probably political expediency which controlled him in this action.

Instead of endeavoring to arrive at a constructive solution of the oil problem which President Aleman undoubtedly had in mind when he came into office, he abandoned this idea shortly after he became President. The efforts of the President and of Pemex were concentrated on the securing of a large loan from the United States government through the Export-Import Bank or in any other way that it might be accorded by our government for oil exploration and development. Although Pemex was conducting a drilling program on the basis of explorations made very largely by the American and British companies when they were operating in Mexico, these were necessarily on a limited scale as the cost involved was beyond not only the resources of Pemex but whatever the Mexican government, through the Treasury, might give to Pemex in order to supplement its revenues. The line of what seemed to be the easiest approach was therefore taken, and that

was to get a large loan from the United States.

It is really a curious thing which I have not been able to explain to myself, although I believe that through my long residence in Mexico I have learned to know the way her people think. The Mexican can be a great realist. In the matter of this oil problem there has been no realism whatever except on the part of a few people, and usually those not in government. While it is increasingly clear to all responsible people in Mexico that Mexico, through her own resources, will not for many years be able to develop adequately her oil resources, those in authority have consistently in the last years failed to attack the problem at its roots and have sought the palliative of loans. The facts in this connection that have already been set forth in this memorandum should have made it amply clear to the Mexican government and to the heads of Pemex that such a loan cannot be given. There has been a certain amount of encouragement given to the heads of Pemex and to the people in the Mexican government by Americans in this idea that a loan could be secured. Certain Senators, for example Senator Wayne Morse, have taken a very real interest in this matter and have taken the position that the Mexican government has been very badly treated by the United States government in the matter of oil. During the period of 1952 when the electoral campaign was in progress and the determination was being reached as to who should be the candidate of the official party in Mexico for the Presidency, Senator Morse made a speech on the floor of the Senate in which he spoke in the highest terms of Mr. Bermudez, the head of Pemex. It was a surprising speech at the time because it was known not only in Mexico but in informed circles in our country, that Bermudez nourished the idea of being the candidate of the official party, which meant assured election. It was a most imprudent thing for Senator Morse to make such a speech in the Senate, as it was really an electoral speech favoring the campaign of Mr. Bermudez for the presidency in Mexico. We speak so often of not interfering in the affairs of other countries, and we do not as a

government. Senator Morse I am sure would be the first to raise great hue and cry if our government should intervene in any situation in any one of these American countries. This, however, did not prevent him from making this speech on the floor of the Senate which could not be interpreted as anything other than an electoral speech in favor of a candidate for office in another country. It was reminiscent of the activities of Braden in the Argentine which had such disastrous results.

~~Various well-intentioned people~~ This speech of Senator Morse will be found in the Congressional Record.

Various well-intentioned people in the United States who do not understand the history of the oil problem in Mexico nor all the bases of our relationships with Mexico have been increasingly critical in recent years concerning what they call the failure of the United States to help the poor oil industry in Mexico. The basic motivation of some of these people is open to grave question. The important thing is that the only result of such efforts of well or ill intentioned persons in the United States is to keep alive hopes in Mexico of a loan, which hopes cannot be realized, and to that extent their efforts are only delaying Mexico getting to the point of making an adequate solution of her problem.

I will end this memorandum on the oil situation here. It is very inadequate and has to be carefully gone over in many respects. This is only a first and a very rough draft of what I intend to say in anything that may be published. In the first place, the first paragraphs of the memorandum will have to be written covering the developments in the oil situation before expropriation. I am getting together the necessary material for that, as all this took place before I came to Mexico and my memory therefore cannot serve me in this respect as it can with respect to those things with which I was intimately associated.

I must also look into the diplomatic correspondence which took place between Mexico and the United States just before expropriation and after expropria-

tion. There are some interesting things in that correspondence to which brief reference can be made in this memorandum on the oil situation and problem of Mexico.

I shall also have to look into when the first stabilization agreement was entered into with Mexico. If my recollection serves me adequately, the first stabilization agreement which the Treasury entered into with Mexico was in 1941 about the same time as the exchange of notes on the basic settlement of the oil expropriations and of the general claims. The situation of the peso was extremely difficult in 1940 and in 1941. The Mexican government was talking with our government concerning means by which the peso situation might be strengthened and a stabilization agreement entered into. As I recall it, the conversations with regard to a stabilization agreement with us to support the peso under certain circumstances and the conversations with regard to the settlement of the oil expropriations and the general claims were kept entirely separate. I shall have to go into the degree in which the stabilization agreement may have been a helpful factor in bringing about the oil agreement. From the point of view of convincing General Cardenas that an oil settlement was necessary it may be that the stabilization agreement was an important factor. General Cardenas could not afford to let the peso crumble. He had taken so many steps in the internal social picture in Mexico and in the internal economy concerning which there was divided opinion in the country, that it was not likely that he would want to run the risk of a devaluation in the peso, which would have been a very heavy one.

I also wish to give in these notes what my own views are out of my long contact with the problem as to what Mexico should do in order to meet its own needs of petroleum and in order to make possible the exploitation of her resources before atomic energy or other sources of fuel may make these oil resources of Mexico less valuable. I want to cover in this memorandum what the actual situation is in the country with regard to production and exploits. I want to cover

in this memorandum the oil exports into the north of Mexico, particularly of gasoline, because of the distribution problem and the poor communications, or rather inadequate communication system. I want to bring out the fact that the oil exports of Mexico are not covering the cost of the imported oil in the north and lubricating oils. I want to cover what we did during the period that I was Ambassador to aid in the refinery in Mexico City principally for the purpose of producing high octane gasoline in order to relieve the pressures on us for exports of high octane during the war. This is very important as this loan seemed to be a departure from our loan practice to many people, when in fact the loan had nothing whatever to do with oil exploration or development and had to do with refinery construction, which is entirely another matter. I want to bring out that our loan for this refinery in Mexico City during the war was justified as a war measure alone, if on that ground only.

I want to cover the thought which the present administration of Ruiz Cortines is giving to the oil problem again, in view of the fact that the demands of Pemex on the Treasury are becoming so heavy that the Treasury can no longer continue to meet them indefinitely. I want to cover that this administration, just as President Aleman did at the beginning of his, is thinking in serious terms of a long range solution which would bring in the foreign companies on an equitable basis. I want to bring out that there is a greater chance of success for such negotiations at this time, in view of the fact that the Mexican government is becoming scared that the development of atomic energy for peaceful purposes may replace to a large measure the use of other fuels, such as petroleum. They are beginning to feel that they may end up with their oil underground and not having got anything out of it. I want to emphasize that the immediate reason for consideration of the problem, even if nothing comes out of it, is the fact that the Treasury cannot meet these further demands from Pemex.