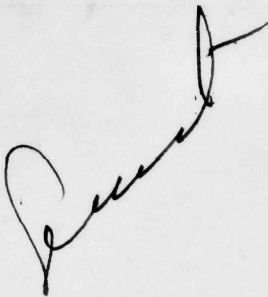


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Mexico, D.F., January 18, 1948.

Dear Will:

Yesterday morning Suárez, the Minister of Finance, called and said that he wished to come in to see me, and he came in before he went to his office in the Ministry. He said that he came in to express personally his sympathy on the occasion of the death of Mrs. Messersmith's mother, of which he had been informed by the President the evening before, when they were having a long conversation.

He then went on to tell me that he was making a trip to the United States and leaving that day by rail for New York, and that Mrs. Suárez and their child would be accompanying him. He planned to be away for some three weeks although it might be as much as a month.

He said that the principal purpose of his visit was to discuss with the bondholders' committee the final arrangements with respect to the National Railway debt. He said that the arrangements for the settlement of the debt were practically complete but there were a few minor details to be worked out and he wished to bring this to an end while he was in New York, which he felt that he could do. He remarked that with the settlement of the external railway debt, the Mexican financial house would be in order.

In this connection I would like to observe that no matter what reserves we have with regard to Suárez about so many things, and with good reason, it must be recognized that he has brought about a settlement of the external debt of Mexico, both of the national debt and of the railway debt, and has done much to re-establish Mexico's credit in this direction. It has been a difficult and complicated task and has not been easy in any sense whatever. It must, however, also be recognized that he would never have carried through this arrangement for the settlement of the debt if it had not been for the insistence of President Avila Camacho that this be done, for it is the President who has

insisted

The Honorable  
William L. Clayton,  
Assistant Secretary of State,  
Washington, D. C.

insisted that during his administration the credit of Mexico should be re-established abroad as well as at home. Had it not been for the determined attitude of the President in this respect, we can take it as certain that Suárez would never have undertaken this constructive action which, as you know, involves a considerable burden on the Mexican Treasury.

Suárez then went on to say that while he was in New York he also wished to bring about a financial adjustment if possible, with respect to the \$6,000,000 which Mexico had deposited years ago in connection with the public debt and the railway debt and which had been pending in the courts. He said that the referees appointed by the New York State Supreme Court had rendered their report and that everything seemed to be in order except that there was still a question of the exaggerated fees which some lawyers were asking. He said that the report of the referees did not make any mention of these fees, but that he thought this also could be settled. In this particular respect he expressed appreciation of the helpful intervention of the Department of State and the Department of Justice. He said that there was one firm alone which was asking something like \$700,000 for fees and there were others who were asking very large fees, but he thought that this whole question of fees should be settled for about \$250,000. In this respect I think he is right for there is no basis for these exaggerated fees which some of these lawyers are asking and I think it is scandalous that they should ask them.

He said that the \$6,000,000 deposited would probably be applied in the sense that \$4,500,000 would be applied to the external public debt of Mexico and \$1,500,000 to the external railway debt.

He then went on to say that the President had asked him the previous evening to explore with me the question of whether a credit could be secured by the Mexican Government for part financing of the gas pipeline from Poma Rica to Mexico City, which the President is very anxious should be completed before his term expires in December of this year. He said that the President had asked him to explore the matter with me as to what my own attitude would be in the way of recommendations.

I asked Mr. Suárez what the estimated cost of the line  
would

would be and he said that the estimate was a minimum of \$7,000,000 and a maximum of \$8,000,000. The major part of the cost would be in materials which would be secured in the United States, such as piping, pumping equipment, etc. He thought that this would run well over half the seven or eight million dollars estimated. They want the credit from the Export-Import Bank to cover the cost of the material to be bought in the United States, and it would therefore run around \$4,000,000.

I asked him whether it was the intention to distribute gas in Mexico City for household purposes, and he said that that would be impractical at this stage as the cost of piping the city would be tremendous and that was a matter to be left for later development. They wanted to bring the gas to Mexico City where it could be made available for industrial purposes and that the industrial use of the gas would be sufficient to justify the building of the line, and the income would cover amortization and interest at a rapid rate on the investment.

I said to Suárez that I agreed that the gas pipeline was a sound venture and that the income would cover amortization and interest at a quite rapid rate. I said that I assumed that they had assured themselves there was adequate gas at Poza Rica and he said that they had had at least three of the best engineers in the United States go into this and all their reports had been to that effect. I know that they have had these investigations made by independent and competent American engineers who have made reports to this effect to Petroleros Mexicanos and the Mexican Government.

I then went on to say to Suárez that my Government had made a definite decision not to give any loans for oil exploration and development and that this included Mexico. He knew this because I had informed the President and the Government of Mexico to this effect. I recalled that President Roosevelt had made this decision of policy before his death and I recalled to him that President Truman and the Department had reaffirmed this decision. I said that therefore any question of a loan was out of the question for oil exploration or development.

I then went on to say that a credit by the Export-Import Bank for participating in the building of this pipeline would be in line with this principle in my opinion, in view of the fact that it did not involve exploration and development

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but simply utilization of the gas in that field. I said therefore from the point of view of principle I thought the Export-Import Bank was in a position to consider the credit.

From the point of view of a sound enterprise I could also state that it was my opinion that the gas pipeline was a sound enterprise for the reasons above already set forth.

I said that whether the Bank could consider the credit would depend upon several factors. It depended upon the present loaning capacity of the bank; on the attitude which the Bank would take toward further credits to Mexico. I recalled to him that we had given a credit in the last year for \$15,000,000 for railway equipment to be purchased in the United States; that we had outstanding a total credit of \$40,000,000 for road construction; and that we had granted just recently a \$20,000,000 credit for electrification. We had also granted several small credits through the Export-Import Bank. The total of outstanding credits ran to something like over \$90,000,000. I did not know what the lending capacity of the Bank was presently and I did not know what its attitude was toward further credits to Mexico. I personally thought that we had been very understanding in the matter of these credits to Mexico, but I also thought that all the credits we had extended were sound and desirable. I did not intend to place any obstacle in the way of such a credit he was now talking of if it fell within the policies and capacities of the Bank at this time.

The Minister said that that was all he wished to know at this time.

I asked him whether he intended to go to Washington during his stay and he said that his work was principally in New York, but that he would probably be in Washington. I did not gather, however, that he intended to discuss the question of this credit with the Department or with the Bank while he is in Washington, but knowing him as I do, I think it is almost certain that he will raise the question and for this reason I wish to get this information to you without any delay.

I told the Minister that I also understood that the Mexican Government was planning to put up this oil refinery at Salamanca in the Central Plateau, and to build an oil pipeline from Poma Rica to Irapuato and Salamanca. I asked

him

him whether they had any intention of getting any credit from the Export-Import Bank for that. He said of course it would be helpful if they could have such a credit but they had presently no thought of taking it up. I told him that I thought it would be very wise for them not to do so because I thought the Bank would not be interested in any credits for this refinery and oil pipeline to serve it. I said that in the first place it would be a difficult thing to exclude such a project from the general principle that we had adopted of not giving any credits for oil exploration and development and that while in some respects the refinery and oil pipeline were not new exploration and development, they fell pretty much in the development field and I thought we wouldn't be interested, in fact felt sure we wouldn't be interested.

If Suárez should endeavor to raise the question for the credit for the oil-gas pipeline and refinery project at Salamanca, I think we should turn him down flatly and not even discuss the matter. They have already let the contract for the oil pipeline from Poma Rica to Salamanca to the Henríquez Brothers, who are the favorite contractors of the Mexican Government and who have become immensely wealthy from these contracts. The contract for the oil pipeline under reference was let to the Henríquez Brothers at a cost-plus basis and the line will probably cost 100,000,000 pesos or more. They are going to get the pipe from Altos Hornos and pay twice what pipe should cost from the United States. At least three American contractors had been interested in the building of this oil pipeline and I understand could have built it for a maximum of 40,000,000 pesos, including materials, instead of the 100,000,000 pesos which the Henríquez Brothers say it will cost on a cost-plus basis, and on which they have the contract. We have kept our nose clean and we don't want anything to do with that kind of project which is so political in character in many ways. Besides that, we would be making ourselves ridiculous to aid this particular project by an Export-Import Bank credit, and would be opening ourselves to very sound attack on our loan policy which has been so sound, in my opinion.

I then went on to say to Suárez that I had just learned the night before that he was leaving for the United States and that it had been my intention to see him the next day about a very important matter which was causing a great deal of concern to my Government and to this Embassy and, I felt sure, to many people in Mexico as well. I recalled to him

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the recent Treasury circulars which his Ministry has been issuing placing on import license hundreds of products, most of which are of primary importance in the Mexican economy. I recalled to him that I had, early in December, brought the unhappy effects of these Treasury circulars to the attention of the Foreign Ministry and indicated that in their working out it would appear that they would violate the Trade Agreement between the two countries.

I recalled to him that as a consequence of this conversation which I had with the Under Secretary of Foreign Relations early in December, Dr. Castillo Najera, the Minister of Foreign Relations, had asked me to call at the Ministry about the middle of December and that he had been present at that conversation. I recalled to him that in that conversation I had said that in my opinion these circulars, even if they were not intended as quantitative restrictions on imports, were working out in that sense. I recalled to him that he had assured me that no quantitative restriction of imports from the United States was intended. I recalled to him that he had said that it was the intention merely to use this licensing system as a means of control over imports in order to determine if any quantitative restrictions or tariff measures might have to be put into effect in order to protect Mexican industry. I recalled to him that he had stated specifically that licenses would be granted freely and rapidly for the importations of American merchandise and that there was no intention to limit the importation of merchandise from the United States. I recalled to him that he had said that there was no violation of the Trade Agreement as there was no quantitative limitation on imports, in effect or intended, and that he would see that there was no quantitative restriction.

I said that at the close of that conversation I had told him that I would inform my Government in this sense but that in my opinion the circulars were working out in a restrictive way, that they were imposing quantitative restrictions, if they were not intended, that a serious situation was being created for Mexican industry which would soon be lacking in vital raw materials to keep it going, and that I saw American exporters becoming less and less interested in the Mexican market when they had such a heavy demand for their goods, and had all these inconveniences to suffer from what they considered unnecessary Mexican regulations. I said that I thought the only effect of the circulars would

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be to increase prices and to accentuate the inflationary trend in Mexico and that they would work great injury to Mexico.

Parenthetically I should say that I made a full report of this conversation which I had with the Foreign Minister, Dr. Castillo Najera, and Suárez, the Minister of Finance, in a very long despatch to the Department, the number and date of which I do not have immediately available, but which is in the Department's files and which is very important.

I then went on to say to the Minister that as he was leaving for the United States that evening, I was not in a position to discuss this matter with him at length, but I wished him to know the foregoing. I said also that we had prepared a memorandum of an entirely informal character which I was leaving with the Under Secretary of Foreign Relations that evening, with the request that he pass on a copy to Hacienda. I said that in this memorandum I was saying in this informal and unofficial way that if it was not the intent of the Mexican Government that the Treasury circulars should be restrictive in character, in practice they were. I was going to say in this informal and unofficial memorandum that the machinery which had been set up for granting the licenses was not working. I was going to say that although in most cases licenses were not being refused, no action was being taken on the applications, which amounted to the same thing. I was going to indicate that favoritism was being shown in the granting of such licenses as were issued. In other words, the system was not working and the assurances which he had given me in the presence of the Minister of Foreign Relations in the middle of December 1945 were not working out in practice.

I went on further to say that we did not wish to be in a position of formally saying to the Foreign Office that there was violation of the Trade Agreement. We were exercising infinite patience. We had followed the procedure of Hacienda in granting licenses for a whole month and I had to repeat that the system was not working and that there was in effect violation of the Trade Agreement unless the Ministry of Hacienda carried through the formal assurances which he had give me and which the Minister of Foreign Relations had repeated. I said I was taking this informal and unofficial step that evening in the Ministry of Foreign Relations to make the situation clear as we did not wish to be put in a position of formally saying the Trade Agreement was being

violated

violated by Mexico.

The Minister was obviously a good deal disturbed by what I said but he could not deny the justice and basis of what I said. He said that he had been informed the system was working properly and that licenses were being granted freely and promptly. He said that he wished to discuss in detail any individual license or article, and as he was going away that evening he hoped I would have Bohan, the Economic Counselor, see Herzog, the Under Secretary, immediately and discuss these matters with him item by item. I told him that we would do this but that I doubted very much whether the machinery would work any better as there were apparently so many individual interests in Mexico active and that so far they had certainly controlled the situation to the disadvantage of the Mexican industry and economy. Suárez said that he wanted me to be sure to have Bohan discuss these matters with Herzog and that he would take up the matter with me immediately on his return from the United States.

I am sending you herewith a copy of an informal and unofficial memorandum which I left with the Under Secretary of Foreign Relations, Dr. Tello, last evening. I told him about my conversation with Suárez that morning. I told him that the memorandum was not an official document, that it was entirely unofficial and informal. I said that I wanted to avoid taking up the matter officially as yet, as I would be under the necessity of asking the Department for instructions to say to the Ministry that the Trade Agreement was being violated in practice, if I did take it up formally.

Dr. Tello, who is a very fine honest and understanding Mexican, was deeply impressed by what I said and showed his great concern. I could see that he was thoroughly understanding of the situation. I told him that I was asking Bohan to take up the detailed license cases, etc., with Herzog, the Under Secretary of Hacienda, as Suárez had requested, but that I had small hope of much constructive coming out of it because Herzog was one of the men behind these Treasury circulars which, in my opinion, were intended to be restrictive, etc.

What I wish to bring out here is that Tello indicated his full understanding of the situation and went to great lengths to express his appreciation of the way in which I was handling this matter in not making any formal approach. He said that it was characteristic of the way that our Government handled matters of this kind and that the Ministry was deeply appreciative of it and would certainly give all its

help

help in bringing about a solution so that there would be no necessity of our saying anything with regard to a violation of the Trade Agreement.

It was my intention to get all this to the Department in a despatch but as Suárez has left and as I can never tell whether he may go to Washington before he goes to New York, and as I want this information to be in the Department at once, I am sending you this letter in lieu of a despatch, but I will appreciate your bringing it to the attention of the appropriate people in the Department who might have any contact with Suárez should he come to Washington.

What I wish to tell you further is that Suárez is undoubtedly going to try to see you while he is in Washington and he will be full of protestations of good faith and of a desire to collaborate with us in liberal trade policies. As a matter of fact Suárez will, I think, not be Minister of Finance when President Avila Camacho goes out, no matter who will be elected President of Mexico. He, like so many other men in the Mexican Government, ~~is~~ making hay while the sun still shines. There isn't the slightest doubt in my mind that the whole purpose of these Treasury circulars is to make it possible for a limited group of people in Mexico to make a lot of money out of the creation of scarcities and they are certainly making it. I am not able to say that Suárez is getting any of it but too many of the people who are making the money and who are benefiting by these circulars are among his closest friends and the least one can say is that the whole affair smells to the skies. What I want you to know is that Suárez will be full of fair words, but he is behind these Treasury circulars and he knows that they are intended to be restrictive in character and he knows that in practice they violate the Trade Agreement. I know that you are not going to be taken in by all his conversation which will be full of so many protestations of faith. My own feeling is that we ought to give him a pretty cold reception and to have as little conversation with him as possible. Of course if he seeks a conversation with you I think you should see him.

We have a difficult problem to deal with here in Mexico and we have to have a lot of patience and a lot of understanding because unfortunately the position of Mexico is such today that we want her collaboration. I am giving all these matters my attention every hour of the day and I believe we are

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handling them soundly and constructively. It takes a lot of restraint but I think in the end it serves our purpose better because we have all the good people behind us in Mexico. If we take some of the abrupt and even justified measures which are indicated, we are not going to help the situation. We are not going to help the situation by ruining a lot of people here who are trying to do constructive work and who are our friends. By taking abrupt or even certain justified action we will be doing just what men like Sudres and that kind, who are so irresponsible and venal would like us to do. It would give them the opportunity of saying that we were creating this situation in Mexico when it is they who are doing it. Increasingly the Mexican people are realizing who is doing the dirty work here and in due course they will know how to take care of that situation, and by patience and understanding we will gain in the end--no matter how great the provocation may be for doing certain things.

I am going to ask you to be good enough to see that this letter is seen by the appropriate people in the Department for their strictly confidential background. I would appreciate very much your seeing that a copy of this letter and its enclosure go to Wayne Taylor of the Export-Import Bank because he should by all means have it for his purely confidential and secret background. Wayne is a sound and stout fellow and he should have background of this kind.

With all good wishes,

Cordially and faithfully yours,

GSN/ser

George S. Messersmith

Enclosure!

copy of memorandum as stated.

In Triplicate.