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REC'D 13/5/49					
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REPLY:					
FILE: Messersmith					

May 9, 1949

IN REPLY PLEASE REFER TO

Mr. D.N. Heineman,  
c/o Sofina,  
Brussels.

Dear Father:

As you requested on the telephone, I am writing to give you the highlights of what has taken place during Mr. Messersmith's two and a half weeks stay in New York, prior to his departure yesterday for Mexico.

I am sure that there is little I can add to the cables which Mr. Messersmith has sent you and to the telephone conversation you had with Wilmers at the end of last week.

#### Barcelona Traction

Mr. Messersmith spent an entire day last week at Flushing Meadows, talking with a number of people concerning the B.T.L.P. matter. You will have received from him a memorandum which he wrote subsequently to his visit to Flushing. He seems quite convinced that, as matters stand at present, no economic assistance will be given to Spain. Mr. Warren Austin, with whom Mr. Messersmith spoke alone for about two hours, said that although American delegates were almost equally divided as to what the U.S. government's attitude should be towards Spain, he personally felt that no substantial aid would be forthcoming. He did state, however, that he felt that it would be a wise move on the part of the U.S. government to send an ambassador to Spain since a Chargé d'Affaires cannot ~~lx~~ reach the top Spanish governmental officials. The plan of recalling the U.S. ambassador from Spain has back-fired as it only served to strengthen the ties which exist among Spanish officials.

Mr. Austin stated that he saw no reason why Spain should not be invited to join some of the minor and lesser committees of the U.N. He felt that this would be a step in the right direction without giving Spain the economic assistance which she requires. Of course, it must be remembered that the World Bank falls into the scope of what is referred to as "minor committees".

Mr. Messersmith learned in Washington, while he was there, that Spanish officials were here to negotiate economic assistance and were told frankly by the State Department that no economic aid would be forthcoming. They have called on the Export Import Bank for the same purpose and this with the approval of the State Department since the latter felt that the Spaniards will understand better the language of bankers than they do the language of the Department. Mr. Messersmith ascertained that the Export Import Bank is as convinced as is the

State Department that no loans should be extended to Spain for the present.

CADE

Last week, Mr. Messersmith was in Washington twice and each time he discussed with a great many people the situation in the Argentine. The immediate, as far as you are concerned, results of this conversation is that Mr. Messersmith is completely convinced that it would be quite useless for him to go to the Argentine at present. Mr. Wilmers appears to be in complete agreement with this.

Mr. Messersmith spent three hours last Wednesday with Mr. Atwood who is replacing Mr. Tewksbury, the head of the River Plate Division of the State Department, during the latter's absence. Mr. Atwood showed Mr. Messersmith the exchange of telegrams between the American Embassy in Buenos Aires and the State Department. The Department appears, at present, completely non-plussed as to the course of action it should follow and finds that it is unable to appraise the situation. Moreover, Mr. Messersmith told me that he too, at this point, did not know how to evaluate this situation.

About a week or ten days ago, the State Department instructed the American Chargé d'Affaires, in the absence of Mr. Bruce in this country, to call on the President to state plainly the attitude of the American government. To be quite sure that the message would be properly conveyed, the State Dept. informed the Chargé of what he should say textually. Mr. Messersmith states that he has never seen such strong language except that used to the German government just preceding the outbreak of the war. Apparently when Peron received the message from the Chargé d'Affaires he paced the room and asked, "What am I to do?" This apparently shows how the President feels about what is taking place since ordinarily he does not allow himself to show any nervousness or lack of decision. The day following the interview, Dodero, who is probably the closest friend the President and his wife have in the Argentine, called on the American Chargé to ask whether the American government was serious as to the message which the Chargé had given the previous day. The Chargé replied that the government had never been more serious.

Mr. Messersmith spoke to Ambassador Bruce on the telephone in New York and Mr. Bruce suggested that possibly Mr. Messersmith could write Peron a letter. Messersmith thought this idea had certain merit, but has not, as yet, decided whether he would write or not. Mr. Messersmith feels that Peron probably is as little anxious to take over the public utilities in the Argentine as you are to see them taken over, but that the events of the last weeks have become too formidable for him with which to cope.

Both Mr. Messersmith and Mr. Wilmers are strongly of the opinion that if Mr. Brosens could possibly spare a few days, it would be well for him to come to New York to discuss the

matter with them. Mr. Messersmith would, of course, immediately go from Mexico to New York, and Mr. Wilmers would immediately get in touch with you by telephone. If this scheme proves impractical, it was also suggested that possibly De Foronda, who knows the situation very thoroughly, could come to New York for the same purpose.

Since sending to you his cable of May 5th, No. 518, Mr. Messersmith returned to Washington and had a very lengthy discussion with Mr. Paul Daniels who is the Head of the Latin American Division at the Department. What Mr. Messersmith learned as a result of this conversation only confirms what he had heard before and actually does not add anything to his cables 517 and 518, except to further confirm what is stated therein.

Mr. Messersmith feels that matters will work themselves out finally on a satisfactory basis although I have not been able to ascertain on what he bases that optimistic forecast. I think that he feels that the President realizes his position and that he cannot go through with his plans and therefore will not take any too drastic measures if he can possibly avoid them.

#### Mexlight

As concerns Mexlight, you asked me on the telephone whether the further downward fluctuation of the peso has any important significance. As you are probably aware, Senator Bermudez, the head of Pemex the Mexican Government oil monopoly, has been in Washington for the past several weeks, attempting to negotiate a 470 million dollar loan for Pemex. It has now become evident that Senator Bermudez' negotiations are temporarily doomed and that even if he manages to secure money at a later date, the amount of a loan will be very much smaller than the 470 millions which he requires.

As you know, the key to Mexico's economy rests on the oil question and if production is not increased in the immediate future, Mexico will find herself in the position of having to import oil. It is my personal belief that the Mexican government will not be able to maintain the value of the peso, at any rate, ~~under~~ not 11 or 12 to the dollar, unless the oil question is settled. When the peso slipped from about 7 to 1 about ten days ago, to 8.60 to 1 as it was three days ago, it was as a result of the Bank of Mexico dropping out of the dollar market. The transactions which occur when the Bank of Mexico does not buy or sell dollars is exceedingly reduced and, therefore, the rate which results from these reduced transactions does not necessarily represent the true value of the peso in relation to the dollar. I believe that the Bank of Mexico dropped out of the dollar market for a few days in order to impress the American authorities of the necessity not only for Mexico to have American investments in Mexico, but of extending to Pemex the necessary dollars for its rehabilitation.



Of course, such fluctuations in the peso are not an encouraging factor as concerns our rates. However, it should not be taken too seriously. As you know, the Mexican government had assured Mr. McCloy last November when the latter was in Mexico, that our new rates would be forthcoming by the 15th of March of this year. As you know, it now seems doubtful whether we shall get the rates before July.

The Rate Commission in Mexico, which is now an autonomous body, has approved our request for increased rates and has submitted it to the Ministry of Economy, which is the responsible body for turning such requests of increase in rates into a law. The Sub-Secretary of Economy, Mr. Sanchez Cuen, whom Mr. Messersmith calls a "bad actor", informed the Rate Commission that he felt that our request was too exorbitant and that he wanted the company to receive the loan before agreeing to an increase in rates since he wanted to see what the company's new earnings would be as a result of increased production. He stated that a rate structure should not be based on invested capital, but on earnings. Mr. Maryssael explained to him that the granting of a long-term loan was of course contingent on receiving adequate rates.

As matters now stand, I understand that Mr. Cuen has taken a more reasonable attitude towards the matter of rates but, as yet, this question is still in abeyance. Cuen informed the Rate Commission that he wanted to receive proposals from them which would be acceptable to him. You can well imagine the type of man the company has to deal with.

Since Mr. Messersmith returned to this country, he has been busier than a one armpaper hanger. He did not return to Mexico as soon as he had hoped, since Mr. McCloy and Mr. Iliff were in Europe at the time of his arrival here. As a result, he was only able to see them last week. The days previous to Mr. Messersmith's two trips to Washington were filled with discussions with the First Boston and the lawyers concerning the Indenture. Moreover, a two-day Board Meeting was held which also occupied much time. I shall not go into details concerning all this, since these matters were fully covered by Mr. Messersmith in his letter to you of about a week ago.

It was originally planned for Mr. Messersmith to call on Mr. McCloy in Washington last Thursday evening with Ford, Graydon and Wilmers who was released from hospital one day before. The meeting was later postponed to Friday morning. Wilmers' doctors forbade him to make any unnecessary trips so that on Wednesday night, after Mr. Messersmith had flown in from Washington, a full-scale conference was held until 1 a.m. as to what would be told to the Bank and how it should be presented. Messrs. Ford, Graydon, Townsend, Wilmers and myself were present at this discussion, which was only broken up since Mr. Messersmith was returning to Washington that same night on the night train.

Conversations with the Bank on Friday went off very well indeed. On the bank side, McCloy, Iliff and Burland were present. On the company side, Messrs. Messersmith, Ford and Graydon were present. In principle, the Bank agreed to the changes as suggested by Binder Hamlyn in London, and later sponsored by the First Boston. However, the Bank did not give a definite reply and informed the company that they would do so by this coming Friday. The only matter which they wanted to look into more closely was that of the new income debentures. Mr. Messersmith feels that the Bank will probably approve of the suggested changes.

At the end of the discussions on Friday, McCloy told Mr. Messersmith that he was very happy that the company had selected the First Boston to undertake the work on the re-organization plan, since they felt they were admirably suited for this kind of work. Mr. Messersmith feels that the First Boston has been very cooperative in accepting the proposed changes.

On May 11th, President Aleman is going to inaugurate officially the opening of the Tacubaya Plant. As concerns work on Necaxa 10 and Lerma 3, this is a little behind schedule and these two units may not be in operation at the date originally planned.

This week, Lorie and I together with the First Boston, will start work on the Circular. Although the First Boston is responsible for the drafting of the Circular, there are so many matters on which they lack the necessary information that the work of drafting will be a 50-50 proposition between the First Boston and ourselves.

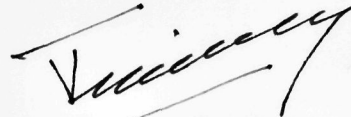
The tasks facing Mr. Messersmith in Mexico at present are many. However, the most important ones are:

- 1) The rates
- 2) Arranging for the long-term loan to be granted directly to the Company and not through the Financiera and the Power Commission
- 3) Accelerating the work on Nexaxa 10 and Lerma 3
- 4) Settling the matter of the 5.8 million loan for Tacubaya
- 5) Trying to appease the Syndicate who have threatened slow-down strikes and demonstrations if our rates are increased.

As I told you at the outset, there is little I can add to what has already been written you, but I hope that I may

have been able to elaborate on some points by giving you certain details which you lack.

I hope to see you here before the end of the month, but of course will believe in your arrival only when I see you.

A handwritten signature in dark ink, appearing to read 'James H. Heineman', with a stylized, cursive script.

James H. Heineman

JHH:ks