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GENOVA 44  
MEXICO CITY  
MEXICO, D. F.

September 14, 1954

Personal and Confidential

Dear Jimmy:

I received in due course your letter of August 18 with further reference to Prince and Morrison and this idea of freezing natural gas for fuel purposes. I have not written you much about this because so far as the Mexican end is concerned, I am sure that there is nothing going to happen in this direction for some time. I have learned that a man named Morrison was here recently and I suppose he is the same man, but I do not think that he looked the situation over except rather casually.

The President in his message to the Congress said that Mexico would shortly be exporting gas. He undoubtedly had reference to the contract under consideration with Texas Eastern for the sale of considerable quantities of gas. This contract is one of a number which have been under consideration, but all of them have fallen by the board with the exception of this one with the Texas Eastern, and I understand that it is all ready for signature and why it has not been signed I do not know, but I would not be surprised if the principal reason is that Bermudez may be still trying to sabotage the deal.

The President and Carrillo Flores are for this contract with the Texas Eastern which involves the sale of gas in a fixed minimum amount to Texas Eastern. Bermudez and Loyo are against it, but apparently the President has over-ruled them and the intention of the government is to go through with this contract. The government needs the revenue coming from this export of gas and that is the controlling factor. Bermudez does not want any contract either for gas or for oil that does not fit completely his own ideas, and they will never fit into the ideas of any responsible Mexican company. Loyo is against the export of gas because he is completely controlled by ideologic considerations. I think the deal will go through, but it has nothing to do of course with any project in which Prince or Morrison may be interested.

X I received in due course the English text of the telegram which Nat sent to Brussels about the Cade matter, and I have your very interesting letter of September 7. I am glad to know that things look as good as they do and I hope that a Cade loan can be worked out, but I was somewhat surprised at your statement that the State Department wished to have the loan made soon and before the Rio meeting, so as to prepare the ground for that meeting. Judging from my experience, it

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would be almost impossible to arrange for a steel loan and a Cade or electricity loan before the Rio meeting. Some decisions in principle might be taken subject to satisfactory details being worked out, but I think that is the most optimistic thing that could be done before the Rio meeting.

You say in your letter that you and Nat gathered the impression that the State Department had decided that a loan should be made to the Argentine and that the Department has "so instructed" the Bank. I think you are familiar with the new setup of the Export-Import Bank. I do not know if the new directors of the Bank have been named. In any event, one thing is definite and that is that one of the purposes of the new setup is that the Ex-Im Bank shall be acting very independently from other departments, and particularly the State Department. I cannot in this letter go into the long history, but you will note that the new bill for the Export-Import Bank and setting up this new Board of Directors specifically leaves out any board membership by a representative of the State and other Departments. All this is due to the unfortunate way that State handled its relations with the Export-Import Bank for some years. What is going to happen is that the Export-Import Bank is going to be run by the Treasury, which means that it is going to be run by Humphreys and Burgess and Overby, and in a measure by Bill Martin. The views of the State Department will be considered and I cannot conceive of the Bank functioning properly without the closest collaboration between the State Department and the Ex-Im Bank. Certainly the Ex-Im Bank should not make a loan which the State Department does not think should be made, and certainly if the State Department thinks a loan should be made it should be a controlling factor with the Bank. There is, however, no such thing as the State Department giving any instructions to the Bank.

I note that the Cade does not wish to have the guarantee of the Argentine government "for obvious reasons". I do not know what the "obvious reasons" are, and I do not know whether the Bank can make a loan to the Cade without the guarantee of the Argentine government or of the Central Bank of the Argentine. I do not know what the reasons which the Cade may have why it should not want the guarantee of the Argentine government. I see the chances of the Cade getting a loan without a guarantee of the Argentine government very dimly.

I have noted that the Cade is insisting that it can accept a loan from the Bank only if the basic conditions are met, which you set forth in the letter. I wonder whether Cade is in a position to set too many conditions. The conditions which you set forth as those of Cade are more likely those of the Bank than of Cade. The Export-Import Bank cannot make a loan to Cade unless it is assured that the company will have adequate tariffs, that interest and amortization payments can be made promptly and regularly, and I think the Export-Import Bank would have to make some requirements so far as the financial structure of Cade is concerned. As I see it, these are things which Cade would naturally want, but I think they are more likely to be con-

ditions of the Bank rather than of Cade. I personally do not think that Cade should accept a loan of any kind and from anyone unless it has prospects of re-payment, so it is all right for Cade to make certain conditions of its own, *but it has to be realistic.*

You know that we started the preparation of a brief of application for a Cade loan for the Export-Import Bank. A lot of preliminary work has therefore been done for the application of a loan, and the Ex-Im Bank has for several years had a lot of this information. My own opinion, however, is that, confidentially, the Bank would make some requirements from the Cade with regard to its financial organization somewhat along the lines that the World Bank laid down for the financial reorganization of Mexlight. I do not think the Ex-Im Bank would be quite as exigent in this respect as the World Bank was with Mexlight, but certainly the Cade would be resting under a very grave illusion if it thinks it can get a loan from the Ex-Im Bank without certain internal financial requirements being met by the Cade.

From the point of view of the Cade, therefore, I think a lot of work has to be done before the Ex-Im Bank can give it a loan, and that is why I think it is not something that can happen in the next few months.

So far as the loan for the steel mill is concerned, the chances are that the Ex-Im Bank will look on a steel mill project in the Argentine with a certain favor, but it looks to me that the Argentine, in talking about a minimum of 250 million dollars for a steel mill, is making it almost impossible for the Ex-Im Bank to consider such a loan. It is a tremendous amount for a steel mill and I think the Argentines have probably set their sights too high. This steel mill project in the Argentine is an old one and it is one on which the Argentine government is very insistent, and the only reason they have not done anything about it is because it costs so much money and they have not got it. They cannot carry it through without the help of the Ex-Im Bank. There is no use their looking to Europe for the help which they need for the steel mill. The military are very important in Argentina, more important than ever under present conditions. They have their hearts set on this steel mill. It is very probable that it would be almost impossible to get the Argentine government to do the necessary so that the Cade can get a loan without something being done at the same time for the steel mill, but my impression is that they will have to revise their ideas downward with regard to the steel mill.

There is, I think, no doubt that the State Department wants to do something for the Argentine through the Export-Import Bank. On the other hand, Mr. Humphreys is looking after the budget and he would have liked to reduce the activities of the Ex-Im Bank to a minimum. It is only the pressure of circumstances which has forced Humphreys to revise his ideas to the degree he has with regard to the Ex-Im Bank, but he knows a lot about steel and I don't think that the Treasury would agree to anything like such a 250 million dollar loan

to the Argentine for a steel mill.

I think the Argentine government is tying up the steel project with the electricity loan and it will be very difficult to get the Argentine government to change its position. There is, however, a possibility of the Ex-Im Bank considering both projects if they are presented in a reasonable and adequate way.

I agree with you that Knox, of Westinghouse, has worked very hard on this matter and he has presently an inside track with the Ex-Im Bank. I think in some respects it is too bad that the Cade had to tie itself up with a letter of intent, but in view of the conversations which I understand have been going on and what Knox has been doing, etc., I can quite understand that the Cade had to give such a letter. That is not important really, because if the equipment is bought from the Westinghouse they will do a good job and they will have to keep their prices reasonable.

The unrealistic way in which the Argentines look at these financing, electricity and other matters is shown by what you say concerning Soza Molina wanting Cade equipment purchased in Europe. No loan is possible for the Cade from the Export-Import Bank with such a possibility, as you well know. I am sure, however, that this visit of the Bank mission to B.A. was very helpful because through such a mission some of the facts of life begin to penetrate the minds of our Argentine friends.

I am glad to know that Deschamps and Hernandez do not want to consider European equipment. They are taking a very enlightened and understanding position. The Cade equipment should come from the United States for every possible reason, and from the purely technical standpoint Deschamps and Hernandez are right. The Europeans have not yet had sufficient experience in building these very large machines and it would be very unsafe for the Cade, even if it had the money, to buy these machines in Europe during the next years.

I am sure that the visit which the Bank mission made to B.A. was most helpful and I am sure that the conversation which you and Nat had with the people in Washington was helpful. I am glad that this progress is being made. I am sure the visit of Holland to B.A. will be helpful, but it will be short. I am, for your personal information, in very close touch with Holland, who is really a first-class man. I do want to emphasize, however, that out of my experience and keeping in mind special factors concerning the Argentine and the Cade, etc., one must not be too optimistic as to quick results. I am sure that your Father is fully understanding of all these factors. I think that Brosens knows a lot about these things now, but perhaps some people may be too optimistic as to how rapidly and how such loans can be made.



A good deal of ground work has been done in the last years. All this is very helpful but there is a lot to be done still and the Cade will have to be prepared to be very forthcoming, both so far as the Argentine authorities and the Bank are concerned, if a loan is to be secured.

If there is at any time anything which your Father or Brosens or Nat or you see that I could do that would be helpful in the Cade matter, please let me know.

I was in Draper's office the other day when he was talking with you and I suggested that he then mention you and Nat coming down for the Patla ceremonies. I am glad that you are coming and hope that Nat can come. I think it is pretty certain that Leeper cannot come, as he is so tied up with the Oppenheim and DeBeers interests. I do not think Binder can come because he has this delayed prostate operation, but perhaps he can make it. Allan Graydon cannot come and should not come. I understand that E. A. Graydon is asking his doctor, and desirable as it is that E. A. Graydon should be here, he is so valuable to the company that I have written him that it is my personal opinion that he should not take any personal risks. He has never felt well when he is here. He is very important to the company. I hope that Brosens can come. He should make every effort to come and I am sure he will. Draper has a telegram from your Father today that he will make every effort to make it. I do hope he will come, but I still have my fingers crossed. I understand Donald Duncan may not be able to come, but that Harry Hooker will come. Guest of course and Stewart will be coming. I am hoping that Arthur Dean can make it, but one can never tell with his many occupations. He will certainly try to come. John Snyder is coming. We ought to have a pretty good attendance.

The public hearing on the tariff increases is being held today, and barring any unforeseen accident the new tariffs should be published around September 20. I know you are a bit skeptical, but I can assure you that what we are getting is a tremendous step forward. While the government has good intentions, I am sure, towards our company, I need not tell you that had it not been for the discreet aid of the World Bank and of the United States government, and a combination of circumstances, we would not be getting this relief at this time. We are really going ahead.

Maryssael is doing a tremendous job and he is more important to the company than ever. Draper is doing really a good job and is only handicapped by the fact that he does not quite know the ambiente here yet and is too optimistic about some things. Very very confidentially and for your information alone, he made the mistake of mentioning in several quarters the possibility of Mexlight buying the Monterrey company (Canadian), and even the possibility of Mexlight buying American and Foreign. Both these companies are having a hard time because they have behaved badly and don't really want to go ahead, and they have followed a line so completely different from that of Mexlight. Of course we cannot think of buying either Monterrey or American and

Foreign, for every possible reason under the sun. In the first place, we would be buying in a large measure a lot of junk if we bought either or both companies. In the second place we would be buying all kinds of trouble with the Mexican government and with the Power Commission and with the areas which these two companies serve, and we have enough trouble in the area we are presently serving. In the third place, we could not possibly get the money from anybody to buy either the Monterrey or the American and Foreign. It will take everything we can do to raise the money we need in the central area.

Draper knows that the Mexican government sees the Monterrey and the American and Foreign very dimly and there is not any doubt that these two companies complicate our problems, but our buying the companies would be to increase our problems rather than solving any for the Mexican government and for ourselves. Of course Draper realizes that this is just a dream of his and why he was indiscreet enough to mention it to a few people just as a personal thought of his own, I do not know, but he thought probably that he might curry some favor with some Mexican official, which of course is not the case. The worst of it is that Rembert and Consolo have knowledge of what Draper said to a few people in this connection, and of course they are simply furious, because they think that Mexlight has been run very well and they know ideas like these cannot do us any good if they should get currency. The World Bank would completely lose interest in us if we had ideas of that kind, and we cannot afford to lose the Bank because it is our major support. I think I should not have mentioned this matter to you in this letter because it requires a lot of background, but I will tell you about it when I see you. In the meantime, I would appreciate your not mentioning this to your Father or to Nat or to anyone, and I will tell you all about it when I see you here. The Board of Mexlight would no more consider our going beyond our present policy of sticking to the area which we serve than it would think of buying a plant on the moon, but Draper just does not understand some of these things and is a little too quick on the trigger. Maryssael and I have told him that it is completely out of the question and I do not think he will pursue the matter, but he has done some damage already by just talking about it to a few people. The worst of it is that if the Mexican authorities thought that we were interested in buying Monterrey or the American and Foreign, they would feel that the business must be a very good one or we wouldn't be thinking of it, and of course the contrary is so and we have so far convinced the Mexican government on sound and accurate bases, but their suspicions would be aroused if we had any such ideas.

As I have already said, I do not think I should have mentioned this latter matter in this letter, but I mention it to show that although Draper is an excellent man and doing a very good job and intensely interested, he is a bit too quick on the trigger and will have to learn to be more reserved in what he says. This grows out of his lack of adequate background still and because he looks at these problems from purely a financial point of view and does not appreciate the operational, technical, political and other factors. I must ask you to keep this entirely to yourself.

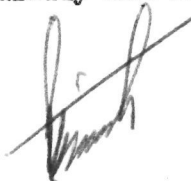
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This is a very long letter. I look forward to seeing you in October. Marion joins in affectionate good wishes to you and June and the children.

Cordially and faithfully yours,

A handwritten signature, possibly "Marion", written in dark ink. The signature is stylized with a large, looping initial and a long horizontal stroke extending to the right.