# Department of External Affairs

# CLASSIFIED

File No. 38-10-~~1~~ 3-MEX.  EIX ACR

Subject: AID AND EXPORT FINANCE -
~~EXPORT CREDITS AND~~
~~INSURANCE,~~
~~CANADIAN FINANCING~~ -
~~MEXICO.~~
EXPORT DEVELOPMENT -
EXPORT FINANCING & INSURANCE -
MEXICO

Vol. 1
From NOV - 1 1963
To 31/12/67

## References to Related Files

| File No. | Subject |
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| | K265-44[2] |

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G.E. BLACKSTOCK
20 JAN 1994

File No. 38-10-3-MEX.

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# CHECKLIST – PREPARATION OF SUBSTANTIVE FILES FOR MICROFILMING
## *LISTE DE CONTROLE – EXAMEN DE DOSSIERS – MATIERES POUR FINS DE MICROPHOTOGRAPHIE*

File No./*Dossier no*: 38-10-3-MEX

Vol. No.: 1

Subject/*Sujet*: aid & Export Finance - Export Development - Export Financing & Insurance - MEXICO

Date From/*De*: 63-11-01

Date To/*À*: 67-12-31

| CLERK/*COMMIS* | | | ANALYST/*ANALYSTE* | | | | | | | | | | | | |
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| Transmittal slips, action request forms and envelopes destroyed<br>*Notes d'envoi, fiches de service et enveloppes détruites* | Items misfiled sent to MGID<br>*Erreurs, de classement – MGID* | *Straight copies destroyed*<br>*Doubles détruits* | Ephemeral items sent to MGIR<br>*Items éphémères – MGIR* | Items reclassified<br>*Items reclassifiés* | Copies of drafts etc. destroyed<br>*Doubles de projets, etc. détruits* | BOOKLETS, PAMPHLETS, RECORDINGS, LEGAL DOCUMENTS, CLIPPINGS, BRIEFINGS, NATO, U.N. AND SPECIALIZED AGENCIES DOCUMENTS, ETC. PHOTOGRAPHS<br>*LIVRETS, PAMPHLETS, ENREGISTREMENTS MAGNÉTIQUES, DOCUMENTS JURIDIQUES, COUPURES DE JOURNAUX, CAHIERS D'INFORMATIONS GÉNÉRALES, DOCUMENTS DE L'OTAN, DES N.U. ET D'AGENCES SPÉCIALISÉES, ETC. PHOTOGRAPHIES* | | | | | | | | Size and clarity<br>*Dimension et qualité* | |
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EXT 152 (82/7)

000002

DEPARTMENT OF EXTERNAL AFFAIRS, CANADA.

NUMBERED LETTER

TO: THE UNDER-SECRETARY OF STATE FOR EXTERNAL AFFAIRS, OTTAWA, CANADA.

FROM: The Canadian Embassy, Havana, Cuba.

Reference:

Subject: Effects of Hurricane Flora.

Security: CONFIDENTIAL

No: 640

Date: November 8, 1963.

Enclosures: --

Air or Surface Mail: Air.

Post File No: 12-4

Ottawa File No. 38-10-3-MEX ~~GEN AM~~

To: Mr. Hammond
NOV 18 1963

References

Internal Circulation

file

The British Consul in Santiago de Cuba, currently on a visit to Havana, told us of some of the psychological effects of the hurricane in Oriente Province. Despite the efforts of Fidel Castro and the usual propaganda vehicles to generate enthusiasm for reconstruction, the Consul felt that the prevailing mood in the affected areas was one of dejection and misery. It was his impression that revolutionary zeal was lacking even among party functionaries. He said that only gusano spirits had risen with the belief that the regime was incapable of overcoming the economic ruin and attendant political repercussions of the hurricane.

2. As the road beyond Holguin in Oriente now opens sporadically to ordinary traffic, an Embassy officer will be leaving this weekend to tour the affected areas.

George P. Kidd

Ambassador.

Economic/W.F.Stone/jh

DEPARTMENT OF EXTERNAL AFFAIRS

**MEMORANDUM**

TO: Mr. Stoner, Mr. Ritchie, Latin American Div.

file

Security CONFIDENTIAL

Date ~~November 1~~ December 2, 1963

File No. 38-10-3-MEX

6

FROM: Economic - W. F. Stone

REFERENCE:

SUBJECT: Long Term Section 21 Credits for Mexico

... The attached ECIC papers relate to a number of possible long term credit sales to Mexico which have been broached with ECIC by Canadian firms in recent weeks.

2. At ~~yesterday's~~ a recent's Export Finance Committee meeting we discussed to what extent further financing could be provided for Mexico, bearing in mind that about $54 million of credit is now outstanding. (I understand a further $10 million or so of Section 21 insurance cover is also on the books for Mexico.) The Committee agreed that Mexico was a good credit risk - perhaps the most credit-worthy in the Latin American area - and a promising market for future Canadian exports. We also considered that the outstanding credit for steel rails ($34 million) should be considered as a special arrangement, in view of the fact that Section 21A criteria had been stretched for these sales, and excluded from the calculation of an overall exposure target figure. On this basis the Committee thought that apart from the steel rails, a total exposure of around $25 million for Mexico would be reasonable. Of this amount, $14 million is already outstanding for locomotives, leaving $11 million for new projects.

3. Among the new proposals, the Committee considered the proposals of DEW for hydraulic turbines ($3.25 million) and of Sandwell for paper machinery looked to be the most promising, and should be encouraged.

W. F. Stone,
Economic Division.

CIRCULATION

Ext. 326 (6/56)

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38-10-3-Mex.
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CONFIDENTIAL

## RECORD OF CABINET DECISION

Meeting of November 28th, 1963

### Export Credits Insurance on sales of steel rails to Mexico

The Cabinet agreed that Dominion Steel and Coal Company should be granted export credits insurance on the basis of a six-year credit term for the sale of steel rails to Mexico, but that the company should be informed that they must be prepared in future to accept the normal five-year limitation in transactions of this sort.

A/Supervisor of Cabinet Documents.

Privy Council Office,
November 29th, 1963.

CONFIDENTIAL

EXPORT CREDITS INSURANCE CORPORATION

COMMITTEE ON EXPORT FINANCE

MEXICO

Of late considerable interest has been shown by Canadian exporters of sales of Canadian equipment to Mexico, to such an extent that in recent weeks ECIC has received five preliminary enquiries, two in the railroad field, two in the paper machinery field and one in the hydro field. The following is a list of these enquiries:

| | Canadian Applicant | Mexican Importer | Amount |
|---|---|---|---|
| 1. | Sandwell and Company Limited | Fabricas de Papel Tuxtepec S.A. de C.B. (mill location Tuxtepec, State of Oaxaca.) | $ 2.5 million |
| 2. | Dominion Engineering Works Limited | Comision Federal de Electricidad de Mexico (location Malpaso) | $ 3.25 million |
| 3. | Montreal Locomotive Works Limited | Chihuahua-Pacific Railroad | $ 2.4 million |
| 4. | Dominion Engineering Works Limited | Compania-Industrial de San Cristobal S.A. | $ 2.5 million |
| 5. | Dominion Steel and Coal Corporation | Sonora-Lower California Railroad | $ 3.0 million |
| | | Total | $13.11 million |

1. The Tuxtepec proposal is for the expansion and diversification of an existing 30,000 MTPA newsprint and book papers mills which commenced operation in 1958. The owners now intend to increase the capacity of the mill to produce machine sized book papers. The mill is solely owned by Nacional Financiera an agency of the Mexican Government.

2. The Malpaso enquiry is for the supply of three to six hydraulic turbines for installation in a new hydro development operated by the Comision Federal de Electricidad an agency of the Mexican Government. DEW state the Canadian content of their turbines will be approximately 90%. At present the only other known Canadian bidder is C.G.E. for the supply of electrics, this exporter has not applied to ECIC for long term financing.

.../2

3. An enquiry has been received from Montreal Locomotive Works, Limited for the sale of 10 diesel-electric locomotives in the 1800 H.P. class to the Chihuahua-Pacific Railroad. The MLW agent is of the opinion that a ten year credit period would be required. The railroad extends 1450 KM from Cuidad Juanez on the U.S. border across from El Paso, Texas in a circle to Ojinaga on the U.S. border southeast of El Paso. The line is operated by the Department of Railroad Operations of the Ministry of Public Works (SCOP) of Mexico.

4. The San Cristobal enquiry is for the sale of a 132" tissue paper machine and ancillary equipment for the expansion of an existing mill in which Scott Paper have a 49% interest. We are advised by the Exporter that fabrication, shipment and erection will take approximately 18 months from signing of contract with start-up 60 days thereafter.

5. Dosco have requested ECIC financing for a sale of steel rails to the Sonora-Lower California Railroad for an amount of U.S. $3.0 million on terms of six years payments commencing January 1, 1965. This line is operated by the Department of Railroad Operations of the Ministry of Public Works of Mexico (SCOP). The General Manager of this line as well as that of the National Railways is Sr. Don Benjamin Mendez, hence the request for similiar terms for this transaction as that granted the National Railway under ECIC, contracts for rails and locomotives. We are informed that the promissory notes will be issued by Nacional Financiera.

Total ECIC commitments under financing agreements total $56.5 million. Principal repayments have reduced the net outstanding commitments as at September 30, 1963 to $54.0 million.

As of December 31, 1965 the net ECIC long term position in respect of Mexico is estimated to be $47.8 million made up as follows:

| Mexican Importer | Commodities | Commitment | Estimated Repayment | Estimated Net |
|---|---|---|---|---|
| Ferrocarriles Nacionales de Mexico | Steel rails | $13.5 million | $5.4 million | $ 8.1 million |
| Ferrocarriles Nacionales de Mexico | Steel rails | $27.0 million | $1.3 million | $25.7 million |
| Ferrocarriles Nacionales de Mexico | Locomotives | $16.0 million | $2.0 million | $14.0 million |
| | | $56.5 million | $8.7 million | $47.8 million |

.../3

During ~~1963~~ 1965 and succeeding years the estimated repayments will be approximately $7.0 million annually.

An up to date economic study of Mexico which indicates the present general economic conditions, the future possibilities for economic growth, as well as the balance of payments and the debt structure of the economy. This attached study indicates that Mexico's economy is sound and that the possibilities for future growth are good.

The Committee is requested (1) to review the position in respect of long term commitments to Mexico in order to establish additional commitments which might be considered; (2) to determine which of these preliminary applications might be acceptable for further consideration.

Export Finance Division

October 29, 1963 EXPORT CREDITS INSURANCE CORPORATION

38-10-3-MEX
6

CONFIDENTIAL

EXPORT CREDITS INSURANCE CORPORATION

COMMITTEE ON EXPORT FINANCE

PARSONS & WHITTEMORE CONTRACTORS LTD. - MEXICO

Following the Committee decision (Minute 412) that, because the credit terms requested were not substantiated, this project should be negotiated on shorter credit terms, a further submission from Parsons & Whittemore Contractors Ltd. and Sandwell and Company Limited has been received requesting reconsideration. Further evidence has been submitted, as detailed in the attached copies of correspondence submitted by the applicant, that long term credit is required by the purchaser of the proposed paper mill equipment.

Careful analysis of the financial aspects of this transaction, including Tuxtepec's balance sheets and projected earnings, by the EFD of ECIC in consultation with the Corporation's Credits Department Supervisor and Accountant indicate that a long term credit of at least 12 years is required by Fabricas de Papel Tuxtepec S.A. to pay for the equipment under study. These officers all agree that if the buyer was a private company the credit worthiness of the buyer would be in considerable doubt. However, since Nacional Financiera will guarantee repayment and the owner of the Tuxtepec Mill is the Government of Mexico, any reservations about the credit standing of the buyer are removed.

The Committee is requested to reconsider this application in view of the evidence now submitted regarding the need for long term credit to obtain this export sale of engineering services and mill equipment requiring financing of U.S. $2.75 million on repayment terms of 2 years grace and 21 semi-annual instalments.

Export Finance Division

EXPORT CREDITS INSURANCE CORPORATION

January 7, ~~1963~~ 1964.

Sandwell and Company Limited
1500 Alberni Street
Vancouver 5, B. C.

Parsons & Whittemore Contractors Ltd.
3300 Cavendish Boulevard
Montreal, P.Q.

10

19 December 1963

Export Credits Insurance Corporation
Ottawa
Canada.

Attention: Dr. D. C. Taylor
Export Finance Division

Reference: Tuxtepec Mill - Mexico
Reconstruction Program

Gentlemen:

We revert to your letter of November 29 in respect to which we advised you by telephone that we were developing some additional information to present to you.

In support of our application for long term rather than medium term credit for this project we present the following:

1. First of all we would like to draw your attention to an error in that we have been referring in our correspondence with you on this project as being an "expansion" program whereas it is more properly described as a reconstruction program. In other words, this program is to revamp the production facilities in order to produce different grades of paper rather than expanding the production of newsprint. Consequently, in this sense, it should not be called an expansion program. In view of the wording of the first sentence of the second paragraph of your letter of November 29 we feel that this is an important point that may well have influenced the thinking of the committee. That is to say, the committee may look with more favour on our application when they regard this program as a modification of the original facilities.

2. Tuxtepec letter of December 10, 1963 addressed to you setting out their reasons for requesting long term credit for the purchase of equipment and engineering from Canada, and reporting that they had been offered long term credits from United States, England, France, and West Germany.

3. Parsons & Whittemore (France) letter of December 2, 1963 reporting 10 year credits available to Mexico for purchase of French equipment and services.

4. Surrey, Karasik, Gould and Greene letter of November 29, 1963 advising that repayment periods in excess of ten years are available to Mexico for purchase of U.S. equipment and services through the Export-Import Bank.

5. Parsons & Whittemore Contractors Ltd. letter of November 29, 1963 reporting that up to ten years credit would be obtainable on the purchase of British equipment from ECGD.

We would like to amplify Item 2 as follows. Although no written evidence is available from the suppliers referred to in respect to long term financing available from other countries, the following background information obtained yesterday from Dr. G. S. Wise, Director General of Tuxtepec, may be sufficient for your purposes. During the year 1962, when this project was first being considered by Tuxtepec, Dr. Wise received offers from Credit Lyonnaise of France, Simon-Carves of England, Metex of Finland, and Voith of West Germany, for the supply of the equipment for this program on the basis of long term financing, repayable over 10 to 12 years or more. The French offer had a proviso that 70% of the credit be expended in France. The interest rates varied slightly in the different offers but were on the average approximately 6%. At that time it was suggested to Dr. Wise by Mr. Elliott M. Little, formerly President of Anglo-Canadian Newsprint Mills Ltd., that Dr. Wise should look into the possibilities of obtaining the equipment with long term financing from Canada, and for this purpose he introduced Dr. Wise to Mr. Hugh Aitken, your President. Dr. Wise visited Mr. Aitken in his office in Ottawa in the summer of 1962, probably in the month of July. On that occasion, Dr. Wise found that long term financing facilities existed in Canada every bit as good as those available in the aforementioned countries, and because of his long experience in doing business with Canada and Canadians, he decided that he would like to place the business with Canada. Consequently he saw no point in pursuing further the offers from these other countries. Although these competitive offers did not reach the stage of being presented in written form, nevertheless we trust this background will satisfy you that there was indeed competitive long term financing available for this program from other nations. ✓

We would also like to reiterate that it is understood that the repayments under this loan would be guaranteed by the Mexican Government or that Government's agency, Nacional Financiera. We feel that whatever questions may be raised with regard to the detailed price and operating arrangements as between Tuxtepec and its customers, there are sound local reasons and explanations therefor. In the final analysis, in our opinion, the fundamental overriding factor is that the Mexican Government is guaranteeing the repayment of the loan, and we therefore have the opportunity to export Canadian goods and services on a reliable financial basis. ✓

19 December 1963

We would appreciate very much if you would request, on our behalf, your Interdepartmental Committee on Export Finance to again consider our application in the light of the above supplementary information. With this evidence of long term credits available from other nations we trust that consideration may be given to making similar credit available for the purchase of this equipment and engineering from Canada.

Yours truly

SANDWELL AND COMPANY LIMITED

Per: H R Horne

H. R. Horne, Treasurer

PARSONS & WHITTEMORE CONTRACTORS LTD.

Per:

J. R. Aitken

HRH:dm
Encls.

c.c. Dr. G.S.Wise - Fabricas de Papel Tuxtepec, S.A.
Sr. Jaime Ortiz Mena - Fabricas de Papel Tuxtepec, S.A.
Mr. J. R. Aitken - Parsons & Whittemore Contractors Ltd.

FABRICAS DE PAPEL TUXTEPEC, S. A. DE C. V.

OFICINAS GENERALES: LAFRAGUA NUM. 4 PISO 5o.

TELEFONO: 46-25-60
MEXICO I. D. F.

APARTADO POSTAL 21069
DIRECCION CABLEGRAFICA
"PATUXT"

December 10, 1963

Export Credits Insurance Corporation
Ottowa,
Canada

6

Dear Sirs:

We have been told by Sandwell and Company Limited, our Consulting Engineers, that the application filed with you on behalf of Fabricas de Papel Tuxtepec, S.A., for a loan to finance the expansion program of this Company, is being considered by your goodselves.

By means of this letter, we wish to inform you that the repayment of said requested loan is expected to be made by Fabricas de Papel Tuxtepec, S.A., during a term of ten years. We would find it rather difficult entering into an agreement based on a shorter term because it would be harder for us to meet the repayment obligations on their due dates. As a matter of fact, in the Profit and Loss Estimate as prepared by Sandwell and Company Limited and found in our report of November, 1963, as submitted to you, it was considered that repayment of loans would be for a term of twelve years as predicted by the offers we had for equipment supply from the United States, England, France and West Germany on long-term financing.

With our appreciation for the consideration given to our request to have this equipment and engineering supplied and financed from Canada, we are,

Very truly yours,

Jaime Ortiz Mena
General Manager

cc: Mr. H. R. Horne, Treasurer
Sandwell and Company Limited
Vancouver 5, British Columbia

Mr. J. R. Aitken
Parsons and Whittemore (Contractors) Ltd.
Montreal, Que.

Parsons & Whittemore (FRANCE)
SOCIÉTÉ ANONYME AU CAPITAL DE 4.000.000 NOUVEAUX FRANCS
R.C.SEINE 54 B 840
5, RUE JEAN MERMOZ - PARIS 8e - (ROND POINT DES CHAMPS ELYSÉES)

TÉL: ELYSÉES 62-89
TÉL: BALZAC 42-64
CABLES: PARSWHIT-PARIS
TELEX: 27 643 PARSWHIT-PARIS

Paris, December 2, 1963.

PW - 2989 - PK/MR

6

Parsons & Whittemore Contractors Ltd.
3300 Cavendish Boulevard

MONTREAL
Canada

MEXICO

Dear Sirs,

You have inquired about the terms and conditions upon which Mexican industrial projects are currently being financed from France.

We are pleased to inform you that France has granted an important credit to Mexico up to $ 150.000.000. It will be utilized as French classic credits with COFACE but on a long term basis (10 years).

The equipment and services should be of French origin, but part of the credit (1/6) will be applied to equipment and services of Mexican origin.

Moreover, the French Government has granted a credit to the Mexican Government for the financing of local expenses and for down payments that the Mexican buyers cannot pay.

The cost of the equipment credit is 6,5 % p.a. and the cost of the credit for the financing of local expenses and down-payment is 4 % p.a.

We hope that these general informations are sufficient. We remain at your entire disposal for further informations you may require.

Yours sincerely.

PARSONS & WHITTEMORE
FRANCE
Le Président Directeur Général,

REPUBLIC 7-0866
CABLE ADDRESS: SURMON

SAMUEL EFRON
MYRON M. COWEN
COUNSEL

LAW OFFICES
SURREY, KARASIK, GOULD AND GREENE
WOODWARD BUILDING
WASHINGTON, D. C. 20006

WALTER STERLING SURREY
MONROE KARASIK
MICHAEL GOULD
FRANCIS T. GREENE
DUMOND PECK HILL
JOSEPH H. GUTTENTAG
SAMUEL V. GOEKJIAN
GEORGE L. CHRISTOPHER

EUROPEAN OFFICE
52, AVENUE DES CHAMPS ELYSEES
PARIS 8, FRANCE
ELYSEES 10-01

10

November 29, 1963

Parsons & Whittemore (Contractors) Ltd.
3300 Cavendish Boulevard
Montreal 28, Quebec, Canada

Attention: Mr. H. L. Nathan

Gentlemen:

You have requested our advice as to the lending practices of the Export-Import Bank of Washington with respect to industrial project loans in Mexico.

To our knowledge, the Export-Import Bank of Washington is prepared, when an industrial project is economically feasible, to make loans with a repayment period in excess of ten years. A repayment period in excess of ten years is available for economically feasible pulp and paper projects where the appropriate guaranties from the Mexican Government, the Nacional Financiera S.A., or private banks are available.

We hope that the above information meets your requirements.

Sincerely yours,

Dumond Peck Hill
Dumond Peck Hill

DPH:nrh

Parsons & Whittemore CONTRACTORS LTD
3300 CAVENDISH BOULEVARD, MONTREAL (QUEBEC) CANADA

DEC 2 1963

November 29, 1963

HLN - 1133

Mr. H. R. Horne
Sandwell & Company Ltd.
1512 Alberni Street
Vancouver 5, Canada

Re: Project 769 - Tuxtepec Expansion

Dear Mr. Horne:

Following our telephone conversation of November 27th and in connection with the repayment over ten years applied for, we have secured the following information:

1. U.K.

With Nacional Financiera's endorsement, up to ten years would be obtainable from ECGD.

2. France

Under an agreement between the governments of Mexico and France, French credits for Mexican industries are available on the following terms:

a. Supply of French goods and services, twenty equal halfyearly instalments, the first instalment at the latest three years after payment (?) or placement (?) of the first order for the project. Although a 15 - 20% down payment would be made to French suppliers, these down payments can be refinanced out of a French loan repayable in eighteen equal halfyearly instalments, with the first instalment as above.

b. Local expenditures (purchase of goods and services in Mexico) can also be financed out of the French loan which, for this purpose, is repayable in ten equal halfyearly instalments, the first instalment on the date on which the first instalment for French supplies falls due.

3. I expect to receive shortly a letter from P&W France confirming and clarifying the above information regarding French credit. I also expect to receive shortly authoritative information on US credit facilities.

Parsons & Whittemore

November 29, 1963



4. As agreed, I would appreciate your phoning me on December 2nd, when I may be able to add further information on this subject.

With best regards,

Yours sincerely,

Parsons & Whittemore
Contractors Lt.

H. L. Nathan
mam

Economic/J.G.Harris/mr

DEPARTMENT OF EXTERNAL AFFAIRS

MEMORANDUM

| | |
|---|---|
| TO: Latin American Division | Security: Confidential |
| | Date: February 26, 1964 |
| FROM: Economic Division | File No. 38-10-3-MEX 6 |
| REFERENCE: | |

SUBJECT: Economic Report on Mexico

... We attach a copy of an economic report on Mexico prepared by the Export Credits Insurance Corporation. The ECIC sent a copy of an earlier revision of this report to our Embassy in Mexico for comments and the attached report incorporates the comments received from the Embassy. We should be pleased to receive any comments you may wish to make on this report.

(SGD) W. F. STONE

Economic Division

CIRCULATION

Ext. 326 (6/56)

Economic/J.G.Harris/mr

cc - Mr. Dier
O/SSEA
O/USSEA
Liaison Services

38-10-3-MEX
6

CONFIDENTIAL

March 2, 1964.

MEMORANDUM FOR THE MINISTER

Application for Long-Term Export Financing - Mexico

We attach a copy of a Memorandum to Cabinet dated February 20, which the Minister of Trade and Commerce plans to present to Cabinet this week. The Memorandum deals with an application by Sandwell and Company Limited of Vancouver and Parsons & Whittemore Contractors of Montreal for long-term export financing in the amount of $2.75 million (U.S.) for the equipment and services required to enable a newsprint mill in Mexico to produce paper for use in the free text-book programme of the Mexican Department of Public Education. This application has been thoroughly considered by the Committee on Export Finance, and we recommend that you support it.

(SIGNED) A. E. RITCHIE

N. A. R.

DEPARTMENT OF EXTERNAL AFFAIRS

MEMORANDUM

TO: Economic Division

FROM: Latin American Division

REFERENCE: Your memorandum of February 26

SUBJECT: Economic Report on Mexico

Security CONFIDENTIAL

Date March 12, 1964

File No. 38-16-3-MEX

6

The conclusions expressed in the Economic Report on Mexico attached to your memorandum under reference and particularly in paragraph 21, concerning Mexico's economic outlook, seem quite sound.

2. There are, however, a number of omissions in the Report relating to developments in the year 1963, although these do not really affect the validity of the Report's general thesis. It might be useful to mention the introduction last year by President Lopez Mateos of the long-projected laws for profit-sharing by employees and for increased minimum wages in various parts of the country. Moreover, some reference should perhaps be made to the fact that last year France offered Mexico a credit of U.S. dollars 150 million. In general, 1963 saw an improvement in Mexico's foreign exchange position as earnings from tourism set a new record and the general strengthening of the economy caused a substantial flow of money towards Mexico, some of it old capital returning after the flight of 1960-61 but with new inflows as well. We understand that Mexican authorities launched a new bond issue on the New York market in July 1963 for U.S. dollars 40 million. There was a record wheat harvest last year and for the first time in Mexican history wheat was exported. There were reports that the Mexican agreement to export wheat to Mainland China may amount to as much as 25 million dollars. The maize harvest will probably set a record also and although the cotton crop in the North-East was poor and the expected export figures were not reached, the crops in the rest of the country were good and sold well. 1963 was a good year for coffee and the production of sugar is being increased as rapidly as possible to take advantage of the high world price and rising internal demand in Mexico. Improved prices for lead, zinc and silver permitted some recovery in the depressed mining industry over last year.

CIRCULATION

Ext. 326A (6/56)

E. H. Peck

Latin American Division

Confidential

# ECONOMIC REPORT ON MEXICO

| | |
|---|---|
| Area: 760,375 sq. miles | National income: (1962) 131,300,000,000 pesos |
| Population: (1962) 37,233,000 | Per capita: US$282 |
| Per square mile: 49 | Exchange rate: 12.49 pesos - US$1.00* |
| Capital: Mexico City - 5,200,000 | |

Summary 1. Three factors that warrant close observation in assessing Mexico's future economic prospects are: (1) the deceleration in the GNP growth rate from an annual average of 6.2% during 1939-1956 to less than 5% since 1957; (2) the sharp rise in external public debt, more than doubling in four years from $774 million at June 30, 1959 to more than $1,600 million at June 30, 1963; and (3) the very high rate of population growth at 3.1% annually. Thus far political stability and good leadership have been successful in maintaining economic progress and withstanding internal and external pressures. There has been a determined effort to diversify agriculture and to increase soil yields through irrigation. Transportation is being improved through a constant expansion and modernization of highway and railway networks, and industrial diversification is also strengthening the economy. A welcome element in the balance of payments has been the rapid expansion of tourism earnings, which now at $789 million are approaching export receipts. With the excellent record Mexico has to date for meeting its external debt commitments it still appears as the best credit risk in Latin America.

General 2. Mexico is a Federal Republic, consisting of 29 states, a federal district and two territories. It is bounded by the United States on the north and northeast, by the Gulf of Mexico, the Gulf of Campeche and the Caribbean Sea on the east, by Guatemala and the British Honduras on the south and by the Pacific Ocean on the west. It has a 4,438 mile coast line on the west and a 1,774 mile coast line on the east. On these coast lines there are 49 sea ports, some of which are capable of accommodating from the smallest to the largest vessels in the world. The Sierra Madre Occidental and the Sierra Madre Oriental mountain ranges, both running north to south, divide the country into three basins, the gulf basin, the central basin and the pacific basin. These mountains are very rich in silver, gold, copper, zinc, graphite, lead, molybdenum, sulphur, arsenic, mercury, antimony, coal, opal, petroleum and natural gas. Although these mountains are a great source of raw materials, their location as well as their height, in a way, is hampering Mexico's economy. On account of their height, rain clouds do not usually cross these ranges. Therefore rainfall in the central basin, the largest and most important one, is low, 15" - 20" compared with over 100" in the coastal areas. This low rainfall on an extremely fertile soil tends to reduce the soil yields. Their steep rocky and almost impassable slopes have a limiting effect on the transportation network. There are very few coast to coast highways and railroad lines. Construction costs are high and in some cases large areas cannot be developed because of their "hard to get at" location. The main agricultural crops of Mexico are cotton, coffee, cereals, sugar, tobacco, cocoa, sisal, fruits, vegetables and timber. Stock raising and fishing are common.

*US dollars unless stated otherwise.

...2/

July 6, 1958



3. The constitution in effect in Mexico was adopted on February 5, 1917. The president and the legislative assembly are elected by universal suffrage. The president serves one six-year term only. There are 60 senators who serve a six-year term, while the deputies serve a three-year term. Both the senators and the deputies may serve for more than one term but not consecutively. The last presidential election was in July 8, 1958 and Adolfo Lopez Mateos was elected president. In the early part of President Lopez Mateos' term of office there was a certain amount of labour unrest and throughout his term there have been occasional reports of demonstrations by peasants demanding land. There have been no major crises, however, and due largely to the dominating influence of Mateos' Revolutionary Institutional Party (PRI), the country has remained politically stable. At the forthcoming presidential elections on July 5 the candidate of the PRI will be Gustavo Diaz Ordaz, the 52 year old Minister of the Interior. His election "by overwhelming majority" is expected in all quarters. Ordaz politically is somewhat right of centre in contrast to Mateos' left of centre. He has been in political life, with regular progress, since 1943 when he was elected to the Federal Legislature, and became Minister of the Interior in 1958.

4. The great majority of Mexicans are of mixed descent. Approximately 10% of the people still speak an Indian language but most of these people also speak Spanish, which is the language of the country. During the 50's the population increased by an average of 3.1%, and 44% of the population is under 15 years of age. There is no state religion in Mexico but the majority of the inhabitants are Roman Catholic. Education is secular, free and compulsory, at the primary school level, for children of 14 years of age and under. It is hoped that by 1970 the classroom shortage that exists today will have been eliminated. Serious problems will remain at the secondary level, however, particularly in respect of technical education and vocational training. Mexican universities suffer from lack of modern facilities and not enough properly qualified teachers. Sixty per cent of the university population is enrolled at the National University of Mexico in Mexico City, founded in 1551. The manpower requirements of the army, navy and small air force are supplied by one year of conscription.

Domestic Economy 5. Mexico has a controlled - capitalistic system. Its economy is semi-agricultural. In 1961 the gross national product (GNP) composition was; agriculture 20.4%, manufacturing 25.8%, petroleum and utilities 11.5%; construction 3.4%, services and trade 38.9%. For the past twenty years the economy has been undergoing a process of rapid expansion. As this expansion took place, the structure of the economy changed in such a manner as to enable it to withstand unfavourable external forces. These changes were in the form of (a) diversification of industrial output, (b) the ability to produce various capital goods, and (c) diversification of agricultural output. A good example of the strength of the economy and its ability to withstand external pressures can be seen in the growth of the economy in the late 50's and early 60's, even though world demand and prices for some of the most important exports of Mexico dropped. The agricultural sector employs close to 60% of the total labour force, even though this sector contributes only 20.4% of the GNP. The industrial sector utilizes 16% of the labour force while the Government, the service industries, self-employment and the professions employ the rest. Present possibilities in cutting down employment in the agricultural level do not seem to be very encouraging but in the future it is expected that the industrial expansion, high wages paid in the industry and the added emphasis of vocational training will slowly divert some of the agricultural labour in the industrial sector.

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6. Even though Mexico has the best transportation in Latin America this sector is still deficient. As of 1961 there were 5,000 miles of paved highways and 13,000 miles of unpaved all-weather roads. The 1962-64 immediate action plan calls for further expansion of this system. The railroads are composed of Government-owned lines which account for 97% and a few privately-owned lines, totalling 14,595 miles of track. Both the private and the national system provide excellent transport facilities in some areas. The present development plan calls for further expansion in the railway facilities. All expansion programs in the transportation sector are slow and very costly in Mexico. The topography is the greatest obstacle that the country faces in contemplating expansion of this sector. The numerous ridges of the Mexican mountains, their height and rock formation have curtailed the Government's efforts to build an efficient and effective highway and railroad network. Mexico's total production of electric power in 1961 was 11.7 billion KWH, of which 57% was produced by thermal plants and the remainder by hydro-electric plants. The Government's immediate goal is to raise generating capacity from 3.3 million kilowatts in 1961 to 5 million kilowatts by the end of 1964.

7. Between 1944-51 the GNP growth registered an average rate of 6.1%. This rate of growth dropped a little in 1952-53, but in the period 1954-57 the rate of growth increased to a remarkable rate of 8.7%. This rise has been attributed to the devaluation of the peso in 1954. As the effects of this devaluation wore off the growth rate slowed down to an average for 1957-62 of just under 5%. For the same period (1944-62) the population grew 70%, an annual rate of 3.1%, while the real GNP of Mexico more than doubled. Between 1950-62, the level of both public and private investment grew at approximately the same rate as that of the GNP, about 6% per annum. In 1960 and 1961 private investment stopped growing and in some instances it declined. As an offsetting measure, the Government stepped up its investment program, but this increase in public investment was not enough to counteract the slowdown of private investment and thus we have a retardation in the growth of GNP. One of the major reasons for the curtailment of private investment in Mexico at this time was business uncertainty about the Government's foreign and domestic policies. Business confidence returned in 1962 and has held up since then.

8. After an inflationary decade, 1951-61, which saw the CPI more than double, the price level has been firm during the past several years. From the first quarter of 1961 until November 1963 there was less than a 1% increase. At the same time wages have been increasing at a rate of 8.5% per annum with sharp increases common in the early part of this period. It appears that recently wage increases have been greater than productivity gains, therefore it is possible that prices in the sixties may not remain as stable as they have been in the past. In recent years the money stock has been keeping pace with the increase in GNP, at the same time increases in quasi-money have been greater than those of the GNP. In 1961-62 quasi-money increased at a rate of 20% per annum. Total bank credit has shown similar growth patterns. During the period covered by 1954-62 it increased at a rate of 15% per annum, which is equivalent to 13% per annum after adjusting for price changes. Credit to the public sector was rising at a slower rate than that of the private sector between 1954-56, but after 1957 it rose faster than the latter. The total increase of bank credit between 1957-62 was 150%. More than one-fifth of the domestic credit operations during the past five years has been financed by foreign loans channeled through the Government's banks. These stepped-up credit activities have caused interest rates to rise in recent years. The Government of Mexico has been the biggest user of credit in the country.

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Government Role 9. The role of the Government is of long standing in Mexico, even preceding the Constitution of 1917 in which Article 27 dealt with the ownership of land. Prior to this there had been introduced an agricultural reform program and the creation of the "ejidos". The ejidos are large private plantations or farms which have been taken over by the Government and converted to collective farms operated by 20 to 30 farmers. This redistribution of land, which has been going on for half a century, is now coming to an end and emphasis is being placed on improvement of farming techniques and supply of adequate credit to the "ejidos". One of the recent aspects of the Government's agricultural planning has been the introduction of extensive irrigation systems. To date the overall agricultural program may be called a success though the increase in production has not brought a similar increase in agricultural income. The major reason for this has been the world over-production of some Mexican agricultural products with a consequent drop in prices. To counteract this trend the Government has been encouraging crop diversification and discouraging further expansion in certain crops, particularly coffee.

10. Mexicanization of industry began with the nationalization of the petroleum industry in 1938 and continued with state ownership of electric power resources and growing state participation in a number of other industries, including transport and heavy industry. Mining remains in private hands for the most part but it has become a legal requirement that the majority ownership be Mexican. Mexican ownership of companies operating in the country was encouraged in 1960 by legislation which provided for tax relief to those companies in which there was at least 51% Mexican ownership.

11. President Mateos created the National Planning Commission in 1962 to oversee the public investment programs of the Government. (Other planning is also done by government-owned corporations.) As yet the planning is still on a short-term basis, as indicated by the NPC's Immediate Action Plan of 1962-64 (see statistical appendix), for implimentation in 1963-65. In short the plan tries to achieve a real GNP rate of growth of 5% per annum, to be sustained through to 1970. It is felt that the 5% growth rate is feasible and can be achieved through: (a) increased investment in the public sector, (it is scheduled to rise by 50%), (b) tax simplification, (c) tax relief for reinvested profits, (d) accelerated depreciation, (e) fiscal concessions for new industry, (f) subsidies and tax exemptions for the mining industry, (g) tax exemptions to export and other related industries, (h) subsidies and freight concessions for industries participating in the development of the "hard to get at areas" and for underdeveloped areas. This plan is basically different from the last one, 1959-61, in the sense that the emphasis placed on the major economic sectors has shifted slightly with a renewed emphasis on agricultural development and on the social welfare program. Through increased investment it is hoped that the agricultural production and economic well-being of the farmers will improve greatly. In this sector most of the investment is in the form of major irrigation projects and in aiding crop changes, and curtailment of production of coffee. Expenditures in the social welfare sector are for low-cost housing, water and sewerage systems, health and education. The total public investment in the 1962-64 plan is scheduled to be 60% higher than in the 1959-61 plan. Before any public entity makes a fixed investment it must first obtain authorization from the Secretariat of the Presidency. This is composed of three sections: (a) Directorate of Investment, concerned with the year to year operations; (b) Directorate of Investment Planning, concerned with longer range programming and

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(c) Directorate for the Control of Investment, concerned with auditing and control. The agency's main functions are: (a) to schedule approved projects according to priorities and needs; and (b) to make sure that the work done and the expenditures incurred are as approved.

12. The federal budgetary revenues in the 50's grew at a lesser rate than the GNP, while budgetary expenditures increased at a rate which was slightly higher than that of the GNP. Since the turn of the 60's revenues have increased more than expenditures and the current account budget has been balanced the past two years. Most of the tax revenues in Mexico are raised through hidden taxes and indirect taxes. Collections from sales, excise and import taxes were up for the 1955-62 period while export taxes were down. Increases in budgetary expenditures have been substantial in the fields of education and social welfare. Between 1955-62 expenditures in this field tripled. In an effort of the Government to bring its revenues more into line with the required expenditures in 1961 it revamped its taxation and collection schemes. Income taxes, taxes on automobiles and duties on imports classed as non-essential or luxury were raised. In 1962-63 there were further efforts to increase efficiency in tax collecting instead of increasing taxes. In 1963, contrary to the general trend, a new tax was introduced, the educational tax. In 1962 total budgetary revenues were $1.02 billion while expenditures were $1.13 billion. In 1963 the budget called for a reduction in Government expenditure of 2.1% to $1.10 billion and an increase in revenues of 4.2% to $1.07 billion leaving a deficit of $0.03 billion. These figures include capital expenditure.

13. The Government has been financing these chronic deficits by local and foreign borrowing. It, or its agents, Nacional Financera (official development bank), the Bank of Mexico, the Banco de Commerco Exterior (Bank of Foreign Trade) and the Banco Nacional Hipotecario (National Mortgage Bank) can borrow in the foreign capital markets. They act on behalf of the various investing agencies in the country.

Foreign Economic Relations 14. Since 1955 Mexico's balance of payments has been positive more often than it has been negative. Reflecting this trend, the foreign exchange and gold reserves have increased by $200 million for the period 1955-62. This increase is attributed to the 1954 devaluation, which caused large surpluses in the balance of payments in 1955 and 1956. In 1959 and 1962 there were also positive balance of payments. It was negative in 1957, 1958 and 1961. The 1961 negative balance has been attributed to the flight of capital from Mexico which was caused by the Government's Mexicanization program. In 1962 the Bank of Mexico reports that Mexico experienced a positive balance of payments of $9 million and that it had foreign exchange and gold reserves totalling $375 million. On account of wide fluctuations in the movements of private capital as well as net errors and omissions in reporting capital movements it is extremely difficult to ascertain the movements of the reserves. Tourist receipts are very important in Mexico's balance of payments, and provide a consistently large net credit.

15. Trade deficits fluctuate widely and erratically, from a low of $23 million in 1955 to $420 million in 1957 and down to $200 million in 1962. The primary cause of these fluctuations have been changes in the export sector of the economy in addition to increased importation of capital goods. These

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trade deficits, that Mexico has been having, have been financed through loans and capital imports. Since 1955 loans drawn have been rising proportionately faster than debt repayment. Between 1959-62 loan drawings have been running between $130 - $170 million more than repayments and in conjunction with the net receipts on account of services and transfers have more than offset the deficits in the balance of trade. The sum-total of these accounts gives a surplus in the balance of payments. In 1961 the large surplus was offset by large outflows of private capital, estimated at more than $150 million. In 1962 the structure of the balance of payments was so strong that even though there were still considerable amounts of capital leaving the country the reserve position of the Bank of Mexico improved.

16. The traditional supplier of Mexico's imports has been the US. In the same respect the US has been the primary buyer of Mexico's exports. Efforts have been made to somewhat change this trading pattern as there is a great imbalance between imports and exports with the US. In 1962 LAFTA was formed. It includes Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru and Uruguay and it is hoped that trade with this area will increase.

17. Canada's exports to Mexico are mostly in the form of newsprint, railway equipment, chemicals and aluminum products. The future of these exports is not too bright. As the Mexican economy expands and production increases in the pulp and paper, chemical and aluminum industries the need for Canadian products will eventually be reduced. If the present pattern prevails, the chemical and aluminum industries will be the first ones to increase their production and thus reduce Canada's market in Mexico. In the long run as the pulp and paper industry expands and the railway expansion program is completed Canada's exports in this area should also be reduced. Most of the import controls in Mexico are in the form of quotas, licenses and taxes.

18. Between 1956 and 1962 drawings and foreign loans quadrupled, rising from approximately $100 million to more than $400 million. In the meantime debt repayments have been increasing at an equally rapid rate but they have been much smaller than the drawings, thus in absolute terms, net indebtedness has increased substantially. The present external debt of Mexico is just over 10% of the GNP. About one-third of the debt is medium to long term debt and one-third is accounted for by short and medium term supplier's credits. Approximately one-seventh of foreign debt is comprised of loans from private financial institutions. Servicing of the foreign debt is managed without difficulty at present and in view of the country's growth possibilities and prospects, it appears that it could make use of increasing amounts of long term loans without much difficulty.

19. At the end of June 1962 IBRD estimated the total external public debt of Mexico to be $1,477 million. This is composed of $17 million of publicly issued bonds, $675 million of privately placed bonds, $165.5 million of IBRD loans, $13.8 million of IADB loans, $318.6 million of various US Government loans, $75.7 million of loans from other governments and $20 million loans incurred in the nationalization program of the extracting industry. The servicing of this debt, as at June 1962, was $254 million or 14.3% of the annual foreign exchange earnings. If no additional debt were undertaken the servicing would drop to 4.1% in 1970, however currently Mexico is increasing rather than decreasing

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its debt. Up to the turn of the 60's Mexico's debt was predominantly composed of medium term loans. The philosophy of the Government in the past few years has changed and Mexico has been seeking and has been obtaining the long term or soft loans. It is the fourth largest borrower from the IBRD, having obtained $439 million.

20. From September 5, 1963 to January 9, 1964 Mexico added $93.7 million to its external public debt. Largest of these loans was $40 million in September from IBRD at 5½%, repayable over 20 years, for construction and improvement of roads. In September there was also a $20 million loan from AID for housing and in January another $20 million loan from IADB for regional development on 20 year terms. In the first six months of 1963 more than $320 million was borrowed. Principal repayments falling due for the year, according to IBRD, were only $161 million, thus net external public debt during the year again increased significantly.

Credit Status 21. In spite of the rapid rise in the magnitude of the public debt since 1957, the economy has thus far shown the capability of carrying this debt under some very trying conditions, particularly in 1961. The political stability of Mexico as well as the sound economic planning which the Government has been carrying on seem to indicate that Mexico is a fair credit risk. Since the economy has proven that it can carry fairly large amounts of debt and since according to past performances, Mexico has shown its willingness and ability to meet its debt obligations, one may surmise that this will continue in the future. The fast rate of economic expansion that the country achieved since the end of World War II can be continued through the sixties by increased borrowing and increased savings. The only pitfalls that one can see are the ones that over-anxious governments create for themselves by over-borrowing and by borrowing for projects that are not of high priority. Past performances substantiate the thought that Mexico is the best credit risk in Latin America. Canada's experience has been good. Total loans advanced to Mexico have been C$57 million. The current balance of these loans is C$53.9 million.

Pulp and Paper Situation 22. Twenty percent of the total land area in Mexico is covered by forests. Mexico's forests include large areas of both coniferous and broadleaved trees species. Conifers represent one-third of the total forest area, of about 97 million acres. They are mostly located in high elevations. Mexican coniferous forests account for more than half of the total growing stock of this type in Latin America. Exploitation of the forests is uneven and is concentrated in a few states, notably the southern part of Durango, Chihuahua and in the proximity of Mexico City. The main destructive agent of the coniferous forest is fire. At present there is an added emphasis in proper forest management practices.

23. From an international viewpoint Mexico has no dearth of pulping materials. Present reserves of conifers are large, while the sugar industry can supply additional quantities of bagasse for pulping. Unfortunately the established mills are not well situated with respect to raw materials, some were even forced to close down because of a lack of local supplies and a lack of economical transportation. There are 19 pulp mills in Mexico out of which 17 are integrated with paper production. Their production covers 14% of the domestic need for

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newsprint and 90% of the domestic need for printing, writing and other paper and board. With the exception of newsprint, Mexico comes close to being self-sufficient in its paper products. Most of the mills in Mexico are small, only 3 out of 19 have a capacity of more than 20,000 long tons annually.

24. Currently, the Fabricas de Papel Tuxtepec (the Government-owned paper company in the State of Oaxaca) is contemplating an expansion and diversification program. This mill is producing newsprint and printing paper. It was built in 1958 and has a capacity of 27,000 LTA. The original cost of the mill was $16 million. The plant expansion will cost approximately $2.5 million and should make the mill more competitive. The added domestic production will cut down paper imports, will increase employment and be an asset to the economy. In addition La Compania Industrial de San Cristobal a new paper mill company which is 49% American owned is interested in purchasing some Canadian machinery. The total cost of this purchase would be approximately $2.5 million and would involve one 132" tissue machine and various other auxiliary equipment. This plant is to be located in the southeast sector of the country in the State of Chiapas in San Cristobal.

Recent Developments 25. In order to stimulate the mining industry and industry in the extremely depressed areas, the Government has passed laws enabling the industrial complexes, the ones in operation and/or the ones that are being developed now, to obtain a freight subsidy for their products, thus making them more competitive. Also, these industries can take advantage of accelerated depreciation rates and various other tax cuts. The automobile industry was exempted from the "Mexicanization" program, but cars sold in Mexico must have a 60% Mexican content. Tariffs on automobile imports were increased substantially and importation of cars whose cost is more than $4,000 is prohibited.

26. Comision Federal de Electricidad is planning to build a new hydro-electric plant in Malpaso. There are four alternatives as to the type of plant they will be building. They vary from three to six turbines. Total Canadian participation in this project could be anywhere from $2.0 to $3.5 million, depending on the size of the plant.

27. The Government is seriously considering expanding the Sonora - Lower California railroad line from Mexicali to B Hill. Canadian participation with this project would be in the form of steel rails costing approximately $2.4 million. Also there is serious thought given in expanding the Chihuahua El Pacifico line from Ojinaga to Ciudad Juarez, across the border from El Paso, Texas. Canadian participation for this project would be in the form of ten 1800 HP diesel locomotives.

Export Finance Division,
Export Credits Insurance Corporation.

/lr,
Rev. February 17, 1964.

INVESTMENT PLAN OF GOVERNMENT AGENCIES AND ENTERPRISES

1962/64 IN COMPARISON WITH 1961

| | Billions of Pesos | | | (%) | |
|---|---|---|---|---|---|
| | 1961 | 1962 | - 1964 | 1961 | 1962/64 |
| Total Public Investment: | 8.7 | 12.7 | 38.1 | 100 | 100 |
| Agriculture: | 0.9 | 2.5 | 7.5 | 10.5 | 19.7 |
| Irrigation | (0.9) | (2.4) | (7.2) | | |
| Other | ( - ) | (0.1) | (0.3) | | |
| Industry: | 2.6 | 3.3 | 10.0 | 29.9 | 26.2 |
| Electricity | (1.0) | (1.5) | (4.6) | | |
| Petroleum | (1.2) | (1.3) | (4.0) | | |
| Other | (0.4) | (0.5) | (1.4) | | |
| Transport & Communications: | 2.8 | 3.7 | 11.1 | 32.2 | 29.2 |
| Roads | (1.1) | (2.0) | (6.1) | | |
| Rail Roads | (1.1) | (1.0) | (3.0) | | |
| Other | (0.6) | (0.7) | (2.0) | | |
| Social: | 1.9 | 3.0 | 8.9 | 21.9 | 23.4 |
| Public Health & Housing | (0.8) | (1.3) | (4.0) | | |
| Education & Research | (0.3) | (0.5) | (1.5) | | |
| Federal Districts | (0.7) | (1.0) | (3.1) | | |
| Other | (0.2) | (0.1) | (0.3) | | |
| Administration & Defense: | 0.2 | 0.2 | 0.6 | 2.3 | 1.5 |
| Unallocated: | 0.3 | - | - | 3.5 | - |

# MEXICO STATISTICAL DATA

## Trade With World and Canada
(millions of Canadian dollars)

| | 1950 | 1958 | 1959 | 1960 | 1961 | 1962 |
|---|---|---|---|---|---|---|
| Exports to world: fob | $ 395 | 713 | 721 | 740 | 837 | 1,002 |
| Imports from world: cif | 421 | 1,096 | 966 | 1,150 | 1,154 | 1,222 |
| Exports to Canada: fob | 33.0 | 32.1 | 34.2 | 21.0 | 18.2 | 24.4 |
| Imports from Canada: fob | 17.8 | 31.6 | 27.6 | 38.0 | 38.5 | 41.3 |

Main exports: (1960-62) Cotton 21%; foodstuffs 25%; lead, copper, zinc and concentrates 9.8%.

Main imports: (1960-62) Raw materials 33%; machinery, equipment and vehicles 32%; durable consumer goods 12%.

Main buyers: U.S. - 72%; Europe - 11%; Japan - 8%.
Main suppliers: U.S. - 73%; Europe - 23%.
Main imports from Canada: (1960-62) (total) Newsprint - $25,230,930; railway equipment - $24,369,782; plastics and synthetic rubber - $19,507,012.

## Balance of Payments
(millions of U.S. dollars)

| | 1950 | 1958 | 1959 | 1960 | 1961 | 1962[a] |
|---|---|---|---|---|---|---|
| Trade, net: | -75.7 | -376.9 | -259.4 | -408.5 | -299.3 | -200.7 |
| Investment income, net: | -76.4 | -142.8 | -154.0 | -171.7 | -188.3 | -208.6 |
| Other invisibles, net: | 183.8 | 318.2 | 367.4 | 400.1 | 410.2 | 464.6 |
| Current account, receipts: | 521.0 | 1,343.0 | 747.2 | 1,499.6 | 1,596.1 | 1,783.8 |
| Current account, balance: | 31.7 | -201.5 | -46.0 | -180.1 | -77.4 | 55.3 |
| Transfer payments, net: | 15.3 | -1.3 | -3.4 | -6.6 | -13.3 | -14.8 |
| Capital & gold account, net: | -66.2 | 272.8 | 91.5 | 219.0 | 339.5 | 181.0 |
| Net credits (+), net debits (-): | -19.2 | 70.0 | 42.1 | 32.3 | 248 | 221.5 |
| Gold & foreign exchange reserve: | 297 | 372 | 413 | 393 | 411 | 375 |

## Domestic Statistics

| | | 1950 | 1958 | 1959 | 1960 | 1961 | 1962 |
|---|---|---|---|---|---|---|---|
| GNP: (In millions of US$) | | | 9,127 | 9,768 | 10,761 | 11,241 | |
| CPI: (base - 1958) | | 53 | 100 | 102 | 108 | 109 | 110 |
| Industrial production: (1958=100) | | | 100 | 108 | 117 | 122 | 127 |
| Govt. revenue: | ) Current | 260.1 | 705.7 | 767.6 | 933.1 | 884.0 | 986.4 |
| b Govt. expenditures: | ) $ U.S. | 250.9 | 782.2 | 806.5 | 969.0 | 884.0 | 986.4 |
| Govt. deficit: | ) million | +9.2 | -76.5 | -38.9 | -35.1 | NIL | NIL |

[a]Provisional data
[b]1961 and 1962 figure estimates


MEXICO
RAILROADS
Existing Railroads
Rehabilitation Projects
Construction Projects
REHABILITATION PROJECTS
1. Chihuahua-Pacific Railroad
2. Sonora-Lower California Railroad
3. Southeastern Railroad
4. United Yucatan Railroad
CONSTRUCTION PROJECTS
5. San Pedro-Creel (Chihuahua-Pacific)
6. Durango-Mazatlán
7. Corondiro-Petacalco
8. México City-Tampico
9. Achotal-Medias Aguas
10. Tuxpan-Guadalupe
11. San Carlos-Villa Acuña
0 100 200 300 400 500 600 KM
UNITED STATES
PACIFIC OCEAN
Gulf of Mexico
Gulf of California
Gulf of Tehuantepec
GUATEMALA
YUCATAN PENINSULA
NORTHERN PLATEAU
CENTRAL PLATEAU
SOUTHERN PLATEAU
SIERRA MADRE OCCIDENTAL
SIERRA MADRE ORIENTAL
LOWER CALIFORNIA
ISTHMUS OF TEHUANTEPEC
SIERRA MADRE CHIAPAS
NATIONAL RAILROADS
MEXICAN RR.
SOUTHERN PACIFIC
MISSOURI PACIFIC
ATCHISON TOPEKA & SANTA FE
MEXICALI
Tijuana
Ensenada
TUCSON
EL PASO
CIUDAD JUAREZ
DALLAS
HOUSTON
GALVESTON
SAN ANTONIO
Pto Peñasco
NOGALES
B. Hill
HERMOSILLO
GUAYMAS
Creel
Ojinaga
CHIHUAHUA
VILLA ACUÑA
San Carlos
PIEDRAS NEGRAS
NUEVO LAREDO
MONTERREY
Matamoros
San Pedro
San Blas
Topolobampo
TORREON
SALTILLO
CULIACAN
LA PAZ
DURANGO
MAZATLAN
ZACATECAS
TAMPICO
AGUAS CALIENTES
S. LUIS POTOSI
TEPIC
Guanajuato
Guadalupe
Tuxpan
GUADALAJARA
QUERETARO
PACHUCA
COLIMA
MORELIA
TOLUCA
MEXICO
PUEBLA
VERACRUZ
Manzanillo
Las Truchas
Petacalco
Pto. Pichi
ACAPULCO
OAXACA
Achotal
Medias Aguas
Coatzacoalcos
VILLAHERMOSA
CAMPECHE
Progreso
MERIDA
Valladolid
Tizimin
Tuxtla
Salina Cruz
Tapachula
Tuxtepec
San Cristobal

MEXICO

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file 38-10-3 Mex

CONFIDENTIAL



RECORD OF CABINET DECISION

Meeting of March 12th, 1964.

Export credits; application for Tuxtepec Paper Mill, Mexico

The Cabinet endorsed the decision of the Cabinet Committee on Trade and Resources that the Export Credits Insurance Corporation be authorized to lend up to U.S. $2.75 million under section 21A of the Export Credits Insurance Act to Fabrices de Papel Tuxtepec S.A., Mexico, on the security of its instrument, for the purchase of paper mill equipment from Parsons and Whittemore Contractors Ltd., Montreal, and related engineering and erection services from Sandwell and Co. Ltd., Vancouver, the loan to be repaid in seventeen consecutive semi-annual instalments beginning March 1st, 1966, with interest at 6 per cent payable semi-annually beginning September 1st, 1964, repayment of the loan and payment of the interest to be guaranteed by Nacional Financiera S.A.

D. J. Leach

D. J. Leach,
Supervisor of Cabinet Documents.

March 16th, 1964.

Economic/J.K.Harris/ir

38-10-3-MEX
6

Confidential

March 16, 1964.

The President,
Export Credits Insurance Corp.

Economic Report on Mexico

The Economic report on Mexico dated February 17 prepared by your Corporation is a very useful document and we are pleased to have a copy of it. In our view the conclusions expressed in it, particularly in paragraph 21, seem quite sound.

There were a number of developments in 1963 which seem not to have been included in the report. Although these developments do not affect the validity of the report's general thesis, some of them might usefully be mentioned in a subsequent report and in this connection the following comments may be of interest to you.

Last year President Lopez Mateos introduced the long-projected laws for profit-sharing by employees and for increased minimum wages in various parts of the country and this might be mentioned in the report. Moreover, some reference should perhaps be made to the fact that last year France offered Mexico a credit of U.S. dollars 150 million. In general, 1963 saw an improvement in Mexico's foreign exchange position as earnings from tourism set a new record and the general strengthening of the economy caused a substantial flow of money into Mexico, some of it old capital returning after the flight of 1960-61 but there were new inflows as well. We understand that Mexican authorities launched a new bond issue on the New York market in July 1963 for U.S. dollars 40 million. There was a record wheat harvest last year and for the first time in Mexican history wheat was exported. There were reports that the Mexican agreement to export wheat to Mainland China may amount to as much as 25 million dollars. The maize harvest will probably set a record also

... 2

and although the cotton crop in the North-East was poor and the expected export figures were not reached, the crops in the rest of the country were good and sold well. 1963 was a good year for coffee and the production of sugar is being increased as rapidly as possible to take advantage of the high world price and rising internal demand in Mexico. Improved prices for lead, zinc and silver permitted some recovery in the depressed mining industry over last year.

(SGD) W. F. STONE
FOR THE
Under-Secretary of State
for Ext

DEPARTMENT OF EXTERNAL AFFAIRS, CANADA Economic/J.G.Harris/mm (FILE COPY)



NUMBERED LETTER

TO: The Canadian Embassy, Mexico

FROM: THE UNDER-SECRETARY OF STATE FOR EXTERNAL AFFAIRS, OTTAWA, CANADA.

Reference:

Subject: Long-Term Export Financing - Tuxtepec Paper Mill Mexico.

Security: CONFIDENTIAL

No: A-57

Date: March 24, 1964

Enclosures:

Air or Surface Mail:

Post File No:

| Ottawa File No. | |
|---|---|
| 38-10-3 Mex | |
| 6 | |

References

ECIC
T&C
Finance

You will wish to know that the Cabinet on March 12 endorsed the decision of the Cabinet Committee on Trade and Resources that the Export Credits Insurance Corporation be authorized to lend up to U.S. $2.73 million under section 21A of the Export Credits Insurance Act to Fabricas de Papel Tuxtepec S.A., Mexico, on the security of its instrument, for the purchase of paper mill equipment from Parsons and Whittemore Contractors Ltd., Montreal, and related engineering and erection services from Sandwell and Co. Ltd., Vancouver. The loan is to be repaid in seventeen consecutive semi-annual instalments beginning March 1st, 1966, with interest at 6 per cent payable semi-annually beginning September 1st, 1964. Repayment of the loan and payment of the interest is to be guaranteed by Nacional Financiera S.A.

(SGD) W. F. STONE
FOR THE

Under-Secretary of State
for External Affairs

Internal Circulation

Latin American Division

38-10-3-MEX
6

# EXPORT CREDITS INSURANCE CORPORATION

INCORPORATED UNDER
THE EXPORT CREDITS INSURANCE ACT

BRANCHES:
MONTREAL
TORONTO

P. O. BOX 655
OTTAWA, CANADA

CABLE ADDRESS
"EXCREDCORP"

PLEASE REFER TO
FILE NO.

CONFIDENTIAL

April 13, 1964.

TO: Mr. V. L. Chapin,
Mr. C. L. Read,
Mr. W. F. Stone,
Mr. G. S. Watts,
Mr. J. D. Miller
Mr. D. Hudon.

T&C: Para 1 of letter to R.G. Robertson should be factual & correct. I don't think we have any particular views one way or another at this stage.

Gentlemen:

As discussed at the meeting of the Committee on Export Finance, held on April 9, in the final round of negotiations with the borrower, Fabricas de Papel, Tuxtepec, S.A., and the engineer, Sandwell and Company, Ltd., it developed that Tuxtepec proposes to make certain purchases of capital equipment from suppliers other than Parsons and Whittemore (Contractors), Limited, and of erection services from suppliers other than Sandwell and Company. To permit this change it becomes necessary for Export Credit Insurance Corporation to request a revised Order in Council. For your information we are enclosing a copy of the letter to be addressed by the Minister of Trade and Commerce to the Clerk of the Privy Council, explaining and requesting the change in Order in Council.

For your further information, we wish to advise you that Tuxtepec has signed commercial agreements with Parsons and Whittemore for a total value of $2,032,000.00 for equipment and with Sandwell for a value of $250,000.00 for engineering supplied for the project. Whereas, it was understood from the outset by E.C.I.C. that supplementary contract arrangements would be entered into by Tuxtepec for the supply of additional equipment, we believed that these purchases would be made through Sandwell and Parsons and Whittemore, respectively, under supplementary agreements.

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BEST COPY AVAILABLE

A detailed list has now been made by Sandwell of the specific additional equipment required and of the suppliers of the erection services. Turtapec prefers, on Sandwell's recommendation, to make these arrangements by direct contract or purchase order with individual suppliers rather than through P & W and Sandwell. Their reasons are that P & W would charge a price loading of at least 10% to make the purchases for Turtapec and also, while some of the additional equipment required is manufactured by affiliates of P & W, it is not the make of equipment desired by Turtapec.

In our estimation it would be undesirable to insist upon Turtapec paying and E.C.I.C. financing a price loading of about $40,000.00 to $50,000.00 which would benefit no one but P & W. There can be no legitimate complaint by P & W because a supply contract for over $2,000,000.00 worth of equipment on which they applied for financing is being fully covered by the Section 21A credit. Sandwell and Company is the Canadian company with which Turtapec is primarily dealing and they, Sandwell, have endorsed the request of Turtapec for this flexibility in purchase arrangements.

Committee members generally seem to believe that the system of having a prime equipment supplier is common under the financing practices of the projects currently being covered by Section 21A credits. Actually, the only case in which we are financing a project under which there is an engineering contract and an equipment supply contract with the prime supplier fully in control of all procurement subject only to the engineering recommendations and general supervision of the engineer, is the Inforsa Paper Mill in Chile. All other projects are variations of this system or departures from the system. The closest parallel is Khulna Paper Mill in Pakistan in which Sandwell, the engineer, basically directs purchasing of all equipment other than that actually supplied by CGE and Dominion Engineering, but directs the purchase orders through CGE. In the CMPC Pulp Mill in Chile, all purchase orders are placed directly by the buyer, subject only to the engineering supervision of Simons. In Rana Partap Sagar in India, Montreal Engineering Company merely acts as a general consultant and co-ordinator for the buyer who has placed individual orders with the equipment suppliers. In the Isolated Power project in Pakistan, Pelletier Engineering is acting as engineer and equipment procurement agent of the buyer. In the Maskelya Oya Power Project in Ceylon, there is an engineering contract with IKA and a supply contract with CGE under which CGE accepts a position of equipment supply co-ordinator for purchase orders placed according to the dictates of Ceylon and consistent with specifications and recommendations of IKA.

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In our estimation the proposed modification in the equipment supply arrangements are neither illogical nor inconsistent with the practices that have been accepted in other projects. We hope that you will be good enough to indicate your concurrence to us with a minimum of delay in order that we may proceed with the submission for the revised Order in Council and the execution of the Financing Agreement.

Yours very truly,

D. C. Taylor,
Export Finance Division.

DCT:wp
Encl.

, April 13, 1964.

Mr. R. G. Robertson,
Clerk of the Privy Council,
Privy Council Office,
East Block,
Ottawa, Ontario.



Dear Mr. Robertson:

Section 21A Export Credits for Tuxtepec Paper Mill - Mexico

Order in Council P.C. 1964-456, dated the 26th day of March, 1964, authorized the Export Credits Insurance Corporation to lend up to $2,750,000 US currency to Fabricas de Papel Tuxtepec, S.A., Mexico City, Mexico, pursuant to Section 21A of the Export Credit Insurance Act for the purchase of engineering services and capital equipment in Canada for the conversion of present pulp and paper mill facilities at Tuxtepec, Mexico.

In the final round of negotiations between the Export Credits Insurance Corporation and representatives of Fabricas de Papel Tuxtepec, S.A., Mexico City, Mexico, and Nacional Financiera, S.A. of Mexico, it developed that the actual purchase arrangements contemplated were not precisely consistent with the terms of the authority to finance the transaction, given to the Export Credits Insurance Corporation in P.C. 1964-456. The present Order in Council stipulates that Export Credits Insurance Corporation may lend up to $2,750,000 US currency in respect to the purchase of capital equipment from Parsons & Whittemore (Contractors) Limited, Montreal Quebec, and engineering and erection services from Sandwell and Company Ltd., Vancouver, British Columbia. The buyer actually contemplates making purchases of capital equipment and erection services from some Canadian suppliers other than Parsons and Whittemore (Contractors) Limited, and Sandwell and Company Limited, up to a total amount of about $450,000 which arrangement is reasonable for the most efficient procurement for and execution of the project.

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"Minister's File"

It is therefore recommended that Order in Council P.C. 1964-456 should be revoked and that a fresh Order in Council authorizing the financing of the Tuxtepec Paper Mill project should be approved in a form as presented in the attached submission. The changes proposed in the revised Order in Council are: (1) provisions for purchases of capital equipment and erection services other than from Parsons and Whittemore (Contractors) Limited and Sandwell and Company Limited, accomplished by the insertion of words "and other Canadian suppliers", (2) adjustment of dates from March 1 and September 1 to May 1 and November 1 to conform to the now expected date of signing of the Financing Agreement of May 1, 1964.

Yours sincerely,

Mitchell Sharp.

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# LIST OF AUXILIARY EQUIPMENT AND SERVICES ANTICIPATED TO BE REQUIRED ON THE TUXTEPEC PROGRAM AS OF APRIL 6, 1964

6

| Item | | Supplier | Amount | Basis |
|---|---|---|---|---|
| Stainless Steel Piping | | Douglas Bros., Montreal | $40,000 | Quotation |
| Nash Vacuum Pump | | General Equipment, Vancouver | 1,500 | " |
| Vacuum Condenser | | General Equipment, Vancouver | 2,570 | " |
| Forming Board Conditioner (Know of no agent in Canada - consider Tuxtepec buying this direct for cash) | | Eastwood Neally, Belleville, N.J. | 7,860 | " |
| Decker Drives | | Morton Engineering, Vancouver | 7,000 | " |
| Fork Lift Truck | | B. C. Conveying, Vancouver | 13,156 | " |
| Engine Lathe | | A. R. Williams, Vancouver | 15,050 | " |
| Lathe Grinder | | A. R. Williams, Vancouver | 835 | " |
| Diesel Loco Trackmobile | | Montreal Locomotive | 20,000 | Estimate |
| | or | C.G.E. | | |
| Spare Main Transformer | | C.G.E. | 70,000 | " |
| | or | Westinghouse | | |
| | or | Ferranti | | |
| | or | Pioneer Electric | | |
| Winder Slitter Drive | | Reliance Electric | 14,000 | " |
| | or | C.G.E. | | |
| | or | Westinghouse | | |
| | or | English Electric | | |
| Machinery Erectors: | | | | |
| Tile Setter | | Stebbins Canada Ltd. | 4,000 | " |
| Immobilize an Expansion Joint | | Hydraulic Services & Equipment, Vanc. | 1,400 | Quotation |
| 4 Erectors-1 on Drive | | Black, Clawson | 12,000 | Estimate |
| 1 on Dryer | | Black, Clawson | 12,000 | " |
| 1 on Wet End | | Black, Clawson | 12,000 | " |
| 1 on Grinders | | Black, Clawson | 12,000 | " |
| 1 Engineer to check ventilation system | | " " | 4,000 | " |
| 1 Inspector on Dryer Drainage (Handle via Sandwell?) | | Stamm Dryer Controls, Inc. | 2,000 | " |

| Item | Supplier | Amount | Basis |
|---|---|---|---|
| Machinery Erectors (Contd.) | | | |
| 1 erector for Grinder Motor and other work 10-12 weeks, 6 days per week and overtime, fare, etc. | C.G.E. | $ 12,000 | Estimate |
| Supplementary to work contracted for - 3 men from Canada, payment in Canadian funds: | | | |
| 1 Instrument Mechanic (including travel & board, etc.) | Sandwell | 18,000 | " |
| 1 Groundwood Superintendent (6 months, including travel, board, etc.) | Sandwell | 11,000 | " |
| 1 Instrument Erector (2 months) | Sandwell | 6,000 | " |
| Second Calender Stack | Dominion Engineering Works or Black, Clawson or John Inglis | 100,000 | " |
| Additional Engineering on Calender Stack, etc. - new ventilation design | Sandwell | 24,000 | " |
| Freight and Handling - Carriers (estimated in Mexico last week on rought estimate of weights and rates) | | 25,000 | " |
| | | $447,371 | |

HRH:dm
April 10, 1964

# NEWS RELEASE

TRADE PUBLICITY BRANCH

## DEPARTMENT OF TRADE AND COMMERCE

OTTAWA CANADA

40/64

FOR IMMEDIATE RELEASE

OTTAWA, May 12, 1964 -- The Hon. Mitchell Sharp, Minister of Trade and Commerce, announced today that a loan has been made to Mexico for the purchase in Canada of pulp and paper mill machinery and engineering services totalling **$2.97 million.**

The Export Credits Insurance Corporation will make the loan to Fabricas de Papel Tuxtepec, S.A., Mexico City, under the Canadian Government's long term export financing facilities. Repayment of the loan will be made in 17 semi-annual instalments beginning in March, 1966.

The money will be used to cover the foreign exchange costs of a project involving the modification and diversification of existing newsprint and book paper production facilities of a paper mill built at Tuxtepec, Mexico, in 1958.

The prime contractor for the project is Parsons & Whittemore (Contractors) Ltd., Montreal. Engineering and erection services will be supplied by Sandwell and Company Limited, Vancouver, who also performed the engineering for the original mill. It is estimated that the supply of goods and services will create employment in Canada totalling 400,000 man-hours. Black Clawson-Kennedy Limited, Owen Sound, Ontario, the main equipment supplier, says the order will enable them to create 50 new jobs in their plant.

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The total value of contracts negotiated by the Export Credits Insurance Corporation under the Government's long term financing program now stands at $187 million.

Present at a signing ceremony held today in the House of Commons office of the Hon. Mitchell Sharp were: His Excellency E. Rafael Urdaneta, Mexican Ambassador to Canada; J. Ortizmena of Fabricas de Papel Tuxtepec, S.A., Mexico City; M. Valladares of Nacional Financiera, S.A., Mexico; J.R. Aitken and H.L. Nathan, Parsons & Whittemore (Contractors) Ltd., Montreal; Col. R.E. Wilkins, Sandwell and Company Limited, Vancouver; and H.T. Aitken and D.C. Taylor of the Export Credits Insurance Corporation.

- 30 -

ACTION COPY

38-10-3-MEX
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FM WASHDC JUN1/64 CONFD

TO ECIC OTT(BROWN)1963 PRIORITY DE OTT

INFO TANDC OTT PRIORITY

BAG MEXICO

TO: Mr Harris
JUN 2 1964
REGISTRY

REFOURTELECON JUN1

RAILS FOR MEXICO

WE HAVE CHECKED INFORMALLY WITH THE WORLD BANK RE THE RESTRICTIVE PROVISION IN THE 1954 LOAN TO PACIFICO RAILWAY MEXICO.OFFICIAL WITH WHOM WE SPOKE FELT CERTAIN WORLD BANK WOULD VIEW FAVOURABLY A REQUEST FROM PACIFICO RAILWAY FOR A WAIVER OF THE PROVISIONS OF SECTION5.03 OF THE LOAN AGREEMENT PROHIBITING THE INCURRENCE OF FURTHER DEBTS OF OVER ONE YEARS DURATION.PACIFICO SHOULD WRITE TO WORLD BANK MAKING A FORMAL REQUEST FOR APPROVAL OF THIS LOAN AND INCLUDE DETAILS OF THE CONTRACT LOAN TERMS ETC.REQUEST SHOULD BE ADDRESSED TO THE WORLD BANK AND NOT RPT NOT TO ANY SPECIFIC OFFICIAL.AUTHORITY TO WAIVE PROVISIONS OF PAST LOANS CAN BE GRANTED THROUGH OFFICE OF DIRECTOR OF OPERATIONS WESTERN HEMISPHERE.*****

file 38-10-3 Mexico

Mr Stone
Mr Harris
thanks

Confidential

38-10-3-MEX
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This relates to ECIC credit re DOSCO for rails to Mexico (something more than $3 million). This item was one suggestion from Minister - it did not go up from Export Finance cttee. Apparently the Bonaventure is prohibited under terms of 1954 IBRD loan from borrowing. The object is to obtain a waiver from the IBRD & ECIC tell me this looks possible & contract can probably be proceeded with.

38-10-3-MEX

FM WASHDC JUN1/64 CONFD

TO ECIC OTT(BROWN)1963 PRIORITY DE OTT

INFO TANDC OTT PRIORITY

BAG MEXICO

REFOURTELECON JUN1

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# MEMORANDUM

**From THE OFFICE OF**
**THE SECRETARY OF STATE FOR EXTERNAL AFFAIRS**

CONFIDENTIAL

June 15 1964

**To** Economic Division

38-10-3-MEX
61

Application for Long-Term Export Financing - Mexico

Re: Your memorandum of March 2nd

The Cabinet item related to the attached memorandum was dealt with by Cabinet on March 12th and the memorandum is returned to you herewith for file.

M.N. Bow

Mr Parker
Note form of our memos which follow a standard pattern

SEEN BY THE MINISTER

in Cabinet March #12

6.

CONFIDENTIAL

March 2, 1964.

MEMORANDUM FOR THE MINISTER

Application for Long-Term Export Financing - Mexico

We attach a copy of a Memorandum to Cabinet dated February 20, which the Minister of Trade and Commerce plans to present to Cabinet this week. The Memorandum deals with an application by Sandwell and Company Limited of Vancouver and Parsons & Whittemore Contractors of Montreal for long-term export financing in the amount of \$2.75 million (U.S.) for the equipment and services required to enable a newsprint mill in Mexico to produce paper for use in the free text-book programme of the Mexican Department of Public Education. This application has been thoroughly considered by the Committee on Export Finance, and we recommend that you support it.

N. A. R.

P. M.



2.3.52(45)

MINISTERS OFFICE

MAR 3 1964

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THIS DOCUMENT IS THE PROPERTY OF THE GOVERNMENT OF CANADA

CONFIDENTIAL

February 20, 1964

MEMORANDUM TO THE CABINET

Application for Export Financing
By Sandwell and Company Limited, Vancouver, B.C.,
and Parsons & Whittemore Contractors Ltd., Montreal, P.Q.,
Under Section 21A of the Export Credits Insurance Act

1. An application for long term export financing has been submitted to Export Credits Insurance Corporation by Sandwell and Company Limited, Vancouver, B.C., as project engineer and Parsons & Whittemore Contractors Ltd., Montreal, Quebec, as equipment supplier to cover the export sale of Canadian engineering and erection services and paper mill equipment to Fabricas de Papel Tuxtepec, S.A., Mexico. These services and equipment are to be used in the conversion and expansion of present newsprint production facilities of the Tuxtepec Mill to include the production of book and rotogravure paper to be used exclusively by the Department of Public Education to meet the requirements of the free textbook programme for schools in Mexico. The overall cost of the conversion project will be about US$6.4 million. The total amount of Canadian financing required would be US$2.75 million. Repayment would be in 17 semi-annual instalments commencing 2 years from date of contract. Interest would be at 6% per annum.

2. Fabricas de Papel Tuxtepec, S.A. was incorporated in Mexico in 1954 and purchased its original mill equipment from Parsons & Whittemore Inc., New York, the parent company of Parsons & Whittemore Contractors Ltd., with plant engineering being supplied by Sandwell and Company Limited. As of September 1963, the Government of Mexico became full owner of Fabricas de Papel Tuxtepec, S.A., thereby guaranteeing the market for total book and rotogravure paper production from the Tuxtepec Mill.

3. The required Canadian financing of US$2,750,000 will be used to purchase equipment valued at US$1.2 million from Black Clawson-Kennedy Limited, Owen Sound, Ontario, the Canadian subsidiary of The Black-Clawson Company (Inc.), Hamilton, Ohio, affiliated with Parsons & Whittemore Inc., New York; additional equipment valued at US$700,000 will be purchased from other Canadian suppliers; the remaining funds will be used to purchase Canadian engineering and erection services from Sandwell and Company Limited and to pay freight on the equipment to Vera Cruz, Mexico.

4. The overall credit term of 10 years, including 2 years grace, is in keeping with the terms of current international financing for projects in Mexico and is consistent with the amortization possibilities of the project. Payment of principal and interest on the promissory notes to be issued by Fabricas de Papel Tuxtepec, S.A. will be guaranteed by Nacional Financiera, S.A.

5. The equipment will have a Canadian content of not less than 80 per cent and the engineering and erection services will have 100 per cent Canadian content. The Canadian employment effects of this contract would be the equivalent of up to 200 man/years or about 400,000 man-hours. The equipment portion of the contract will create some 50 new job opportunities in the Black Clawson-Kennedy Limited plant in Owen Sound and will contribute to the efficient operation, diversification and expansion of this heavy machinery manufacturing plant.

6. Political stability and a sound development programme are continuing to strengthen Mexico's economy. Unlike most other Latin American nations, Mexico has shown a steady growth pattern and a manageable balance of payments situation. The attached economic report confirms that Mexico is the best credit risk in Latin America. Payments of principal amounting to US$2.7 million and of interest amounting to US$1,051,692 on outstanding Section 21A financing have been prompt.

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7. The Committee on Export Finance has reviewed this application and recommends that Section 21A financing be approved for the Tuxtepec Paper Mill conversion project, notwithstanding the Corporation's outstanding Section 21A commitments in Mexico of US$49.4 million. Since US$34.3 million of this total relates to the financing of steel rails, it is the opinion of the Committee that commitments of up to $25 million in Mexico for capital equipment purchases other than rails would not be excessive.

8. I am of the opinion that Export Credits Insurance Corporation should be authorized under Section 21A of the Export Credits Insurance Act to lend Fabricas de Papel Tuxtepec, S.A., up to US$2,750,000 on the security of instruments to be given by it in respect of its purchase, for export from Canada, of paper mill equipment from Parsons & Whittemore Contractors Ltd., Montreal, and related engineering and erection services from Sandwell and Company Limited, Vancouver; the said loan to be repaid in 17 consecutive semi-annual instalments, the first of which will become payable on March 1, 1966, with interest at 6 per cent per annum on the principal amount outstanding from time to time, payable semi-annually, the first payment thereof to be made on September 1, 1964; repayment of the said loan and payment of interest thereon to be guaranteed by Nacional Financiera, S.A.

OTTAWA

Minister of Trade and Commerce.

38-10-3-MEX

TO: B. Ven
JAN 27 1965
REGISTRY

FM ECIC OTT JAN26/65 CONFD

TO TT TANDC MEXICO TC680 DE WASHDC

INF TANDC OTT(PYBUS)

EXTERNAL OTT(BARKER)DE TANDC OTT

TT FINANCE OTT(READ)BOFC(WATTS)DE OTT

BLACKWOOD DE TAYLOR

DOSCO

PRELIMINARY APPLICATION ALREADY RECEIVED FROM DOSCO FOR FINANCING NEW RAIL BUSINESS WITH NATIONAL RAILWAYS.WE UNDERSTAND DOSCO ARE WORKING HARD FOR AN EARLY DECISION AND LET OF INTENT FROM MEXICO. IT WILL BE RECALLED THAT YOUR OFFICE PROMISED TO CHECK OUT THE EXACT CREDIT TERMS GIVEN BY JAPANESE ON RECENT SALE OF RAILS TO MEXICO AND ECIC IS ANXIOUS TO HAVE THIS FACTUAL INFO WHEN PROCESSING THE DOSCO APPLICATION.

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EXPORT CREDITS INSURANCE CORPORATION
SOCIÉTÉ D'ASSURANCE DES CRÉDITS À L'EXPORTATION

BRANCHES:
SUCCURSALES:
MONTREAL
TORONTO

P. O. BOX • 655 • CASE POSTALE
OTTAWA 4, CANADA

CABLE ADDRESS
CÂBLE-ADRESSE
EXCREDCORP

CONFIDENTIAL

March 17, 1965.

38-10-3-MEX
40 | RV | 40

To: Mr. D. Hudon,
Mr. J. R. Barker,
Mr. W. G. Pybus.

Gentlemen:

Re: Memorandum to Ministers
DOSCO - Mexico

Enclosed are four copies of a Memorandum to Ministers requesting guidance in connection with the application for Section 21A financing in the amount of US$10 million from Dominion Steel & Coal Corporation, for their proposed sale of steel rails to Mexican National Railways. This Memorandum has been drafted to reflect the points raised by respective departmental members of the Committee on Export Finance, and the specific ideas agreed upon in the drafting session dealing with the first draft of such a Memorandum.

It would be desirable to have this Memorandum placed before Ministers at the earliest possible time. ECIC would appreciate being advised promptly of Ministerial decisions when reached.

Yours very truly,

EXPORT CREDITS INSURANCE CORPORATION

D. C. Taylor,
Manager,
Export Finance Division.

Enc.
DCT/cmr.

MEMORANDUM TO MINISTERS CONFIDENTIAL

EXPORT CREDITS INSURANCE CORPORATION
Section 21A Financing

Dominion Steel and Coal Corporation Limited
Sale of Steel Rails and Track Accessories to the
Mexican National Railways

1. Ministerial guidance is requested in connection with an application received by the Export Credits Insurance Corporation from Dominion Steel & Coal Corporation Limited (DOSCO), for long term export financing under Section 21A of the Export Credits Insurance Act in the amount of $10 million, U.S. currency, to cover the sale and export from Canada of steel rails and track accessories to Ferrocarriles Nacionales de Mexico (Mexican National Railways), on credit terms of seven years with repayment in 13 semi-annual instalments commencing one year after date of contract. This application covers the sale of 56,200 tons of rails plus steel tie plates to be delivered during 1965, and represents the first year of a new five year sales arrangement between DOSCO and Mexican National Railways of rails and accessories to a total value of US$50 million.

2. Since 1954 DOSCO has been selling rails to Mexico regularly in large volume. The various transactions were:

   1954 - US$28.5 million to Ferrocarril del Pacifico, S.A. de C.V. under World Bank financing on 15 year terms.

   1959 - Ministers reluctantly approved insurance under Section 21 for US$12.5 million, part of a US$50 million four year sales arrangement with Mexican National Railways, on seven year terms. At that time Section 21A financing facilities did not exist.

   1961 - Ministers approved Section 21A long term financing for a sale of US$12.5 million on seven year terms, a further part of the US$50 million order.

   1963 - Long term financing for the US$25 million balance of the US$50 million order was approved on seven year terms.

   1964 - A sale of US$2.4 million to Secretaria de Comunicationes y Transportes was covered by export credits insurance under Section 21 on four year terms.

   1964 - Ministers approved Section 21A financing for a sale of US$2.79 million on six year terms to Ferrocarril del Pacifico S.A. de C. V.

3. On November 28, 1963 when Cabinet gave approval in principle to this last listed transaction with Ferrocarril del Pacifico, ECIC was instructed to inform DOSCO that "they must be prepared in future to accept the normal five-year limitation in transactions of this sort". This advice was passed on to DOSCO by ECIC in a letter dated December 6, 1963.

4. The DOSCO application has been carefully studied by ECIC and reviewed by the Committee on Export Finance. It was agreed that while no recommendation could properly be made to Cabinet in view of the Cabinet directive of November 28, 1963, the following considerations should be noted for Ministerial attention:

   i) Steel rails are not considered to be capital goods within the meaning of Section 21A and, accordingly, would normally not be considered as eligible for

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long term export financing, although they are durable goods with a life of up to 50 years, and do become part of the fixed assets of the railway. Consistent with accepted international credit practice, ECIC has always taken the position that export sales of steel rails should be confined to credit terms within the area of medium term suppliers' credits, up to five years maximum for large orders. The only countries other than Canada known to have exceeded the five years maximum are the United States and Japan. Under Export-Import Bank loans to Mexico for railway rehabilitation on 10 year credit terms the inclusion of some steel rails has been permitted in the past and evidently could be again. The Japanese have recently concluded a sale of steel rails to Mexico, amounting to about US$3.5 million on seven year terms, including some financing of local costs.

ii) ECIC's exposure in Mexico totals Can.$68.5 million, of which $60.4 million represents Section 21A loans. This constitutes a substantial commitment for a single country. However, the credit rating of Mexico is good and its repayment record is excellent. Accordingly, the risk element in such a high exposure in this country need not give rise to concern.

iii) Exports of rails by DOSCO to Mexico represent $41.6 million of the Section 21A exposure, and $2.1 million of the outstanding liabilities under insured suppliers-credits. However, substantial repayments are being received on earlier rail shipments (see attached schedule) and rise significantly this year and through subsequent years, leading to a situation where by 1967 repayments on previous rail orders will more than match the annual value of proposed new shipments over coming years.

iv) The main trade promotion benefit is that by each successive contract DOSCO tends to entrench its position as the supplier of steel rails to Mexican National Railways. However, some officials have expressed reservations on the trade promotion benefits to be derived from the DOSCO rail transactions with Mexico. The relatively high level of Section 21A financing outstanding in Mexico limits the amount of new commitments that may be made to that country. Considering that the major share of financing thus far committed is for steel rails, it might be more advantageous from a Canadian point of view to apply any additional Section 21A financing available for Mexico to other types of transactions or other projects which would be more effective in producing continuing Canadian trade with Mexico by demonstrating Canadian competence and competitiveness in supplying heavy capital equipment.

v) The Sydney operations of DOSCO are relatively unprofitable according to the judgment of experts in the Department of Industry, due to poor location in relation to the Canadian market, obsolescent plant, costly raw material sources and limited product lines which consist mainly of billets and rails. It is asserted that this steel mill cannot exist on domestic orders alone, particularly since the more favourably situated Algoma mill could satisfy total domestic demand for steel rails. Acceleration of attrition of the Sydney mill would undoubtedly lead to serious economic hardship and grave social consequences in Cape Breton where labour mobility is stubbornly low. This $10 million order would directly ensure employment for 835 men in the rolling mill and 277 men in the coal mines for a period of six to seven months. The future for the DOSCO steel mill and coal

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mines in Cape Breton is obscure, but it is evident that the Company plans to continue this operation for some years and, for the economic well-being of the Atlantic provinces, it would seem to be desirable that DOSCO should continue these operations at least until other new industries are introduced. It would not appear that export demand for steel rails is either widespread or growing, suggesting that trade development opportunities are not very great. However, the rail export business is regarded as essential to the continuing operations of the steel mill, and DOSCO has proved its competitive ability in world markets for rails. In 1963 DOSCO sold $8 million of rails to India under World Bank financing but this market is probably now lost with the opening of a new steel mill in India manufacturing steel rails. If DOSCO is to maintain any substantial export volume in rails, the Mexican market is an important factor.

Export Finance Division,

March 16, 1965.

EXPORT CREDITS INSURANCE CORPORATION

CONFIDENTIAL

EXPORT CREDITS INSURANCE CORPORATION

Schedule of Maximum Exposure in Mexico (Sections 14, 21 and 21A)
Including Proposed Sale of Rails by DOSCO of U.S.$10 million Per Annum for Five Years

| | DOSCO - Rails Sec. 21 Insurance | | | DOSCO - Rails Sec. 21A Financing | | | DOSCO - | Other | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | Amount | Repayments | Outstanding | Amount | Repayments | Outstanding | Total Sec. 21 & Sec. 21A | Sec. 21A Financing Outstanding | Total U.S.$ Sec. 21 & 21A Outstanding | Equiv. Can.$ Sec. 21 & 21A Outstanding | Sec. 14 Med. Term Outstanding | Sec. 14 Short Term Estimate | Total Can.$ Exposure |
| 1960 | 15.3 | | 15.3 | | | | 15.3 | | 15.3 | 16.5 | | 1.0 | 17.5 |
| 1961 | | 1.9 | 13.4 | 11.9 | | 11.9 | 25.3 | | 25.3 | 27.4 | .3 | 1.0 | 28.7 |
| 1962 | | 2.4 | 11.0 | | .4 | 11.5 | 22.5 | | 22.5 | 24.3 | 3.0 | 1.0 | 28.3 |
| 1963 | | 2.3 | 2.5 | 8.7* | 1.8 | 42.4 | 44.9 | 15.0 | 59.9 | 64.8 | 4.4 | 1.0 | 70.2 |
| | 2.5 | | | 24.0 | | | | | | | | | |
| 1964 | | | 2.5 | 2.8 | 4.0 | 41.2 | 43.7 | 17.7 | 61.4 | 66.4 | 5.1 | 1.0 | 72.5 |
| 1965 | | .9 | 1.6 | 10.0 | 7.6 | 43.6 | 45.2 | 16.1 | 61.3 | 66.3 | 3.8 | 1.0 | 71.1 |
| 1966 | | .8 | .8 | 10.0 | 9.3 | 44.3 | 45.1 | 14.1 | 59.2 | 64.0 | 2.5 | 1.1 | 67.6 |
| 1967 | | .8 | -0- | 10.0 | 10.7 | 43.6 | 43.6 | 12.1 | 55.7 | 60.2 | 1.4 | 1.1 | 62.7 |
| 1968 | | | | 10.0 | 10.7 | 42.9 | 42.9 | 10.1 | 53.0 | 57.3 | .3 | 1.2 | 58.8 |
| 1969 | | | | 10.0 | 11.2 | 41.7 | 41.7 | 8.1 | 49.8 | 53.8 | .1 | 1.2 | 55.1 |
| 1970 | | | | | 11.3 | 30.4 | 30.4 | 6.1 | 36.5 | 39.5 | -0- | 1.3 | 40.8 |
| 1971 | | | | | 9.0 | 21.4 | 21.4 | 4.1 | 25.5 | 27.6 | | 1.4 | 29.0 |
| 1972 | | | | | 7.1 | 14.3 | 14.3 | 2.2 | 16.5 | 17.8 | | 1.4 | 19.2 |
| 1973 | | | | | 5.7 | 8.6 | 8.6 | .2 | 8.8 | 9.5 | | 1.5 | 11.0 |
| 1974 | | | | | 4.3 | 4.3 | 4.3 | | 4.3 | 4.6 | | 1.5 | 6.1 |
| 1975 | | | | | 2.9 | 1.4 | 1.4 | | 1.4 | 1.5 | | 1.6 | 3.1 |
| 1976 | | | | | 1.4 | -0- | | | | | | | |

* Represents balance of 1960 insured shipment transferred under Section 21A guarantee.

Section 21 exposure includes interest payments.

Section 21A does not include interest and there is additional exposure to the extent that interest payments have been guaranteed to EFC.

March 15, 1965.

38-10-3-MEX

40 | | —

CONFIDENTIAL

Copies sent For Ext. Dispatches

SEEN BY THE MINISTER

~~March 19, 1965~~

Att Barther & file

MEMORANDUM FOR THE MINISTER

Don Taylor informed of Minister's concurrence on 23/3/65

Dominion Steel and Coal Corporation
Limited Sale of Steel Rails and Track
Accessories to the Mexican National Railways

Attached is a copy of an ECIC Memorandum, dated March 16, asking for Ministerial guidance on a DOSCO request for long-term (seven years) export financing under Section 21A of the Export Credits Insurance Act in the amount of U.S. $10 million for the sale of steel rails and accessories to Mexico.

2. This proposal does not appear to meet the "trade promotion" criteria usually applied in consideration of requests for 21A financing and, as you know, steel rails have not been regarded as normally eligible for Section 21A financing although Ministers have, on several occasions in the past, authorized financing of DOSCO sales of rails to Mexico. The last time such authorization was given, Cabinet instructed ECIC to inform DOSCO that they must be prepared in future to finance on the "normal" five-year terms customary for steel rails. ECIC has been advised that DOSCO discovered that terms less than seven years were not acceptable to the Mexicans and it is for this reason that the present application for seven-year financing is made despite Cabinet's views. The Japanese (possibly as a result of the Canadian precedents) have recently financed a sale of steel rails to Mexico (about U.S. $3.5 million worth) on seven-year terms including some financing of local costs and there have been ten-year EX-IM Bank loans to Mexico for railway rehabilitation projects which included a steel rails component. The total of Canadian financing exposure in Mexico is not excessive at present, although the DOSCO component of the total does appear to be unduly large in the circumstances.

3. There appear to be domestic economic and social considerations of some weight in favour of acceding to DOSCO's request on this occasion, especially the generation of some 1,112 jobs in Sydney (which is a "designated area") for six or seven months. These considerations are outlined on page 2, section (v) of the attached Memorandum.

4. I understand that the Minister of Trade and Commerce has agreed to recommend this proposal to Cabinet and Mr. Gordon's concurrence is also being sought. Do you concur?

Yes, I do. P.M.

M. C.



19.3.72(45)

**EXPORT CREDITS INSURANCE CORPORATION**
**SOCIÉTÉ D'ASSURANCE DES CRÉDITS À L'EXPORTATION**

BRANCHES:
SUCCURSALES:
MONTREAL
TORONTO

P. O. BOX • 655 • CASE POSTALE
OTTAWA 4, CANADA

CABLE ADDRESS
CÂBLE-ADRESSE
EXCREDCORP

CONFIDENTIAL

March 18, 1965.

To: Mr. L. D. Hudon,
Mr. J. R. Barker,
Mr. W. G. Pybus.

Gentlemen:

Re: Memorandum to Ministers
DOSCO - Mexico

Enclosed are four new copies of the Memorandum to Ministers on DOSCO's proposed sale of steel rails to Mexico. The new Memorandum contains only one change, being in the third line of page 2, reflecting the suggestion of Trade and Commerce, which was acceptable to Finance.

Yours very truly,

EXPORT CREDITS INSURANCE CORPORATION

D. C. Taylor
per CNR

D. C. Taylor,
Manager,
Export Finance Division.

Enc.
DCT/cnr.

MEMORANDUM TO MINISTERS CONFIDENTIAL

EXPORT CREDITS INSURANCE CORPORATION
Section 21A Financing

Dominion Steel and Coal Corporation Limited
Sale of Steel Rails and Track Accessories to the
Mexican National Railways

1. Ministerial guidance is requested in connection with an application received by the Export Credits Insurance Corporation from Dominion Steel & Coal Corporation Limited (DOSCO), for long term export financing under Section 21A of the Export Credits Insurance Act in the amount of $10 million, U.S. currency, to cover the sale and export from Canada of steel rails and track accessories to Ferrocarriles Nacionales de Mexico (Mexican National Railways), on credit terms of seven years with repayment in 13 semi-annual instalments commencing one year after date of contract. This application covers the sale of 56,200 tons of rails plus steel tie plates to be delivered during 1965, and represents the first year of a new five year sales arrangement between DOSCO and Mexican National Railways of rails and accessories to a total value of US$50 million.

2. Since 1954 DOSCO has been selling rails to Mexico regularly in large volume. The various transactions were:

1954 - US$28.5 million to Ferrocarril del Pacifico, S.A. de C.V. under World Bank financing on 15 year terms.

1959 - Ministers reluctantly approved insurance under Section 21 for US$12.5 million, part of a US$50 million four year sales arrangement with Mexican National Railways, on seven year terms. At that time Section 21A financing facilities did not exist.

1961 - Ministers approved Section 21A long term financing for a sale of US$12.5 million on seven year terms, a further part of the US$50 million order.

1963 - Long term financing for the US$25 million balance of the US$50 million order was approved on seven year terms.

1964 - A sale of US$2.4 million to Secretaria de Comunicationes y Transportes was covered by export credits insurance under Section 21 on four year terms.

1964 - Ministers approved Section 21A financing for a sale of US$2.79 million on six year terms to Ferrocarril del Pacifico S.A. de C. V.

3. On November 28, 1963 when Cabinet gave approval in principle to this last listed transaction with Ferrocarril del Pacifico, ECIC was instructed to inform DOSCO that "they must be prepared in future to accept the normal five-year limitation in transactions of this sort". This advice was passed on to DOSCO by ECIC in a letter dated December 6, 1963.

4. The DOSCO application has been carefully studied by ECIC and reviewed by the Committee on Export Finance. It was agreed that while no recommendation could properly be made to Cabinet in view of the Cabinet directive of November 28, 1963, the following considerations should be noted for Ministerial attention:

i) Steel rails are not considered to be capital goods within the meaning of Section 21A and, accordingly, would normally not be considered as eligible for

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long term export financing, although they are durable goods with a life of up to 50 years, and do become part of the fixed assets of the railway. Consistent with the accepted practice of Berne Union members, ECIC has always taken the position that export sales of steel rails should be confined to credit terms within the area of medium term suppliers' credits, up to five years maximum for large orders. The only countries other than Canada known to have exceeded the five years maximum are the United States and Japan. Under Export-Import Bank loans to Mexico for railway rehabilitation on 10 year credit terms the inclusion of some steel rails has been permitted in the past and evidently could be again. The Japanese have recently concluded a sale of steel rails to Mexico, amounting to about US$3.5 million on seven year terms, including some financing of local costs.

ii) ECIC's exposure in Mexico totals Can.$68.5 million, of which $60.4 million represents Section 21A loans. This constitutes a substantial commitment for a single country. However, the credit rating of Mexico is good and its repayment record is excellent. Accordingly, the risk element in such a high exposure in this country need not give rise to concern.

iii) Exports of rails by DOSCO to Mexico represent $41.6 million of the Section 21A exposure, and $2.1 million of the outstanding liabilities under insured suppliers' credits. However, substantial repayments are being received on earlier rail shipments (see attached schedule) and rise significantly this year and through subsequent years, leading to a situation where by 1967 repayments on previous rail orders will more than match the annual value of proposed new shipments over coming years.

iv) The main trade promotion benefit is that by each successive contract DOSCO tends to entrench its position as the supplier of steel rails to Mexican National Railways. However, some officials have expressed reservations on the trade promotion benefits to be derived from the DOSCO rail transactions with Mexico. The relatively high level of Section 21A financing outstanding in Mexico limits the amount of new commitments that may be made to that country. Considering that the major share of financing thus far committed is for steel rails, it might be more advantageous from a Canadian point of view to apply any additional Section 21A financing available for Mexico to other types of transactions or other projects which would be more effective in producing continuing Canadian trade with Mexico by demonstrating Canadian competence and competitiveness in supplying heavy capital equipment.

v) The Sydney operations of DOSCO are relatively unprofitable according to the judgment of experts in the Department of Industry, due to poor location in relation to the Canadian market, obsolescent plant, costly raw material sources and limited product lines which consist mainly of billets and rails. It is asserted that this steel mill cannot exist on domestic orders alone, particularly since the more favourably situated Algoma mill could satisfy total domestic demand for steel rails. Acceleration of attrition of the Sydney mill would undoubtedly lead to serious economic hardship and grave social consequences in Cape Breton where labour mobility is stubbornly low. This $10 million order would directly ensure employment for 835 men in the rolling mill and 277 men in the coal mines for a period of six to seven months. The future for the DOSCO steel mill and coal

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mines in Cape Breton is obscure, but it is evident that the Company plans to continue this operation for some years and, for the economic well-being of the Atlantic provinces, it would seem to be desirable that DOSCO should continue these operations at least until other new industries are introduced. It would not appear that export demand for steel rails is either widespread or growing, suggesting that trade development opportunities are not very great. However, the rail export business is regarded as essential to the continuing operations of the steel mill, and DOSCO has proved its competitive ability in world markets for rails. In 1963 DOSCO sold $8 million of rails to India under World Bank financing but this market is probably now lost with the opening of a new steel mill in India manufacturing steel rails. If DOSCO is to maintain any substantial export volume in rails, the Mexican market is an important factor.

Export Finance Division,

March 16, 1965.

EXPORT CREDITS INSURANCE CORPORATION

CONFIDENTIAL

# EXPORT CREDITS INSURANCE CORPORATION

## Schedule of Maximum Exposure in Mexico (Sections 14, 21 and 21A) Including Proposed Sale of Rails by DOSCO of US$10 million Per Annum for Five Years

| | DOSCO - Rails Sec. 21 Insurance | | | DOSCO - Rails Sec. 21A Financing | | | DOSCO - Total Sec. 21 & Sec. 21A | Other Sec. 21A Financing Outstanding | Total U.S.$ Sec. 21 & 21A Outstanding | Equiv. Can.$ Sec. 21 & 21A Outstanding | Sec. 14 Med. Term Outstanding | Sec. 14 Short Term Estimate | Total Can.$ Exposure |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | Amount | Repayments | Outstanding | Amount | Repayments | Outstanding | | | | | | | |
| 1960 | 15.3 | | 15.3 | | | | 15.3 | | 15.3 | 16.5 | | 1.0 | 17.5 |
| 1961 | | 1.9 | 13.4 | 11.9 | | 11.9 | 25.3 | | 25.3 | 27.4 | .3 | 1.0 | 28.7 |
| 1962 | | 2.4 | 11.0 | | .4 | 11.5 | 22.5 | | 22.5 | 24.3 | 3.0 | 1.0 | 28.3 |
| 1963 | | 2.3 | 2.5 | 8.7* | 1.8 | 42.4 | 44.9 | 15.0 | 59.9 | 64.8 | 4.4 | 1.0 | 70.2 |
| | 2.5 | | | 24.0 | | | | | | | | | |
| 1964 | | | 2.5 | 2.8 | 4.0 | 41.2 | 43.7 | 17.7 | 61.4 | 66.4 | 5.1 | 1.0 | 72.5 |
| 1965 | | .9 | 1.6 | 10.0 | 7.6 | 43.6 | 45.2 | 16.1 | 61.3 | 66.3 | 3.8 | 1.0 | 71.1 |
| 1966 | | .8 | .8 | 10.0 | 9.3 | 44.3 | 45.1 | 14.1 | 59.2 | 64.0 | 2.5 | 1.1 | 67.6 |
| 1967 | | .8 | -0- | 10.0 | 10.7 | 43.6 | 43.6 | 12.1 | 55.7 | 60.2 | 1.4 | 1.1 | 62.7 |
| 1968 | | | | 10.0 | 10.7 | 42.9 | 42.9 | 10.1 | 53.0 | 57.3 | .3 | 1.2 | 58.8 |
| 1969 | | | | 10.0 | 11.2 | 41.7 | 41.7 | 8.1 | 49.8 | 53.8 | .1 | 1.2 | 55.1 |
| 1970 | | | | | 11.3 | 30.4 | 30.4 | 6.1 | 36.5 | 39.5 | -0- | 1.3 | 40.8 |
| 1971 | | | | | 9.0 | 21.4 | 21.4 | 4.1 | 25.5 | 27.6 | | 1.4 | 29.0 |
| 1972 | | | | | 7.1 | 14.3 | 14.3 | 2.2 | 16.5 | 17.8 | | 1.4 | 19.2 |
| 1973 | | | | | 5.7 | 8.6 | 8.6 | .2 | 8.8 | 9.5 | | 1.5 | 11.0 |
| 1974 | | | | | 4.3 | 4.3 | 4.3 | | 4.3 | 4.6 | | 1.5 | 6.1 |
| 1975 | | | | | 2.9 | 1.4 | 1.4 | | 1.4 | 1.5 | | 1.6 | 3.1 |
| 1976 | | | | | 1.4 | -0- | | | | | | | |

*Represents balance of 1960 insured shipment transferred under Section 21A guarantee.

Section 21 exposure includes interest payments.

Section 21A does not include interest and there is additional exposure to the extent that interest payments have been guaranteed to EFC.

March 18, 1965.

THIS DOCUMENT IS THE PROPERTY OF THE GOVERNMENT OF CANADA

CONFIDENTIAL

March 30, 1965

MEMORANDUM TO THE CABINET

Export Financing
Dominion Steel and Coal Corporation, Limited
Steel Rails and Track Accessories - Mexico

1. An application has been received by Export Credits Insurance Corporation from Dominion Steel and Coal Corporation, Limited (DOSCO), for long term export financing under Section 21A of the Export Credits Insurance Act in the amount of $10 million, U.S. currency, to cover the sale and export from Canada of steel rails and track accessories to Ferrocarriles Nacionales de Mexico, on credit terms of 7 years with repayment in 13 semi-annual instalments commencing one year after the signing of a Financing Agreement. This application covers deliveries for the first year of a new five year sales arrangement between DOSCO and Ferrocarriles Nacionales de Mexico for rails and accessories to a total value of US$50 million.

2. Ferrocarriles Nacionales de Mexico is a government agency responsible for the management of the Mexican railways. Railway rehabilitation is considered by the Government to be essential to the progress and development of Mexico and has enjoyed high priority for the past 10 to 12 years. It has been supported by a series of rehabilitation loans from the Eximbank to a total of US$171.86 million on 12 year credit terms.

3. Steel rails are not considered to be capital goods within the meaning of Section 21A and would normally not be considered eligible for long term financing, as DOSCO was advised by ECIC on instructions from Cabinet in November 1963. The only countries other than Canada known to have exceeded 5 year terms for rails are the United States and very recently Japan, both to Mexico.

4. ECIC's exposure in Mexico totals Can.$68.5 million, of which Can.$60.4 million represents Section 21A loans and Can.$8.1 million represents insured suppliers' credits. Exports of rails by DOSCO to Mexico account for Can.$41.6 million of this Section 21A exposure and Can.$2.1 million of insured suppliers' credits. However, substantial repayments under Section 21A are being received on earlier rail shipments, leading to a situation where, by 1967, repayments on previous rail orders will more than match the annual value of proposed new shipments.

5. The main trade promotion benefit is that by each successive order DOSCO tends to consolidate its position as the supplier of rails to Mexico. However, it might be considered more advantageous to concentrate available financing for Mexico on other types of projects involving equipment more effective in promoting continuing trade.

6. DOSCO's Sydney operations are of considerable regional economic and social importance, although the steel mill is poorly situated for the Canadian market and relatively unprofitable because of obsolescent plant and limited product lines. The future of these operations is obscure but probably may be maintained until other new industries are introduced in the region if the rail export business continues. This US$10 million order would directly ensure employment for 835 men in the rolling mill and 277 men in the coal mines for a period of six to seven months in the Cape Breton area.

7. The Canadian content of rails and track accessories supplied by DOSCO under this order ex plant Sydney would be about 90%.

8. Promissory Notes issued by Ferrocarriles Nacionales de Mexico will be fully guaranteed as to dollar payment of principal and interest by Nacional Financiera S. A.

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9. The Committee on Export Finance reviewed this application and referred it to Ministers for guidance, despite the normal ineligibility of steel rails for Section 21A financing and other adverse considerations noted above, in view of the advantages of this business for DOSCO and the Sydney area.

10. I am of the opinion that Export Credits Insurance Corporation should be authorized under Section 21A of the Export Credits Insurance Act to provide financing not in excess of $10 million in U.S. currency in connection with the sale and export from Canada of steel rails and track accessories by Dominion Steel and Coal Corporation, Limited, to Ferrocarriles Nacionales de Mexico; the said financing to be repayable in 13 semi-annual instalments commencing one year after ECIC's signing of a Financing Agreement, with interest at 6% per annum on the principal amount outstanding payable semi-annually commencing 6 months following the date of the signing of the Financing Agreement and with payment of principal and interest to be guaranteed by Nacional Financiera S. A.; provided that prior to June 30, 1965 final contracts for the supply and export of the said equipment have been entered into between Dominion Steel and Coal Corporation, Limited and Ferrocarriles Nacionales de Mexico.

OTTAWA

Minister of Trade and Commerce

38-10-3-MEX

CONFIDENTIAL

NOTICE OF REJECTION BY ECIC

PRELIMINARY PROPOSAL BY ALCAN INTERNATIONAL LIMITED

POWER TRANSMISSION CABLE - MEXICO

On April 15, 1965, Alcan International Limited wrote to ECIC requesting Section 21A financing of about Can.$11 million on about 12 year terms to cover the export sale of ASCR "Bluejay" steel cored aluminum power transmission cable to Comision Federal de Electricidad, Mexico. Production of this cable would involve the fabrication of 14,500 tons of aluminum ingot and the drawing of 3,000 tons of steel wire.

CFE would use the cable to transport power to Mexico City from the new Malpaso hydro project, the generating portion of which was financed by the World Bank through allocation of about US$5 million out of their 1962 loan to CFE of US$130 million. Terms of the 1962 loan are 23 years including 2 1/2 years grace.

While the World Bank has been approached by CFE regarding the financing of this cable, the importer also is seeking financing from alternate sources. Tenders closed on May 4, 1965.

Because of the recent decision of the Committee regarding the eligibility of various capital equipment items, Alcan were advised that power transmission cable was not considered to be eligible for Section 21A financing. They were advised also that Mexico currently has received substantial Section 21A financing and that it would be particularly difficult for ECIC to recommend that exceptional consideration should be given to the provision of financing for this proposal.

Export Finance Division

EXPORT CREDITS INSURANCE CORPORATION

IBB:jw
May 10, 1965.

CONFIDENTIAL

38-16-3-MEX
36

EXPORT CREDITS INSURANCE CORPORATION

MEMORANDUM TO THE COMMITTEE ON EXPORT FINANCE

JOINT FINANCING WITH WORLD BANK
- MEXICO -

During the week that I was in Washington for the Annual Meetings of the World Bank and Monetary Fund, I was approached by officials of the World Bank who wished to discuss the possibilities of Canada participating under Section 21A with the World Bank on joint financing of large projects. Officials of the World Bank have very recently been discussing the possibilities of joint financing with the main European creditor nations and discovered that certain difficulties exist under the financing arrangements of most of these countries due to the dependence on a guarantee or extended insurance system involving commercial bank financing and a 10% exporter participation.

Mr. Orvis Schmith and Mr. Roger Nelson were the two World Bank officials who discussed the matter with me. Surprisingly enough they were not familiar with the mechanism of long term financing under Section 21A. They were delighted to discover that the Canadian system of project financing on conventional terms is, as they describe it, like the Export-Import Bank or like a little World Bank. When they learnt that we in Canada undertake sensible project appraisal and are interested in the real economic requirements of borrowing countries and project priorities, not just facilitating the export sale of Canadian equipment, they were delighted. They were equally pleased to learn that the terms of lending were quite compatible with what the World Bank itself might undertake in many cases, and that ECIC enters into a direct loan agreement with the foreign borrower.

The World Bank is exploring the possibilities of organizing joint financing for larger projects, such as the Niger Dams. Some of these projects require a larger volume of financing than the World Bank can reasonably commit out of its own resources if it is to spread its involvement effectively. Bank officials believe that joint financing can be done with national agencies in a way that successfully avoids the disadvantages of tied loans if commitments for any particular large projects can be obtained from several creditor countries and the normal World Bank requirement for competitive bidding preserved.

I indicated that in principle I believed Canada would be quite willing to participate in joint financing ventures since the Canadian Government had no particular desire to support export sales of capital equipment that were not realistically and competitively priced. I suggested that sales of overpriced equipment would not be good for the welfare of the recipient country and would not in the long run be good for Canada because they would not build continuing export markets for Canadian equipment.

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The immediate project under consideration by the World Bank for such joint financing is a second phase of national power development in Mexico. The Bank earlier financed one phase of national power development in Mexico in an amount over $100 million. This second phase would also run over $100 million and involve possibly four or five individual power generation and distribution projects. Tentatively it was agreed that Canada would be receptive to the idea of committing an initial amount of $5 million participation in the Mexican power programme on credit terms of about 15 years at 6% interest on the understanding that only business won on competitive bids by Canadian suppliers would come to Canada and that if it proved that Canadian suppliers could successfully win a large volume of business the initial $5 million might subsequently be increased.

Obviously these discussions were not regarded as a firm commitment of Section 21A financing and it was realized that more detailed discussions would have to be undertaken at a later date in order to work out the precise conditions governing Canadian participation.

If this experiment in joint financing proves successful the World Bank hopes to use the same technique fairly regularly whenever the circumstances are appropriate.

D. C. Taylor,
Manager,
Export Finance Division.

October 12, 1965.
DCT/cnr.

EXPORT CREDITS INSURANCE CORPORATION

38-10-3-MEX
36

Summary of Mexico Power Sector Project

1. The project consists of the installation of new generating, transmission and distribution facilities, as well as a program of rural electrification and the first phase of the conversion of the only 50-cycle system to a frequency of 60 cycles (in the Mexico City area and the surrounding area). It includes the completion of construction of generating plants under way, the building of important transmission lines and associated substations and the expansion of distribution networks in the principal cities of Mexico. The project is a continuation of the program for which the World Bank made a loan of $130 million in 1962 to assist in financing costs through February 1965.

2. Total cost of the project is of the order of $300 million, of which about half is being financed by Mexico from its own internal sources. The Bank has estimated the external financing appropriate to the project to be of the order of $150 million. The Bank has substantially completed negotiations with the Mexican Government for a loan of $110 million, and has determined the size of its loan in the expectation that Mexico will obtain the remainder of the external financing from the countries which will be the major suppliers of equipment for the program. The borrowers are to be Nacional Financiera and the Comision Federal de Electricidad. The proposed Bank loan is to be presented to the Bank's Executive Directors for consideration at a meeting in early December.

3. Attached is a list indicating the major types and approximate amounts of equipment which will be procured by Mexico on the basis of international competitive bidding for use for the power project. Items in the first category (having a value of about $20 million) must be procured abroad as they are not produced in Mexico. The second category consists of items which Mexican industry is capable of manufacturing but for which orders will be placed on the basis of international competitive bidding. Past experience would indicate that a large part of these items is likely to be procured abroad. The total value of items in the second category is substantially more than $100 million.

November 12, 1965

# MEXICAN POWER PROJECT

## ESTIMATE OF PURCHASES OF EQUIPMENT, 1965 AND 1966

### I. EQUIPMENT NOT MANUFACTURED IN MEXICO

| ITEM | QUANTITY | APPROXIMATE PRICE US$ |
|---|---|---|
| 400 kv Transformers | 850 MVA | 1,750,000 |
| 400 kv Breakers | 30 ea. | 1,500,000 |
| 220 kv Reactors | 150 MVA | 300,000 |
| 220 kv Transformers | 900 MVA | 1,800,000 |
| 260 kv Breakers | 10 ea. | 400,000 |
| 150 kv Transformers | 100 MVA | 200,000 |
| 161 & 115 kv Breakers | 160 ea. | 2,250,000 |
| Insulators | 600,000 ea. | 1,200,000 |
| Trans. Line Wood Towers | 3,700 ea. | 500,000 |
| Trans. & Distrib. Hardware | | 2,000,000 |
| Carrier Communications Equipment | | 2,000,000 |
| Diesel Generators | 15 MW | 1,500,000 |
| Malpaso Turbines (Mitsubishi)* | 4 - 180 MW | 2,800,000 |
| Malpaso Generators (ASEA)* | 4 - 218 MVA | 2,900,000 |

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### II. EQUIPMENT WHICH MIGHT BE PROCURED EITHER IN MEXICO OR ABROAD

| ITEM | QUANTITY |
|---|---|
| Transformers 161, 115, 69 kv | 2020 MVA |
| Circuit Breakers L.V. | 245 ea. |
| Steel Towers & Structures | 56,700 Tons |
| Cable (ACSR) | 28,200 Tons |
| Cable (Copper) | 9,800 Tons |
| Cable (Steel) | 4,500 Tons |
| Wood Poles (Mostly from USA) | 320,000 ea. |
| Distribution Transformers | 490 MVA |
| Watt Hour Meters | 370,000 ea. |

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In addition, large quantities of:

- Lightning Arresters
- Disconnect Switches
- Control Panels
- Capacitor Banks
- And other items

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*Bidding already completed.

November 12, 1965

CONFIDENTIAL

# EXPORT CREDITS INSURANCE CORPORATION

## MEMORANDUM TO THE COMMITTEE ON EXPORT FINANCE

APPLICATION FOR SECTION 21A FINANCING

IN PARTICIPATION WITH WORLD BANK

AND OTHERS FOR MEXICO POWER SECTOR PROJECT

## SUMMARY

It has been proposed to Canada by the World Bank and by Mexico that a Section 21A participation loan of up to $10 million should be committed on terms of 20 years including four years grace period on principal repayments, or the best possible under Canadian facilities, to cover equipment procurement in Canada for the very large Mexican Power Sector Project being supported by $110 million of World Bank financing.

The project consists of the installation of new generating, transmission and distribution facilities, as well as a programme of rural electrification and the first phase of the conversion of the only 50-cycle system to a frequency of 60 cycles (in the Mexico City area and the surrounding area). It includes the completion of construction of generating plants under way, the building of important transmission lines and associated substations and the expansion of distribution networks in the principal cities of Mexico. The project is a continuation of the programme for which the World Bank made a loan of $130 million in 1962 to assist in financing costs through February 1965.

Total cost of the project is of the order of $300 million, of which about half is being financed by Mexico from its own internal sources. The Bank has estimated the external financing appropriate to the project to be of the order of $150 million. The Bank has substantially completed negotiations with the Mexican Government for a loan of $110 million, and has determined the size of its loan in the expectation that Mexico will obtain the remainder of the external financing from the countries which will be the major suppliers of equipment for the programme. The borrowers are to be Nacional Financiera and the Comision Federal de Electricidad. The proposed Bank loan is to be presented to the Bank's Executive Directors for consideration at a meeting in early December.

## DESCRIPTION OF THE PROPOSED WORLD BANK LOAN

The main characteristics of the proposed loan would be as follows:

| | |
|---|---|
| Borrower | Comision Federal de Electricidad, a public agency charged with the development of electric power in Mexico; and Nacional Financiera, S. A., a financial agency of the Mexican Government which, under the existing Mexican legislation, has to be the borrower or co-borrower of Bank loans. |
| Guarantor | The United Mexican States |
| Amount | The equivalent in various currencies of $110 million. |
| Purpose | To help finance the 1965-1966 power expansion programme. |

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| | |
|---|---|
| Amortization | 20 years: with no repayments during the first 4 years; semi-annual instalments beginning November 1, 1969, to retire the loan on November 1, 1985. |
| Interest Rate | $5\frac{1}{2}$% per annum. |
| Commitment Charge | 3/8 of 1%. |

DESCRIPTION OF PROJECT

The project is the expansion programme of the Mexican Power Sector for the two-year period 1965 and 1966. It includes not only the programme of the Comision, but also that of Industrial Electrica Mexicana S. A. de C.V. (IEMSA), an affiliate of the Comision, and that of Compania de Luz y Fuerza del Centro (Centro), the principal operating subsidiary of Mexlight. The Comision is the Mexican agency with overall responsibility for power development in Mexico and its affiliate IEMSA is one of the country's two major power distributing agencies. The head of the Comision also represents the Board of Directors of Centro in its policy direction. The loan would be made to the Comision, with portions to be used by IEMSA and Centro for parts of the project. The Comision has been effectively carrying out the power expansion programme, for which Loan 316 was made, and is now improving the coordination of the entire Power Sector. During the recent negotiations an understanding was reached regarding steps to be taken by the Comision to increase the efficiency and productivity of the Power Sector, with particular attention to the planning and operations of Centro.

The project consists of the installation of new generating, transmission and distribution facilities, as well as a programme of rural electrification and the first phase of the conversion of the only 50-cycle system to a frequency of 60 cycles. It includes the completion of construction of generating plants under way, the building of important transmission lines and associated substations and the expansion of distribution networks in the principal cities of Mexico. The project is focused mainly on expanding transmission and distribution facilities to meet the rapidly rising power demand in Mexico and make possible more effective use of generating facilities. During the negotiations an understanding was reached regarding selective increases in rates through the Power Consumption Tax, the proceeds of which are retained by the Comision. These additional revenues are expected to result in a rate of return of about 8% on net fixed assets in operation.

The total cost of the project is about $300 million, of which about half is being financed by Mexico from its own internal sources. A special feature of the financing arrangements is that the proposed external financing of $145 million would be provided jointly by a Bank loan and by credits from other sources. Preliminary discussions with various governments and private lending institutions indicate that at least $35 million of the external financing should be obtainable from sources other than the

../3

Bank. The recommended Bank loan of $110 million has accordingly been determined in the expectation that Mexico will obtain the remainder of the external financing from countries which will be the major suppliers of equipment for the programme.

The Government of Mexico has agreed that financing from other sources under the "joint financing" arrangement will be used only for goods in the project and, in the case of equipment, will be used only to finance procurement under contracts awarded under the same international competitive bidding arrangements as the Bank loan. Of the total proposed Bank loan, about $89 million would be for the procurement of equipment under international competitive bidding, both abroad and in Mexico within the limits of a 15% maximum preferential margin for Mexican firms, as was authorized in the case of the previous power loan to Mexico. About $14.5 million would be for the estimated foreign exchange component of civil works and the balance for interest during construction, consulting services, training, testing and special equipment.

SPECIAL FEATURES OF WORLD BANK LOAN AGREEMENT

The provisions of the Loan Agreement conform to the general pattern of loan agreements for similar projects. Special features are:

(a) Withdrawals in excess of $40 million (the estimated maximum reimbursement for 1965 expenditures) are not authorized until the borrowers have furnished to the Bank satisfactory evidence that actions have been taken to assure an 8% rate of return in 1966 (Section 2.04); the rate covenant, as well as the usual debt limitation, will apply to the Power Sector as a whole.

(b) The borrowers agree to make their best efforts to obtain and utilize for the project from financial institutions outside Mexico loans totalling not less than $35 million on terms satisfactory to the Bank, the borrowers, and the guarantor (Section 5.15). The amortization schedule on the Bank loan will be revised insofar as practicable, without extending the total term of the loan, so that payments of principal on the Bank loans plus payments of principal on other loans under the "joint financing" arrangement would equal the payments on principal which would have been necessary if the full amount of this external financing had been provided by the Bank (Section 2.10); and

(c) A condition of effectiveness of the Loan Agreement is that subsidiary agreements have been reached by the borrowers with Centro and IEMSA on parts of the project to be carried out by them (Section 7.01).

../4

CANADIAN PARTICIPATION

The letters exchanged between the President of the International Bank (Nov. 15) and the Canadian Minister of Finance (copies attached as Appendices 1 and 2) represent the formal Bank approach to Canada to participate in the Mexican electrification programme loan, after outlining the characteristics of the plan, and Canada's formal response expressing willingness in principle to participate, while urging the desirability of establishing a formula linking the spending of the Canadian funds committed with some spending of World Bank funds for Canadian procurement.

Prior to this exchange of letters, exploratory talks were held between World Bank officials and ECIC and other Canadian officials. The Bank was pleased to learn precisely the nature of Canadian financing facilities and to obtain a forthcoming reaction. European facilities had already been explored, and while interest was shown in participating the Bank officials report that the majority could only offer a form of long term, guaranteed suppliers' credits involving complications over the 10/15% supplier engagement.

During the week of November 15, ECIC officials visited Mexico and had direct talks, in company with the Canadian Commercial Counsellor, and the Canadian Embassador for the meeting with the Mexican Finance Minister, with senior Mexican officials of Nacional Financiera and Comision Federal de Electricidad concerning the electrification programme and possible Canadian participation. The trip was very rewarding because it clarified the nature of Canadian Section 21A financing and the extent of Canada's commitments to date in Mexico. A wealth of goodwill was solidified and there is no doubt that Canada would gain an immeasurable increase of goodwill and commercial advantage by taking a leading position in respect to the Bank loan plan for Mexico. If Canada is prepared to commit on pari-passu terms with World Bank, except for interest rate, and no local expenditure financing which limitations are understood by Nacional Financiera, regardless of European terms, Mexican officials volunteered to give some competitive preference to Canadian procurement. We also established an understanding about early and continuous liaison through the Canadian Commercial Counsellor so Canadian suppliers could be given maximum opportunity to bid on all foreign requirements for the programme.

A list of the equipment requirements for the electrification programme which can be supplied from Canada, and which CFE officials have indicated as being slated for procurement in Canada, is attached as Appendix 3.

COUNTRY CREDITWORTHINESS

Appendix 4 is a reproduction of the Bank's economic report submitted to its Board of Executive Directors in connection with the Mexican loan proposal. It is a very favourable report that gives confidence in the conclusion that Mexico is not dangerously overly extended on foreign debt.

../5

## CONCLUSIONS

1) The World Bank initiative to financing large projects and programmes is a sound approach to international joint financing that should be encouraged by active Canadian participation. Canada could gain by becoming better known in the developing countries and by compelling Canadian suppliers to become increasingly competitive.

2) The reservations expressed in the Finance Minister's letter about committing Canadian loan funds without a formula tying in some spending of Bank funds in Canada are sensible and desirable. However, the Bank protests that such a formula would be difficult to operate because all participants would demand the same treatment, it would be administratively cumbersome and would limit the possibilities of bringing together the required level of loan funds if all participants made conditional commitments. Canada should investigate each programme or project, and based on a best assessment of procurement possibilities, determine its proper level of participation, seeking always the prospect of more orders placed than 21A funds committed to achieve the same ends as the formula approach, without requiring a fixed margin of advantage. This would create a more favourable impression in the eyes of borrowers.

3) The Mexican project is interesting and promising enough to attract Canadian participation. There would appear to be assured business of $3.7 million and strong possibilities of $5/6 million more. Thus by committing $5 million, Canada could win $8/9 million of business, plus considerable credit with a future trade-in value.

4) Effective participation recommends the most liberal terms commensurate with Section 21A facilities and Canadian interest in the particular country. Whenever possible Canada should strive to match the terms of credit granted by the Bank for its loans, rather than hang back with those participants extending the shortest credit terms. In the Mexican case it would be advantageous to match the 20 years including four years grace granted by the World Bank.

## RECOMMENDATIONS

It is recommended that the Committee should approve a Section 21A participation loan for the Mexican electrification programme of U.S.$5 million on 20 years credit, with 33 repayments commencing after four years grace period.

D. C. Taylor,
Manager,
Export Finance Division.

December 6, 1965.
DCT/cnr.

EXPORT CREDITS INSURANCE CORPORATION



APPENDIX 3 TO FOLLOW.

APPENDIX 1

November 15, 1965

The Honorable
Walter L. Gordon
Minister of Finance
Department of Finance
Ottawa, Ontario, Canada

Dear Mr. Minister:

Within the last few months members of the Bank's staff have held informal discussions with officials of the governments and key financial institutions of the principal capital-exporting countries about possible arrangements for them to join with us in financing some of the larger projects in the developing countries. The plan discussed would make possible a greater aggregate flow of funds to the developing countries on a basis which would ensure their efficient use for financing projects of high priority and would increase opportunities for exports of capital goods.

Officials with whom these discussions were held reacted favorably to the plan, the principal characteristics of which are as follows:

(a) The Bank would select and appraise the project, which would have to conform to our normal standards, and would provide a substantial amount of the external financing for it.

(b) The equipment and services to be imported for the project would be procured on the basis of international competitive bidding in accordance with the practices usually followed for World Bank projects.

(c) Financial institutions (either public or private or a combination of both) would join with the Bank in financing the project. Where possible the Bank would prefer that funds so lent would be available for procurement in any member country. However, the discussions to date have indicated that at present institutions in most countries generally finance capital goods and services procured only within their respective countries (plus some contribution toward the local costs of installation).

(d) Those joining with us would come as close as possible to the rate of interest and length of term of financing provided by the Bank.

(e) In order to ensure that the total financial plan which emerges is appropriate to the project and the financial position of the borrower, the Bank would be prepared to adjust the amortization schedule of its loan to the schedules of those who join with the Bank in financing the project so that annual amortization payments required of the borrower would be reasonably approximate to those which the borrower would have made if the entire amount had been provided by the World Bank.

I am pleased to inform you that negotiations are now well advanced for a loan from the Bank to Mexico to assist in financing a very high-priority project being carried out by the Federal Electricity Commission and associated enterprises in the power sector. The project is suitable for external financing of the order of $150 million, most of which will be used for the purchase of equipment through international competitive bidding, and appears to provide an excellent basis for putting into practice the joint-financing arrangements described above. We have accordingly agreed with Mexico to make a sizeable reduction in the size of our loan in the expectation that Mexico will be able to obtain additional external financing in the countries likely to be important suppliers of equipment for the project. Representatives of the Government of Mexico intend soon to be in touch with appropriate officials and financial institutions of your country for this purpose.

I am attaching for your information a brief description of the project and the equipment to be procured and expect soon to send you the detailed report on the project and the borrower which will be presented to our Executive Directors in connection with our loan. Because of the importance and soundness of the project and the creditworthiness of Mexico, I am happy to request that your Government favorably consider giving such authorization as may be needed to permit appropriate institutions in your country to join with us in financing this project on the basis described herein. I am writing in similar vein to the Governors of other countries which are expected to be major suppliers of equipment for the Mexican power sector.

Should you have any questions about the foregoing do not hesitate to raise them with us, either directly or through your representative on our Board of Executive Directors, to whom I am sending a copy of this letter. When the appropriate financial institutions of your country have completed negotiations with the Mexican Government, we would appreciate being informed of the outcome in order that we may prepare a statement which could be issued by the participating institutions, the Mexican Government and this Bank describing the arrangements made for jointly financing this important project.

Sincerely,

George D. Woods

Attachment

MT/ST #39 fws

DRAFT

Department of Finance
November 25, 1965.

LDH/val

Mr. George D. Woods,
President,
International Bank for Reconstruction
and Development,
1818 H Street, N.W.,
Washington, D.C. 20433.

Dear Mr. Woods:

Thank you for your letter of November 15, 1965, in which you outlined proposals for having the principal industrialized countries join the IBRD in financing some of the larger projects in the developing countries.

I am happy to say that we find the proposals most interesting and welcome the initiative which you have taken. Should your endeavours prove successful, I am sure that all participants would benefit.

Canada would be prepared, in principle, to participate in the plan. We have funds available under Section 21-A of the Export Credits Insurance Act. Under this Section of the Act, we can extend long-term loans directly to developing countries. The average maturity of the loans extended so far are in the neighbourhood of 15 years but in some cases the maturities have been as long as 20 years. The rate of interest charged on the loans is at present 6 per cent. It is equal to the cost to the government of raising long-term funds plus an appropriate administrative charge. The purpose of Section 21-A is to finance the export of Canadian capital goods and associated services and any funds made available would, of course, have to conform to this objective.

While we are well disposed towards the joint financing of projects with the Bank there is nevertheless a serious practical difficulty which we would have to overcome before

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we could definitely commit ourselves. As you know, Canada is the sixth largest subscriber to the capital of the IBRD and the fifth largest contributor to the replenishment of IDA's resources. The value of the business obtained by Canadian firms under projects financed by the World Bank Group and more particularly by the IDA is relatively small and proportionately smaller than our subscription to the IBRD and our contribution to IDA. This situation arises in part from the structure of the Canadian economy and from the type of project financed by the World Bank Group. The World Bank Group confines itself with few exceptions to financing development projects requiring for the most part highly manufactured goods. Canada has an efficient secondary manufacturing industry and while this industry is expanding, it nevertheless remains that our main international competitive strength lies in the field of unprocessed or semi-processed primary products. If the Bank were to engage more extensively than hitherto in making programme loans, the value of World Bank Group financed purchases made in Canada would probably increase. Loans of this type might help to meet some of the more urgent development needs of some member countries. The Bank has recognized this in the case of India and Pakistan. It might well examine whether other countries would not also benefit from similar loans.

In any event, Canada is in terms of the government's contributions probably one of the largest net contributors to the World Bank Group if account is taken of the relative economic size of Part I countries. Under the circumstances it would be difficult for us to justify to ourselves, to the business community and to the public at

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large, participation in a plan under which we would agree to finance from our own funds all orders placed in Canada for goods and services which otherwise would have been financed by the World Bank Group. In these circumstances, it seems to us that the basis on which we could participate in the plan as outlined in your letter would be for Canada and the World Bank Group to agree on some formula under which only a percentage of the orders placed in Canada on the basis of international competitive bidding would be financed with Canadian funds and the remainder would be financed with IBRD funds.

I would appreciate it if you would give serious consideration to this suggestion taking into account the factors outlined above. I understand that Mr. Denis Hudon will be in Washington at the beginning of next month and he would be prepared, if you wish, to discuss this matter further with you or with your representatives at that time.

Yours sincerely,

# MEMORANDUM ON RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS IN MEXICO

## Introduction

1. In July 1964 the report of a mission which had made a comprehensive appraisal of Mexico's development program and prospects (WH-137a) was submitted to the Board. The report gave particular attention to the activities of the public sector and to a public investment program for 1964-1965, and made some tentative projections until 1970. Early in 1965, shortly after the present Government had taken office, another Bank mission visited Mexico to review with the authorities the more recent developments and the intentions of the new Government, and to modify, where appropriate in the light of this review, the conclusions of the previous mission (WH-147). The new Government indicated at that time that it had begun work on a new public sector program covering the years of its constitutional period of office, i.e., ending in 1970. Current indications are that the broad outlines of this program may be completed early in 1966, and it is intended to review it carefully with the help of the Mexican authorities once the structure of public expenditures and their financing has been decided upon by the Government.

2. The present memorandum is therefore of an interim nature, and is intended to update some of the information and judgements contained in WH-137a and in WH-147. Its chief conclusion is that the judgements expressed in WH-137a regarding the basic flexibility and strength of the Mexican economy, the feasibility of a long-term growth rate of 6 percent, and Mexico's creditworthiness for substantial external borrowing, remain valid. Regarding the events of 1964 - a steep expansion in public investments, financed largely by short- and medium-term foreign borrowing and by recourse to the Central Bank - the conclusion of WH-147, that these events were of an extraordinary and non-recurring nature, also remains valid. During 1965 a major contraction of public investment activities occurred. Among the most important questions that will have to be answered in the course of the forthcoming program review is whether the domestic savings mobilized for the public sector will be sufficient to permit a recovery of public investment to levels that adequately meet Mexico's development needs.

## Output and Employment

3. Between 1950 and 1964 the Mexican economy underwent a process of rapid and continuing structural transformation. GNP grew at an average annual rate of 6.1 percent; after some deceleration in the early sixties, the growth rate exceeded 10 percent in 1964 and is expected to be between 6.0 and 6.5 percent in 1965. A continuation of the expansion over the next five or ten years at an annual rate of around 6 percent is well within the capacity of the economy; if foreign markets develop favorably, an even higher rate might be attained provided that average productivity continues to rise at its 1950-64 pace, and the ratio of the labor force to population does not decline from its present level of about 32 percent. Both population and labor force have been

growing at a steadily increasing rate; their future growth rate is estimated at about 3.6 percent and thus poses both a challenge and an opportunity inasmuch as during the next ten years some 6 million new persons will be entering the labor force, as against some 4 million during the preceding decade.

4. At the beginning of the sixties Mexico's urban population for the first time exceeded 50 percent of the total. While 20 years earlier the rural inhabitants had been about two-thirds of the population, by 1975 this proportion is likely to have shrunk to little more than one-third. These changes are the combined result of internal migrations and of the lower mortality rate in urban areas; the rural population is expected to expand at about 1.7 percent per annum, as against 4.8 percent for the urban areas.

5. This change in population distribution has been both a cause and a consequence of changing composition of the economy's output. Agriculture, livestock, forestry and fisheries in 1950 accounted for over one-fifth of gross domestic product; in 1964 the corresponding figure was little more than 15 percent, while the shares of manufacturing, construction, electricity production and sundry service activities rose correspondingly. Manufacturing production has been particularly dynamic. Aided by a large and growing domestic market, by a sizable inflow of direct foreign investment and by the active promotional policy of the official credit institutions, the long-term growth rate of this sector has been of the order of 7.5 percent per year, reaching almost 14 percent in 1964 and over 9 percent in the first half of 1965. Another leading sector has been the generation of electricity which during the past 14 years grew at an annual average rate of 9.5 percent and which is expected to increase at about the same rate during the next five years, although the foreseeable additions to industrial demand make an even higher growth rate likely until 1967.

Recent Monetary and Fiscal Trends

6. One of the more remarkable features of Mexico's development in recent years has been that it has occurred in a framework of reasonable price stability. Although between 1960 and 1964 (end of year figures) the money supply expanded by 65 percent - or 13.3 percent annually - wholesale prices (yearly averages) rose by only 7.5 percent, i.e., about 1.8 percent per year. Several causes account for this, particularly the monetization of the subsistence sector, the high marginal savings coefficient of the private sector, and a combination of Government policies among which moral suasion, administered imports and some direct price controls stand out. Only in 1964, when the very high growth rate put unusual pressure on available resources, did prices rise by more than 5 percent; during the first half of 1965 only negligible further increases occurred, while the money supply fell almost 5 percent. The Mexican authorities are keenly aware of the close relation between domestic prices and the balance of payments and have expressed their intention to continue to follow a monetary policy which takes this relation into account.

7. Although the private sector produces about 90 percent of Mexico's output of goods and services, the public sector plays an important role in the country's development, accounting during 1962-1964 on the average for about 44 percent of gross domestic investment. During the early sixties, when private

investment - both domestic and foreign - was lagging, capital expenditures in the public sector were used as a partial offset. The private investment boom of 1964 happened to coincide with further increases in public investments which rose from between Mex$ 12 and 13 billion in 1963 to about 16 billion in 1964. However, during the first half of 1965, while private investments continued high, the public sector retrenched deliberately. For the full year its real investments may not be greater than in 1960-1962, i.e., between Mex$ 9.5 and 10.5 billion, although cash outlays for capital purposes will be substantially higher because of the payments of bills to suppliers and contractors for the previous year's works. The overall financial picture for 1965 is by no means clear yet; it appears likely, however, that public sector savings on current account will decline. This probable reduction originates mainly in the Federal Government, even though, partly in consequence of some doubling up of taxes in the transition to a new system of income taxation, its revenues will rise by some 15 percent. One important cause for the increase in current expenditures was the rise in doctors' and nurses' pay in 1965 which, together with the large-scale expansion of health facilities during 1964, made for an increase of about Mex$ 600 million in the transfers to the social security agency. Moreover, the large debts incurred in 1964 produced an increase of close to Mex$ 1.0 billion in Federal Government interest payments in 1965. Savings in the rest of the public sector cannot yet be estimated; on the one hand better controls over expenditures and sounder administrative practices appear to have been instituted in some of the decentralized agencies and public enterprises, but on the other hand some of these too are now bearing a substantially higher burden of interest payments owing to the increase in their indebtedness during 1964. In any event, the drastic curtailment of public investment expenditures in 1965 - especially in the social security agency and in the power sector - made possible a substantial decline in the public sector's reliance on Central Bank financing during the first half of 1965. For the full year it appears likely that such financing will be less than Mex$ 2.5 billion, against approximately 4 billion in 1964. Net external financing also is likely to decline appreciably in 1965 (for details, see below, <u>The External Sector</u>).

<u>The External Sector</u>

8. Mexico's foreign exchange earnings from goods and services grew at an average annual rate of 5.4 percent between 1950/52 and 1962/64. However, there was a perceptible difference between their growth during the first half of the period (5.9 percent) and the more recent years (4.9 percent), attributable primarily to a slowing down of the expansion of earnings from the services account and secondarily to smaller growth rates in commodity exports. The future average annual rate of increase of foreign exchange earnings on current account is likely to be of the order of 5 percent, though considerable fluctuations, like that of 1964 when receipts rose by 7.4 percent, are likely to recur. The prospects for future service receipts vary greatly: remittances of <u>braceros</u> (Mexican migrant agricultural workers in the United States), which grew by 5.3 percent per year in the first half of the period, have more recently been declining by about 2.5 percent annually under the impact of increasing agricultural mechanization in the United States. With the announced policy of the U.S. Government to terminate

the bracero program they may be assumed to become negligible before 1970. Tourism (including border trade), on the other hand, has been growing at almost 7 percent annually since the 1956/58 period, now accounts for over 13 percent of all receipts from exports of goods and services and shows indications of a similar or even higher growth rate during the next few years. The recently concluded agreement between Mexico and the United States to expand substantially the number of commercial aviation routes and flights between the two countries is likely to contribute to this result.

9. Commodity exports as a whole have been growing at about 4.3 percent annually in recent years. For the foreseeable future an average annual rate slightly in excess of 4 percent appears probable and under favorable assumptions a rate of around 4.5 percent might well be achieved. In addition, a steady transformation of the structure of Mexico's exports has occurred. In the early fifties its traditional exports (cotton, coffee, tomatoes, non-ferrous metals, petroleum and its products and henequen) accounted for 74 percent of all commodity exports; in 1962/64 this proportion had sunk to less than 46 percent. Special factors, such as the additional sugar exports to the United States, made possible by the absence of Cuba from this market, accounted for only a small proportion of this change. Of greater importance was the rapid growth of several more solidly based export lines like sulphur and shrimp, the recovery of the livestock industry - seriously affected in the late forties by the compulsory slaughter of over one million animals to eradicate foot and mouth disease - and, most important of all, the steady growth of a variety of manufactured exports which by 1964 accounted for over 11 percent of all commodity exports. Mexico has thus become far less dependent on the exports of a few primary commodities than any other Latin American country.

10. The prospects of a medium- to long-term annual growth rate of about 5 percent in foreign exchange receipts on current account augur favorably for Mexico's future capacity to service official foreign debts, even when account is taken of the likelihood that the remittance of interest and dividends on private foreign investment, which already in 1962/64 represented over 11 percent of foreign exchange earnings, may well grow even faster. The service ratio on external public debt, which in 1964 was 20 percent and which in 1965 is about 25 percent, would amount to little more than 6 percent in 1970 if no new debts were incurred in the meantime. This very rapid decline is attributable to the present rather unfavorable debt structure, much of which originated in 1964 when substantial amounts of short- to medium-term foreign borrowing were used to finance very substantial increases in public investment (see WH-147). However, Mexico's development in the next few years will probably require inflows of external capital not much smaller than in the early sixties, nor are such reductions required by the prospects of foreign exchange earnings. What is important is that new debts be incurred on as favorable repayment terms as possible, that substantial grace periods be obtained and that the average maturity structure of the total official external debt be thereby stretched, thus lightening the debt burden during the next few years. The results of the first half of 1965 indicate that this is indeed being attempted. Not only did the total external debt outstanding (including undisbursed) decline from US$1,973 million to about US$1,908 million, but this result was achieved primarily by repayments of

relatively short-term official debts to commercial banks substantially in excess of new borrowings of this type. The term to maturity and grace periods of foreign borrowing will continue for several years to be of great importance for Mexico's financial standing and the Mexican authorities have stressed their intention of restricting their borrowing on relatively short-term to the greatest extent feasible.

11. A gross foreign borrowing (disbursements) program adequate to Mexico's development needs might reach a level of about US$500 million by 1970, against about US$400 million in 1963, US$700 million in 1964 and an estimated US$400 - 450 million in 1965. If most of the borrowing is done on reasonable terms and with adequate grace periods, the official debt service ratio by 1970 can be expected to be below 20 percent and under more favorable assumptions may well be below 17 percent. For the even longer term, Mexico's capacity to service foreign debt may be expected to increase further, as the economy gains in flexibility and capacity to generate savings and as the diversification of the foreign sector makes additional progress. Naturally, for these developments to materialize, prudent development policies will be required together with sound financial management; this will imply not only restraint on external borrowing on unfavorable terms but also, equally important, domestic policies which will facilitate the development of the export industries (including services) with the greatest possibilities for expansion. The Mexican authorities have, in the past, shown full appreciation of these factors.

Western Hemisphere Department

November 26, 1965.

# MEXICO

## BASIC DATA

| | | | |
|---|---|---|---|
| Area: | 760,000 | | |
| Population (mid-1965): | 41.0 million | | |
| Rate of growth | 3.6% | | |
| Population density per square mile | 54 | | |
| Gross National Product 1964 | 224.6 billion pesos | | |
| Rate of growth in real terms 1950-1964 | 6.1% | | |
| 1960-1963 | 3.6% | | |
| 1963-1964 | 10.0% | | |
| Per capita 1964, US$ | 453 dollars | | |

| Origins of Gross Domestic Product (est.) | 1950 | 1964 |
|---|---|---|
| Agriculture, livestock, forestry and fishing | 20.0% | 15.1% |
| Manufacturing and electricity | 19.8% | 23.8% |
| Mining and petroleum | 4.5% | 3.9% |
| Others | 55.7% | 57.2% |

| Percent of GNP at Market Prices | 1962 | 1963 | 1964 |
|---|---|---|---|
| Gross fixed investment (est.) | 14.1 | 14.6 | 16.5 |
| Gross national savings (est.) | 13.0 | 13.3 | 14.2 |
| Deficit of the balance of payments on current account | 1.1 | 1.3 | 2.3 |
| Interest and profits of private foreign capital | 1.1 | 1.2 | 1.3 |
| Federal Government current revenues | 7.7 | 8.0 | 7.7 |
| States and municipalities (incl.Fed.District) current revenues | 2.6 | 2.6 | 2.4 |
| Resource Gap as Percent of Investment | 8.0 | 8.9 | 13.7 |

| Money and Credit (Mex$ billion) | 31 December 1964 | 30 June 1965 | Annual Rate of Change 1960-1964 |
|---|---|---|---|
| Total money supply | 28.6 | 26.4 | 13.3% |
| Time and savings deposits | 8.7 | n.a. | 15.3% |
| Commercial bank credit to private sector | 11.9 | 13.1 | 14.2% |
| Wholesale prices (1958=100) | 116 | 117 | 1.8% |
| Cost of living (1958=100) | 115 | 119 | 1.3% |

| Federal Government Operations (Mex$ billion) | 1962 | 1963 | 1964 |
|---|---|---|---|
| Current revenues | 13.6 | 15.3 | 17.4 |
| Current expenditures | 11.6 | 12.8 | 13.9 |
| Surplus on current account | 2.0 | 2.5 | 3.5 |
| Revenues on capital account | - | - | 0.1 |
| Direct investments | 2.8 | 2.8 | 3.7 |
| Indirect investment | 0.8 | 1.4 | 1.3 |
| Overall deficit | -1.6 | -1.7 | -1.5 |

| Consolidated Public Sector Operations (est.)(Mex$ billion) | 1962 | 1963 | 1964 |
|---|---|---|---|
| Public Sector Fixed Investments | 10.4 | 12.4 | 16.0 |
| Public sector savings | 8.2 | 9.0 | 9.5 |
| Domestic borrowing from banks (net) | 2.9 | 1.8 | 4.2 |
| Gross foreign borrowing | 4.9 | 5.1 | 7.5 |
| Amortization of external debt | -3.2 | -2.8 | -2.8 |
| Financial investment and statistical discrepancies | -2.4 | -0.7 | -2.4 |

| External Public Debt (US$ million) | 1962 | 1963 | 1964 | 30 June 1965 |
|---|---|---|---|---|
| Total debt end of period (incl.undisbursed) | | | 1973.0 | 1908.0 |
| Total annual debt service | 306.9 | 285.1 | 365.7 | |
| Debt service ratio | 19.3% | 16.7% | 19.9% | |

| Balance of Payments (US$ million) | 1960 | 1961 | 1962 | 1963 | 1964 |
|---|---|---|---|---|---|
| Exports of Goods and Services | 1371.8 | 1463.4 | 1586.8 | 1709.3 | 1836.6 |
| Commodity exports | 738.7 | 803.5 | 899.5 | 935.9 | 1023.5 |
| Tourism and border trade | 521.3 | 556.7 | 585.3 | 656.5 | 703.9 |
| Others | 111.8 | 103.2 | 102.0 | 116.9 | 109.2 |
| Imports of Goods and Services | 1682.9 | 1683.9 | 1743.2 | 1915.3 | 2248.8 |
| Commodity imports | 1186.4 | 1138.6 | 1143.0 | 1239.7 | 1493.0 |
| Tourism and border trade | 261.5 | 287.5 | 310.1 | 349.5 | 376.8 |
| Interest and profits of private foreign capital | 141.6 | 148.1 | 159.3 | 185.6 | 242.2 |
| Others | 93.4 | 109.7 | 130.8 | 140.5 | 136.8 |
| Balance on Current Account | -311.1 | -220.5 | -156.4 | -206.0 | -412.2 |
| Errors and omissions (net) | 108.1 | - 88.9 | 9.0 | 72 | -113.3 |
| Long-term capital | 120.1 | 285.5 | 260.9 | 301.4 | 503.6 |
| Direct private investment | -38.0 | 119.3 | 126.5 | 117.4 | 151.7 |
| Official capital (net) | 163.5 | 173.6 | 133.0 | 190.3 | 360.4 |
| Other | - 5.4 | - 7.4 | 1.4 | - 6.3 | - 8.5 |
| Short-term capital | 74.3 | 2.4 | -96.6 | -57.7 | 53.5 |
| Changes in Central Bank reserves | - 8.6 | -21.5 | 16.9 | 109.7 | 31.6 |

Commodity Concentration of Exports, 1964

| | |
|---|---|
| Cotton | 16.6% |
| Coffee | 9.2% |
| Sugar and molasses | 8.7% |
| Non-ferrous metals | 7.6% |
| Shrimp | 5.4% |
| Beef cattle and fresh and frozen meat | 4.1% |
| Sulphur | 3.4% |
| Tomatoes | 3.3% |
| Total, eight largest items | 58.3% |

Foreign reserves, December 31, 1964 (US$ million) 583

Equivalent to 5 months of estimated 1965 commodity imports

Western Hemisphere Department

November 26, 1965

Table 1: MEXICO - EXTERNAL MEDIUM- AND LONG-TERM 1/ PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF JUNE 30, 1965 WITH MAJOR REPORTED ADDITIONS JULY 1 - OCTOBER 1, 1965

Debt Repayable in Foreign Currency
(In thousands of U.S. dollar equivalents)

| Item | Debt outstanding June 30, 1965: Net of undisbursed | Debt outstanding June 30, 1965: Including undisbursed | Major reported additions July 1 - October 1, 1965 |
|---|---|---|---|
| TOTAL EXTERNAL PUBLIC DEBT | 1,657,451 | 1,907,574 | 25,000 |
| Publicly-issued bonds | 113,035 | 113,035 | - |
| Privately-placed debt | 898,209 | 900,325 | - |
| Suppliers' credits | 302,267 | 304,323 | - |
| Other | 595,942 | 596,002 | - |
| IBRD loans | 307,380 | 399,939 | 25,000 |
| IDB loans | 19,596 | 72,392 | - |
| U.S. Government loans | 174,407 | 246,451 | - |
| Export-Import Bank | 133,868 | 186,912 /2 | - |
| AID, ICA, Lend-lease | 40,539 | 59,539 | - |
| Loans from other governments | 97,990 | 128,598 | - |
| Canada | 2,750 | 2,750 | - |
| France | 36,146 | 66,754 /3 | - |
| Germany | 19,688 | 19,688 | - |
| Italy | 39,406 | 39,406 /3 | - |
| Nationalized properties | 46,834 | 46,834 | - |

/1 Debt with an original or extended maturity of one year or more.
/2 Does not include $90,000,000 authorized by Export-Import Bank.
/3 Does not include undisbursed portion of the following lines of credit:
$150,000,000 French credit ($105,305,263)
$75,000,000 from Instituto Mobiliare Italiano ($29,521,026)
$10,000,000 from Banque Nationale pour le Commerce et l'Industrie ($9,771,485).

Statistics Division
IBRD-Economics Department
November 2, 1965

Table 2: MEXICO - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL MEDIUM- AND LONG-TERM PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF JUNE 30, 1965 WITH MAJOR REPORTED ADDITIONS JULY 1 - OCTOBER 1, 1965 /1

Debt Repayable in Foreign Currency

(In thousands of U.S. dollar equivalents)

| | GRAND TOTAL | | | |
|---|---|---|---|---|
| | DEBT OUTST. (BEGIN. OF PERIOD) | PAYMENTS DURING PERIOD | | |
| YEAR | INCLUDING UNDISBURSED | AMORTIZATION | INTEREST | TOTAL |
| 1965 | 1,889,605 /2 | 371,522 | 81,372 | 452,894 |
| 1966 | 1,733,046 | 327,020 | 81,805 | 408,825 |
| 1967 | 1,406,664 | 246,657 | 68,984 | 315,641 |
| 1968 | 1,160,807 | 207,049 | 59,196 | 266,245 |
| 1969 | 954,239 | 164,675 | 48,842 | 213,517 |
| 1970 | 790,071 | 111,250 | 41,705 | 152,956 |
| 1971 | 679,457 | 98,991 | 35,796 | 134,787 |
| 1972 | 580,881 | 82,021 | 30,468 | 112,490 |
| 1973 | 499,275 | 71,200 | 25,901 | 97,101 |
| 1974 | 428,109 | 62,791 | 22,025 | 84,816 |
| 1975 | 365,318 | 52,821 | 18,437 | 71,258 |
| 1976 | 312,497 | 43,002 | 15,702 | 58,703 |
| 1977 | 387,630 | 39,136 | 13,326 | 52,462 |
| 1978 | 230,360 | 36,763 | 11,216 | 47,979 |
| 1979 | 193,598 | 34,804 | 9,132 | 43,936 |

/1 Includes service on all debt listed in Table 1 prepared November 2, 1965, except for the following items for which repayment terms are not available:

| | |
|---|---|
| Privately-placed debt | $ 4,129,000 |
| Inter-American Development Bank | $ 3,000,000 |
| U.S. Government Lend-lease | $ 6,750,000 |
| Loans from other governments | $ 4,090,000 |
| | $17,969,000 |

/2 Amount outstanding for 1965 is as of June 30; the service payments are for the entire year 1965.

Statistics Division
IBRD-Economics Department
November 2, 1965

APPENDIX 3

## CANADIAN PROJECT PARTICIPATION

An analysis of the project or programme to be covered by the World Bank loan for the Electric Power Sector of Mexico, currently under negotiation, reveals that the bulk of the equipment requirements for 1966 and 1967, the period to be covered by the proposed loan, are basically for transmission lines, substations, and small diesel generating stations. The classes of equipment required are accordingly mainly transmission conductor cable, transformers, transmission towers and diesel generating units of various sizes.

We have been informed by an official of the Comision Federal de Electricidad that Canadian suppliers have to-date won approximately US$5 million worth of business for the programme. Of this amount, it is possible to identify a firm order to Aluminum Company of Canada, Limited in the amount of US$4 million for conductor and a fairly assured order to the Orenda Engine Division of Hawker Siddeley for one trial gas turbine valued at approximately US$300,000. Unfortunately the Mexican authorities failed to provide the information on Canadian procurement in the detail that was requested from them. However, inquiries with competent Canadian engineers indicate that Canadian suppliers should be highly competitive on conductor cable, transformers for substations, and relatively competitive depending on design specifications for transmission towers. There seems to be little doubt that Mexican purchasing in Canada, particularly with their attention drawn favourably toward the Canadian market, should easily exceed $5 million and could very well amount to as much as $10 million. The equipment involved would certainly be durable capital equipment within the meaning of the revised definition under Section 21A criteria and should include an interesting enough supply package by even more conservative standards. In particular, Canada has in recent years admirably demonstrated its competitive strength as a supplier of transformers by winning business in Britain.

## CONDITIONAL PARTICIPATION

Since issuing the main report on the Mexican Power Sector Programme, it has been discovered that the reply of the Canadian Minister of Finance to the November 15 letter of the President of the World Bank, inviting Canadian participation in the World Bank loan, was not signed and despatched prior to December 7. However, the proposal contained in the Minister's letter for a formula to link disbursements under any Canadian loan commitment with purchasing out of committed World Bank funds has been discussed with World Bank officials through the Canadian Alternate Executive Director and directly by ECIC revealing that the Bank definitely prefers unconditional participation, but is prepared to accommodate to commitments involving a formula approach if such arrangements are acceptable to the Mexican borrowers. Dr. Navarrete of Nacional Financiera S. A., has just returned from Europe and has informed the World Bank that negotiations with prospective European participants in the Power Sector Project for Mexico have advanced very favourably. At this stage, it appears that both France and Italy have given a participation commitment in the loan without any conditions linking their commitment to a formula

../2

involving World Bank spending, on terms that are not yet known to the World Bank. It is reported that two other European countries are close to giving unconditional commitments while two others in Europe plus Japan are seeking a formula along the lines officially proposed by Canada.

It may well be that the gap of $35 million in foreign exchange financing will be more than met by the various commitments pledged, which situation, from the point of view of the World Bank and Mexico, would be desirable to ensure adequate financing for the programme, while allowing complete freedom of procurement on the basis of competitive international bidding.

D. C. Taylor,
Manager,
Export Finance Division

December 9, 1965.
DCT/cnr.

EXPORT CREDITS INSURANCE CORPORATION

38-10-3-MEX
14 ✓

CONFIDENTIAL

File

# EXPORT CREDITS INSURANCE CORPORATION

Economic Report

on

MEXICO

August 23, 1965

## MEXICO

The basic data on the economy of Mexico were set out in an Economic Report dated February 17, 1964. In addition to the basic data, the Report also covered the monetary, fiscal and exchange rate conditions to the end of 1962.

From 1960 to 1962, the real rate of growth of the Mexican economy declined from the average of 6.3% recorded during the 1955-59 period, but still achieved a very good annual average of over 5%. In 1963 and 1964, the growth rate accelerated sharply, and real gross domestic product rose by 6.4% in 1963 and 9.9% in 1964. All sectors of the economy shared in the growth, but the greatest increases were in the construction, electricity and manufacturing industries with increases in output of 16.3%, 14.9% and 13.3% respectively in 1964. Agricultural output was up 7.3% and petroleum production was nearly 10% higher.

The very sharp gains in output during 1963 and 1964 were made possible chiefly by two factors. The first was a certain amount of unused capacity at the end of 1962 which permitted output to rise quickly. The second factor was a large capital investment programme which increased the total productive capacity and which is reflected in the high rate of activity noted above for the construction industry. This new capacity was quickly put to use, and at the end of 1964, there was some pressure on capacity and resources in a number of industries.

During the last half of 1964, the rate of expansion, and the pressure on resources, was accelerated by an expansion in the Government's investment programme. This was undertaken by the previous administration which was friendly to foreign investment; many U.S. companies signed investment contracts in the last days of the previous Government. The new Government which took office at the beginning of December, 1964, was stricter with foreign investors, but was also faced with the task of curtailing an investment boom which was threatening both the price stability and the external balance of the Mexican economy.

### Credit Policy

The expansion in economic activity during 1963 and 1964 was mostly financed by a substantial increase in financial savings which were directed through the banking system to both public and private borrowers. The high rate of savings reflected both the confidence of the public in the economy and also the high level of interest rates which ranged around 12%. The banking system in turn increased its credit by 17% in 1963 and 21% in 1964.

The fact that most of the expansion was financed by savings offset much of the pressure on price levels usually associated with high growth rates and, although prices did begin to rise more rapidly in 1964 (3% against less than 1% in previous years), inflationary pressures were not serious.

It is not thought that the expansion of credit can continue at the same rate in 1965 without more serious inflationary effects. Real output is not likely to rise as much as in 1964, and without a good increase in the supply of goods and services, the rapid growth of credit can only lead to pressure on prices. To counteract this trend, the new Government has initiated measures to reduce demand, particularly that originating in the Government sector. Taxes have been increased in a few areas, and some expenditures are to be restricted to 1964 levels. Both expenditures and revenues are expected to increase by about 12%, but this is a lower rate than in 1964. The Government also moved to obtain more control over the budgets and expenditures of the decentralized agencies in early 1965.

If the budget estimates for revenues and expenditures are realized in 1965, the pressure on prices should not be unduly serious. But any shortfall on revenues or increased expenditure could produce a significant budget deficit which would have serious effects. While the rate of private investment especially by foreign firms has declined in the early months of 1965, the development of projects initiated in the late months of 1964 by the previous Government will continue to absorb considerable resources during 1965 and early 1966. There will thus be little slack in the economy to accommodate any new demand that would be generated by new bank credit to cover a large government deficit.

External Balance

During 1963 and 1964, Mexico's external balance remained very good. The strength was due primarily to a substantial inflow of foreign capital, both public and private, which more than offset the deterioration in the current account. As a result, the exchange reserves rose by $123 million in 1963 and $44.5 million in 1964 in addition to a prepayment of $72 million on an Export-Import Bank loan.

The deterioration in the current account during 1963 and 1964 was entirely in the trade sector (see Table 1). The rapid expansion in economic activity, and particularly of capital investment, led to a large increase in imports which rose from $1,155 million in 1962 to $1,493 million in 1964. Exports also rose, and did particularly well in 1964 following a good cotton crop and high prices for coffee. But the increase was not sufficient to cover the higher imports, and net earnings in the rest of the current account (tourism, investment income, transfer payments) did not improve. The deficit on current account thus rose above the levels that had caused problems in 1960 and 1961.

Unlike 1960 and 1961, however, the capital inflows were easily adequate to cover the current account deficit. Thus, as noted, the exchange reserves were augmented. However, the heavy drawings on foreign loans did lead to a very large increase in the foreign indebtedness. The total external debt at the end of 1963 was a little more than $1,485 million. At the end of 1964, the total including undisbursed and major additions to the end of February, 1965, had risen to nearly $1,969 million. Table 2 sets out the amortization payments for the debt, showing very heavy repayments in the next three years. The debt service ratio rose very sharply as well, and is now approaching the level characteristic of Argentina and Brazil (see chart). The growth of real output and exports suggests that the Mexican economy can support the debt if all goes well, but any significant recession or reduction in the inflow of capital could precipitate a severe short-term balance of payments crisis.

Table 1 Balance of Payments of Mexico
(millions of U.S. dollars)

| | 1960 | 1961 | 1962 | 1963 | 1964[1] |
|---|---|---|---|---|---|
| A. Goods, services and transfer payments | | | | | |
| Exports, f.o.b. | 777.9 | 839.3 | 940.6 | 985.9 | 1,075.4 |
| Imports, c.i.f.[2] | -1,191.7 | -1,142.9 | -1,154.5 | -1,247.9 | -1,493.0 |
| Trade Balance | -413.8 | -303.6 | -213.9 | -262.0 | -417.6 |
| Travel, net | 236.5 | 247.0 | 264.7 | 307.0 | 323.9 |
| Invest. income payments[3] | -206.4 | -209.0 | -225.5 | -237.4 | -304.6 |
| Other services, net | 32.4 | 29.1 | 27.6 | 32.0 | 19.9 |
| Transfer payments, net | -5.3 | -12.6 | -15.2 | -16.9 | -5.6 |
| Total | -356.6 | -249.1 | -162.3 | -177.3 | -384.0 |
| B. Capital Account | | | | | |
| Drawings on loans and bond issues | 363.2 | 352.2 | 400.9 | 424.0 | 744.8 |
| Repayments | -189.5 | -187.2 | -267.9 | -233.7 | -372.9 |
| Net drawings | 173.7 | 165.0 | 133.0 | 190.3 | 371.9 |
| Direct investment[3] | -38.1 | 119.3 | 129.6 | 118.5 | 150.0 |
| National and private banks' assets, net[4] | 62.9 | 31.8 | -59.7 | -8.0 | 81.0 |
| Other capital | 2.2 | -8.0 | 1.4 | -26.0 | -26.3 |
| Total | 200.7 | 308.1 | 204.3 | 274.8 | 576.6 |
| C. Bank of Mexico | 20.3 | 26.9 | -8.6 | -123.0 | -44.5 |
| D. Net errors and omissions | 135.6 | -85.9 | -33.4 | 25.5 | -148.1 |
| Total B, C, D. | 356.6 | 249.1 | 162.3 | 177.3 | 384.0 |

1 Preliminary
2 Including non-monetary gold
3 Including re-invested earnings
4 Including gold holdings and excluding loans of over one-year term, which are entered above.

Source: International Monetary Fund, Balance of Payments Yearbook, Vol. 16 (provisional statement); and Bank of Mexico.

Table 2 Estimated Contractual Service Payments on the External Public Debt of Mexico[1] (millions of U.S. dollar equivalents)

| Year | Debt Outstanding (Beginning of Period) | Payments During Period Amortization | Interest | Total |
|---|---|---|---|---|
| 1965 | 1,968.8 | 383.0 | 93.4 | 476.5 |
| 1966 | 1,616.7 | 271.8 | 86.6 | 358.5 |
| 1967 | 1,343.8 | 236.8 | 73.8 | 310.6 |
| 1968 | 1,106.2 | 196.0 | 61.6 | 257.6 |
| 1969 | 909.4 | 157.1 | 51.5 | 208.7 |
| 1970 | 751.7 | 106.0 | 43.7 | 149.7 |
| 1971 | 645.4 | 91.1 | 37.3 | 128.4 |
| 1972 | 554.1 | 77.9 | 31.7 | 109.6 |
| 1973 | 476.1 | 69.9 | 26.7 | 96.6 |
| 1974 | 405.9 | 59.9 | 22.4 | 82.3 |
| 1975 | 346.0 | 50.2 | 18.5 | 68.7 |
| 1976 | 295.8 | 40.5 | 15.7 | 56.1 |
| 1977 | 255.3 | 37.9 | 13.2 | 51.1 |
| 1978 | 217.4 | 36.2 | 10.9 | 47.1 |
| 1979 | 181.2 | 34.2 | 8.7 | 42.9 |

1 Including undisbursed as of December 31, 1964 with major reported additions January 1 - February 28, 1965. Includes only debts with a maturity of one year or more payable in foreign exchange.

Source: IBRD, Statistics Division.

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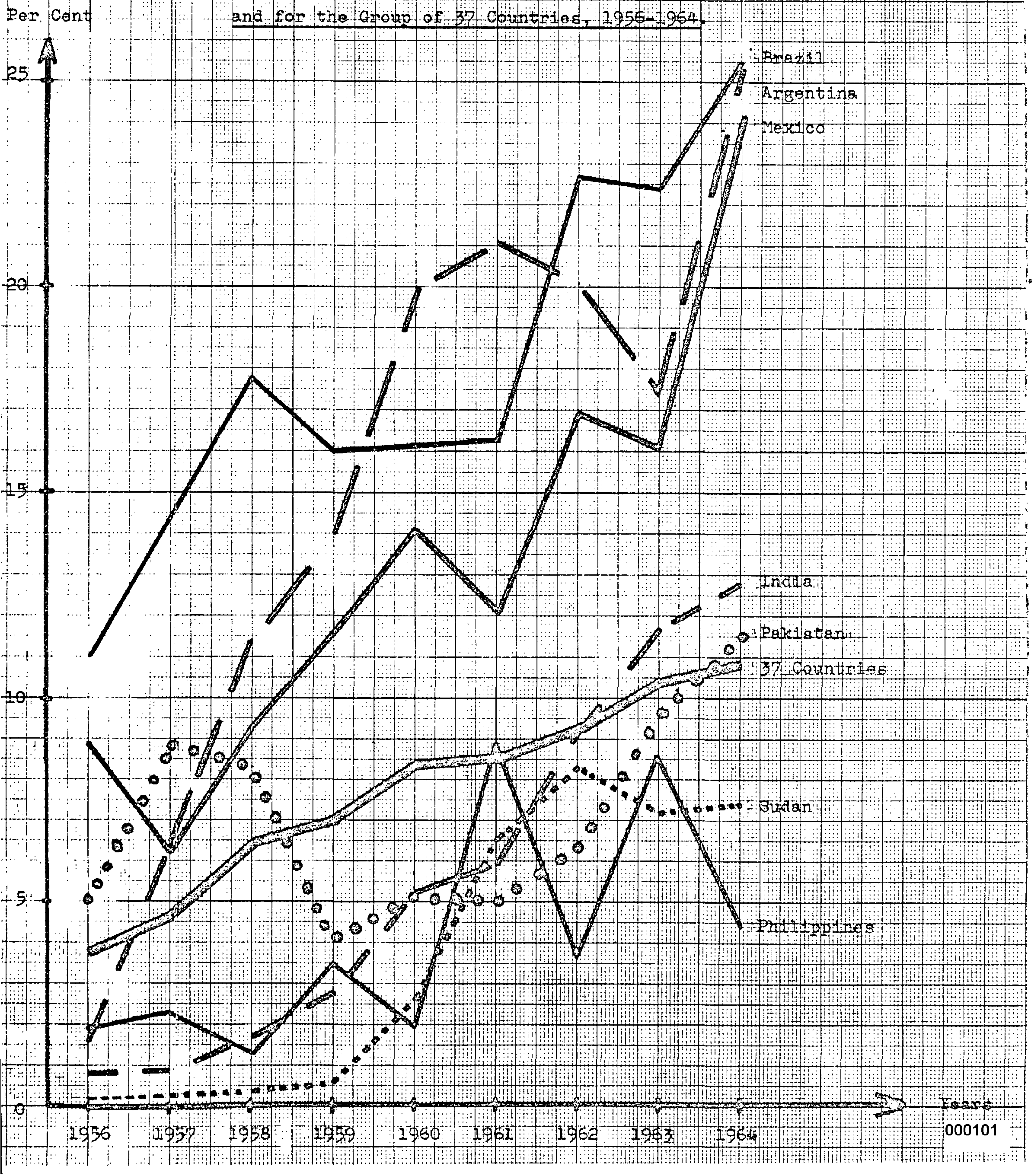
## Conclusion

Mexico can still be considered a good credit risk. However, the rapid growth of debt during 1964 suggests that any further debt contracted by Mexico should be carefully selected for only high priority projects. This is particularly true of debts for which amortization would start before 1967. Loans for which the heavy amortization would not begin until 1968 or later should be easily carried by Mexico if the rate of economic growth continues to be good.

August 23, 1965.

F.J. Chambers,
Economist.

Debt Service Ratios for Selected Less-Developed Countries
and for the Group of 37 Countries, 1956-1964.



~~I-A Div for information~~

8 Oct
38-10-3-MEX
Alupiis 14

WORTHINGTON (CANADA) LTD.
4180 Dundas Street West
Toronto 18, Ontario.

Done
Jan 12/66



- MEXICO -

On November 30, Mr. H. D. Allan of Worthington (Canada) Ltd., phoned to obtain a preliminary reaction to the possibility of obtaining Section 21A financing for a significant sale of compressors by Worthington to PEMEX. As he reports the situation, PEMEX has been very actively discussing this urgent requirement with Worthington for supply from either the U. S. or Canada, depending on the availability of financing. PEMEX has dealt extensively with the Export-Import Bank in the past, and is confident that the required loan would be forthcoming if sought, but PEMEX does not want to approach the Export-Import Bank at this time in view of the fact that they will be seeking a large loan for other purposes during 1966.

The transaction in question involves the sale of 150 packaged skid mounted gas engine compressors of an approximate value of $15 million. These units are of unified construction with the gas engine an integral part manufactured by Worthington. The only major components that might not be readily available in Canada are the crank shafts and the compressor valves, so that Mr. Allan estimates that an 80% Canadian content should be attainable. Within the prospective order there would be four sizes of skid mounted compressors.

The project being undertaken by PEMEX for which these compressors are required is a programme of gas gathering in the Laventa and Pozenica gas fields. Deliveries would be required starting about three months after date of order and completed within one year.

PEMEX is seeking credit terms of at least seven years with interest at not over 6%. Germany has made a credit offer to PEMEX of $21 million on the requested seven year terms. Worthington U.S. has explored all sources of private financing and has been able to obtain promises of $3.5 million on seven years, reportedly subject to an Export-Import Bank guarantee.

PEMEX has stated to Worthington that they would much prefer to obtain North American designed compressors and would only accept the German credit offer if it is impossible to obtain the equipment from Worthington supplied either from the U. S. or Canada, on the required seven year terms.

It was explained to Mr. Allan that our exposure in Mexico under Section 21A is high and that there are additional outstanding commitments as well as other business under discussion, so that it would be very difficult for us to entertain a new proposal requiring up to $15 million of Section 21A financing. However, in view of the fact that it would appear to be sure business to be won or lost on the availability of the required financing, we would examine our position in Mexico very closely before refusing to consider this proposition. Commercially it is a very attractive piece of business.

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Even though our outstanding commitments in Mexico under Section 21A are high relative to total resources and commitments elsewhere, it probably should be recognized that the steel rail sales, which account for the bulk of our outstanding commitments in Mexico, are rather special and reach the situation in 1966 that repayments amount to about $10 million a year, and increase in future years. Also there are only two more years of $10 million rail contracts in sight. Finally, consideration should be given to the peculiar character of the Mexican market which is progressively becoming more self-reliant for equipment needs and very tight on its import licensing programme, so that any effective penetration that is to be made by Canadian equipment exporters in Mexico should be achieved over the next two to five years if Canada is to win an established place in the market.

ORIGINAL SIGNED BY
D. C. TAYLOR

D. C. Taylor,
Manager,
Export Finance Division.

December 9, 1965.
DCT/emr.

38-10-3-MEX
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XPORT CREDITS INSURANCE CORPORATION
SOCIÉTÉ D'ASSURANCE DES CRÉDITS À L'EXPORTATION

P.O. BOX *CASE POSTALE*: 655 / OTTAWA 4, CANADA / BRANCHES *SUCCURSALES*: MONTREAL, TORONTO / CABLE ADDRESS *CABLE-ADRESSE*: EXCREDCORP

FILE NO:

VIA AIR MAIL

OTTAWA, December 16, 1965.

FA Div
& file
ML

Mr. H. F. B. Feaver,
Canadian Ambassador to Mexico,
Apartado 5364,
MEXICO 5, D.F., Mexico.

Dear Mr. Feaver:

Enclosed, for your consideration and necessary action, is a draft of a letter that might be appropriate as our formal submission to the Mexican Government for exemption on the withholding tax on interest payable under Section 21A loans.

As we agreed conversationally, it would be appreciated if you would present a letter along these lines to the Mexican Government over your signature. Please feel free to make such changes in the text or form of presentation as you may deem necessary.

It would be appreciated if you would be good enough to let us have a copy of the letter in its final form that you will be presenting to the Mexican Government.

Best regards and warmest compliments of the season.

Yours very truly,

EXPORT CREDITS INSURANCE CORPORATION

D. C. Taylor,
Manager,
Export Finance Division.

Enc.
c.c. Mr. J. R. Barker
c.c. Mr. I. B. Browne
DCT/car.

D R A F T

Dear Mr. Minister:

I have the honour to address you in the name of my Government on the subject of the Mexican withholding tax on interest payments made on foreign debts insofar as such withholding tax might be deemed to apply to Canadian Government credits extended to the Government of Mexico, or Government agencies or private companies.

You will recall, Mr. Minister, the pleasant meeting we had on November 19, when Dr. D. C. Taylor of the Export Credits Insurance Corporation of Canada was visiting Mexico City for discussions on credits to Comision Federal de Electricidad and Nacional Financiera, S. A., on which occasion we discussed the tax matter. When Dr. Taylor explained the role and status of the Export Credits Insurance Corporation as an official foreign lending agency of the Canadian Government, you readily agreed that ECIC loans should be exempt from taxes on interest payments, to give equal status and treatment to loans from the Canadian institution with that accorded to loans extended by the Export-Import Bank of Washington. You requested a submission from the Canadian Embassy to initiate the process necessary for the Mexican Government to grant a formal exemption to ECIC.

The Export Credits Insurance Corporation has been charged by the Canadian Government with the responsibility for administering the Canadian programme of long term lending to foreign borrowers in support of sound transactions and projects involving substantial amounts of Canadian capital equipment and engineering and related services. Enclosed with this letter is a copy of the Export Credits Insurance Act, from which it may be seen that the long term export financing programme is administered by the Corporation under the authority of Section 21A of the Act. Reference to the Act also establishes that the loans committed by ECIC are in fact Canadian Government moneys since the financial resources are provided from the Consolidated Revenue Fund, which is the Canadian Treasury.

The impact of a withholding tax on interest payments on ECIC Section 21A loans would have a serious effect. The interest rate charged on these loans, currently 6% per annum, is set for ECIC by the Canadian Department of Finance at a level necessary to cover the cost to the Canadian Government of borrowing money plus the margin necessary to cover the administrative costs of the lending programme. In making loans

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to any country imposing a withholding tax on interest payments it would clearly be necessary for ECIC to increase the interest rate charged to a level that would yield a net rate of interest payable and transferable of 6%. Such an adjustment would be objectionable to Canada since it would unfairly misrepresent the terms of Canadian foreign lending.

A solution of this withholding tax question by a blanket resolution of the Government of Mexico is regarded as a matter of importance in order to facilitate ECIC's lending activities to Mexico. As you are aware, Mr. Minister, since November 1961, a series of Section 21A loans have been made to Mexican agencies totalling $70,967,000., Canadian currency, and several new loans of substantial amounts are under active discussion between our two countries.

In presenting this matter to your attention, as a question of some urgency, we consider it significant to draw to your attention the fact that in several other countries where ECIC has been an active lender in the name of the Government of Canada, decrees or resolutions have been issued recognizing the Export Credits Insurance Corporation as an international banking institution exempt from the force and effect of any national tax laws applying to interest payments abroad.

Respectfully yours.

38-10-3-MEX
40 40

EXPORT CREDITS INSURANCE CORPORATION
SOCIÉTÉ D'ASSURANCE DES CRÉDITS À L'EXPORTATION

P.O. BOX *CASE POSTALE*: 655 / OTTAWA 4, CANADA / BRANCHES *SUCCURSALES*: MONTREAL, TORONTO / CABLE ADDRESS *CABLE-ADRESSE*: EXCREDCORP

E TO: DEC 28 1965 REGISTRY

FILE NO:

December 21, 1965.

CONFIDENTIAL

Mr. J.R. McKinney,
Deputy Head,
Economic Division,
Department of External Affairs,
Room 334B, Langevin Block,
Wellington Street,
Ottawa, Ontario.

Dear Mr. McKinney:

Re: ECIC's Loans to Mexico

As mentioned over the telephone, during ECIC's recent visit to Mexico our Ambassador, Mr. H.F.B. Feaver, accompanied ECIC representatives during discussions with the Mexican Secretary of Finance.

As a follow up to this visit, Mr. Feaver was to write to the Secretary of Finance concerning the status of ECIC with regard to withholding tax on interest payments.

At Mr. Feaver's request, ECIC has now provided him with an outline of the type of letter which could be sent.

We trust that this procedure is acceptable to your Department. You will note that a copy of our letter was sent to Mr. Barker of your Department.

Yours very truly,

EXPORT CREDITS INSURANCE CORPORATION

I.B. Browne,
Loan Officer,
Export Finance Division.

Enc.

VIA AIR MAIL

December 16, 1965.

Mr. H. F. B. Feaver,
Canadian Ambassador to Mexico,
Apartado 5364,
MEXICO 5, D.F., Mexico.

Dear Mr. Feaver:

Enclosed, for your consideration and necessary action, is a draft of a letter that might be appropriate as our formal submission to the Mexican Government for exemption on the withholding tax on interest payable under Section 21A loans.

As we agreed conversationally, it would be appreciated if you would present a letter along these lines to the Mexican Government over your signature. Please feel free to make such changes in the text or form of presentation as you may deem necessary.

It would be appreciated if you would be good enough to let us have a copy of the letter in its final form that you will be presenting to the Mexican Government.

Best regards and warmest compliments of the season.

Yours very truly,

EXPORT CREDITS INSURANCE CORPORATION

D. C. Taylor,
Manager,
Export Finance Division.

Enc.
c.c. Mr. J. R. Barker
c.c. Mr. I. B. Browne
DCT/cnr.

**D R A F T**

Dear Mr. Minister:

I have the honour to address you in the name of my Government on the subject of the Mexican withholding tax on interest payments made on foreign debts insofar as such withholding tax might be deemed to apply to Canadian Government credits extended to the Government of Mexico, or Government agencies or private companies.

You will recall, Mr. Minister, the pleasant meeting we had on November 19, when Dr. D. C. Taylor of the Export Credits Insurance Corporation of Canada was visiting Mexico City for discussions on credits to Comision Federal de Electricidad and Nacional Financiera, S. A., on which occasion we discussed the tax matter. When Dr. Taylor explained the role and status of the Export Credits Insurance Corporation as an official foreign lending agency of the Canadian Government, you readily agreed that ECIC loans should be exempt from taxes on interest payments, to give equal status and treatment to loans from the Canadian institution with that accorded to loans extended by the Export-Import Bank of Washington. You requested a submission from the Canadian Embassy to initiate the process necessary for the Mexican Government to grant a formal exemption to ECIC.

The Export Credits Insurance Corporation has been charged by the Canadian Government with the responsibility for administering the Canadian programme of long term lending to foreign borrowers in support of sound transactions and projects involving substantial amounts of Canadian capital equipment and engineering and related services. Enclosed with this letter is a copy of the Export Credits Insurance Act, from which it may be seen that the long term export financing programme is administered by the Corporation under the authority of Section 21A of the Act. Reference to the Act also establishes that the loans committed by ECIC are in fact Canadian Government moneys since the financial resources are provided from the Consolidated Revenue Fund, which is the Canadian Treasury.

The impact of a withholding tax on interest payments on ECIC Section 21A loans would have a serious effect. The interest rate charged on these loans, currently 6% per annum, is set for ECIC by the Canadian Department of Finance at a level necessary to cover the cost to the Canadian Government of borrowing money plus the margin necessary to cover the administrative costs of the lending programme. In making loans

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to any country imposing a withholding tax on interest payments it would clearly be necessary for ECIC to increase the interest rate charged to a level that would yield a net rate of interest payable and transferable of 6%. Such an adjustment would be objectionable to Canada since it would unfairly misrepresent the terms of Canadian foreign lending.

A solution of this withholding tax question by a blanket resolution of the Government of Mexico is regarded as a matter of importance in order to facilitate ECIC's lending activities to Mexico. As you are aware, Mr. Minister, since November 1961, a series of Section 21A loans have been made to Mexican agencies totalling $70,967,000., Canadian currency, and several new loans of substantial amounts are under active discussion between our two countries.

In presenting this matter to your attention, as a question of some urgency, we consider it significant to draw to your attention the fact that in several other countries where ECIC has been an active lender in the name of the Government of Canada, decrees or resolutions have been issued recognizing the Export Credits Insurance Corporation as an international banking institution exempt from the force and effect of any national tax laws applying to interest payments abroad.

Respectfully yours.

38-10-3-MEX

# WORTHINGTON (CANADA) LTD.

GENERAL OFFICES AND WORKS - BRANTFORD, ONTARIO

PLEASE REPLY TO:
4180 DUNDAS ST. W.,
TORONTO 18, ONT.,
TEL. 239-7161

January 11th, 1966.

Export Credits Insurance Corporation,
P.O. Box 655,
OTTAWA 4, Ontario.

Attention: Mr. D. Taylor,
General Manager.

Reference: Pemex Gas Engine Compressors

RECEIVED

Gentlemen:-

This will confirm rather briefly my conversation with your Mr. Brown to-day by telephone, in which I advised him that we in turn have been told that Pemex will not consider the 5 year terms that might have been made available to them on the medium credit terms arrangement. I am told that a minimum of 7 years is looked for insofar as repayment is concerned and that the preferred interest rate is not greater than 6%.

I further told Mr. Brown, however, that in a visit late last week from our Parent Company, one of their Management who is now in Mexico City negotiating this particular large project, advised me that if we could obtain perhaps $5 million worth of long term credit, it would still be possible to obtain some work for placement in Canada instead of the original $15 million request that was discussed with you by telephone on December 6th.

I am told that it is expected that all of the gas engine compressor business will be placed within the next week, so with all due respect I hope that some consideration can be promptly given to this possible alternative approach of obtaining some very attractive business for our Canadian manufacturing plant.

With kind regards, I am,

Yours very truly,

WORTHINGTON (CANADA) LTD.,

H. D. Allan

H. D. Allan,
President & General Manager.

HDA/sd

Pearl → Aid

Protocol/C.C.Eberts/dc

EXTERNAL AFFAIRS — AFFAIRES EXTÉRIEURES

TO / À: Mr. J.C. Langley, Head of Economic Division

SECURITY / Sécurité:

FROM / De: C.C. Eberts

DATE: January 17, 1966

Mr Hyndman
I suppose we need inte ECIC, EXD, Finance, T&C and Bk of Cda. What advice need we give Ambassador re private Banks?

NUMBER / Numéro:

REFERENCE / Référence:

File

FILE / DOSSIER
OTTAWA 38-10-3-MEX
MISSION 40

SUBJECT / Sujet: Restrictions on borrowing powers of Mexican states and municipalities.

18/1

ENCLOSURES / Annexes: 1

DISTRIBUTION: Latin Amer. Div.

At 10:30 a.m. this morning, Mr. Suinaga Lujan, the new Mexican Ambassador, came in and left with me the attached copy of Section VIII of Article 117 of the Mexican Constitution which deals with this question.

2. He said that, at the request of the Minister of Finance of Mexico, the Mexican Foreign Minister himself had written to him asking that Section VIII be brought to the attention of the Canadian Government and Canadian "credit institutions". His Minister had asked him to seek this Department's advice as to the best means of bringing the matter to the attention of credit institutions.

3. As new Ambassadors are inclined to do, it was clear that, in approaching this Division, he was satisfied that he was bringing the matter to the attention of the Canadian Government.

4. As I was leaving for a signing ceremony and there was no time to arrange for the Ambassador to see you, I said that I would inform you of his visit and ask you to arrange for him to be given appropriate advice about:

a) means of bringing the matter to the attention of credit institutions, and

b) the further steps, if any, that it might be advisable for him to take to bring the matter to the attention of the Canadian Government

5. I feel sure that the explanation of Mr. Suinaga's action in coming to see me on such a question is that he is new to diplomatic life.

...2

Ext. 407A/Bil.
(Admin. Services Div.)

6. He seemed to emphasize the restrictions on individual states of Mexico more than the restrictions affecting municipalities. At first, he indicated that this approach was being made "because of impending developments". However, when I later asked him if he knew why the matter was being raised now and whether it was being raised with other countries as well, he said that he had no information on either point. I know him fairly well and believe this is probably true. At the same time, he added that he was inclined to believe that the explanation was "impending developments" and that other countries were probably being similarly informed of the restrictions. In reply to a further question, he indicated that the restrictions had been part of the Constitution for some years and were therefore not new.

CE.

(Christopher Eberts)

EMBAJADA DE MEXICO

STATES OF THE FEDERATION

I. Article 117 Section VIII of the Constitution of Mexico:

"The States may not in any case:

"Section VIII. Issue bonds of public debt payable in foreign currency or outside the national territory; contract loans directly or indirectly with the Governments of other nations, or contract obligations in favor of foreign companies or individuals, when the bonds or securities are payable to bearer or are transmissible by endorsement.
States and municipalities may not negotiate loans except for the construction of works intended to produce directly an increase in their revenues."

Economic/J.R.McKinney/pa

38-10-3-MEX
14 14

RESTRICTED

Ottawa, January 21, 1966.

Dear Allan,

Thank you for providing so promptly the attachedpapers on the IBRD proposal for parallel financing of the Mexican power project. I have now talked to Dr. Egidi, the Italian Commercial Counsellor, who explained, if I understood him correctly, that his Government's present interest in the matter is that Italy, having been approached to provide parallel financing, believes that procurement should be restricted to countries which have agreed to supply such financing. His information - although I find it hard to believe that it is correct - was to the effect that the Italian Government considered that procurement up to the entire cost of the project should be restricted to such countries. At all events, they believed that the amount financed in parallel should be so restricted. He wished to know whether we could support this point of view.

With regard to the IBRD-financed element of the project, I explained to Dr. Egidi that I did not think that the Bank had any choice in the matter: its normal rules would require that procurement against the $110 million provided by the Bank would have to be on the basis of international competitive tendering. With regard to the amount to be financed in parallel, I said the position appeared to be that while the IBRD would prefer international competitive tendering to apply, Bank officials recognize that most countries would be unable to participate on this basis. In our own case, the rules governing the use of Section 21A funds would require Canadian credits to be used for the procurement of goods and services in Canada. There could be no question of 21A money being used for procurement offshore. It was true, of course, that Canada and other countries approached by the Bank to provide parallel financing might or might not be awarded contracts, but I said it was our impression that an approach to a country by the Bank could be taken as a fairly clear indication that that country would be a supplier even if, in principle, international competitive tendering applied.

Dr. Egidi seemed somewhat reassured by this but I made it clear, of course, that we could not be a party to any attempt to restrict procurement in the manner which the Italian Government seemed to have in mind.

Yours sincerely,

J. R. MCKINNEY

J.R. McKinney,
Deputy Head, Economic Division.

Mr. A.J. Barry,
Department of Finance,
Ottawa.

The International Bank seems to require that all supplies, both under its 110 million dollars loan granted (for electrical equipment) to Mexico, as well as under the additional 40 million dollars in parallel loans granted under bilateral agreements, be opened, through international tenders, to all countries.

It is felt that such requirement may be justified only if bilateral financement will be required as a necessary perequisite for participation in the above competitions.

On the other hand, said requirement would not be considered as fair if it would imply that firms belonging to financing countries would be obliged to take part and to win competitions, in order to use their own countries' loans, when firms of countries, not granting any financement, would be equally admitted to the competitions, and, in case of success, have immediate access to the International Bank funds.

Ottawa, January 21st 1966.

CONFIDENTIAL

Ottawa 4, January 26, 1966.

38-11-3-MEX
36

Mr. D.C. Taylor,
Export Credits Insurance Corporation,
309 Cooper Street,
Ottawa, Ontario.

Dear Mr. Taylor:

I am sending to you and to other members of the Committee on Export Finance copies of a letter from Pat Reid on the question of joint financing in Mexico. I also had the opportunity of discussing the matter with Orvis Schmidt when I was in Washington last week.

Schmidt said that he had been in Europe to discuss the proposal with the French, British and Germans (at the invitation of the British, I take it). The main concern of the French apparently turned around the establishment of general rules to ensure that all participants would join on the same basis. However, they would not press the point in this particular case. They agreed to finance 80 per cent of the value of the orders placed in France provided the IBRD financed the first 20 per cent. The rationalization for this split was that normally France requires a 20 per cent down payment by the importer. Italy is prepared to offer $10 million at 6 per cent with repayment over 15 years after delivery and $2.5 million for local costs also at 6 per cent, but for a shorter term. Schmidt expects something comparable from France and hopes for the same from Japan. The U.K. is not interested because it does not expect to obtain any orders.

Schmidt said that he would also like us to finance 80 per cent. He feels that if the IBRD finances more in our case, other participants will demand the same treatment. I tried to impress upon him the points made in Mr. Sharp's letter, citing facts and figures in support of them. In particular, I emphasized that if the IBRD wanted us to participate, it should take our particular position into account. I believe, or at least hope, to have made some headway. We discussed various formulae, but did not, of course, agree on anything. He seemed to be attracted by one under which the Bank would finance the first $2 million and the balance would be split 20 per cent (Bank) - 80 per cent. This would mean that we would get a fifty-fifty split up to about $5 million and then the balance would turn against us.

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Schmidt will be in Ottawa early in February and I will be in touch with you and others about a programme. In the meantime, I expect a reply to Mr. Sharp's letter and hope we can decide on a formula. More generally, I think that we should consider our general attitude towards joint financing. The World Bank hopes to use it for all large projects whether IBRD or IDA financed. In particular, the question of general rules as raised by the French might be discussed. I will be writing to you further about this and we could place the matter on the Committee's agenda.

Yours sincerely,

L. Denis Hudon,
Director,
International Programmes Division.

LDH/val

Attach.

c.c. Mr. P.M. Towe
Mr. W.G. Pybus
Mr. J.C. Langley
Mr. G.S. Watts

Mr. Pick, Fri. Feb. 1/66

Mr. Barke of Economic Div. called to say that Mr. Orvis Schmidt of the World Bank, who is an authority on Latin American affairs, is going to be in Mr. Langley's office on Friday, February 4th at ~~11:30~~ 3.00 and Mr. Langley would appreciate if if you could meet Mr. Schmidt and have a talk with him.

E. Low

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D.C. 20433, U.S.A.

ALTERNATE
EXECUTIVE DIRECTOR

January 14, 1966

Dear Denis:

Re: Mexico - Joint Financing Project

Orvis Schmidt asked me in yesterday to bring me up-to-date and to suggest informally a possible joint financing arrangement for Canada.

The Bank has found that it is those countries which expect to get most of the orders which are prepared to put up some financing. The bulk of the orders are expected to fall in Japan, Italy and France. The next in line appears to be Canada, followed by relatively small amounts in the United States, Switzerland and Sweden. Very little is expected to fall in Germany and the United Kingdom, and these countries are not interested in putting up any bilateral financing; nor is the United States. Switzerland and Sweden have offered some ten-year credits which the Bank does not consider are long enough. Italy and France have offered $10 million and $15 million, respectively, on a 100 per cent basis with 15-17 year maturities. Japan is prepared to do about the same, although they may ask for 20 per cent participation by the Bank.

Schmidt suggested that Canada finance 80 per cent of the first $6 million ($4.8 million), with the Bank undertaking to finance 100 per cent of anything over $6 million. I asked why the Bank preferred this to our informal suggestion that the Bank pick up the $3 million aluminum contract, with Canada undertaking to finance the next $5 million (anything over $8 million would be open to negotiation). Schmidt replied that this would encourage the Japanese, the Italians and French to ask for a similar deal or for a significant percentage contribution from the Bank.

Schmidt stressed that everyone concerned in these discussions agreed that before the next joint financing project the Bank should establish some general rules. It this project went ahead, it would be on an ad hoc basis, and the specific arrangements would not be regarded as a precedent.

Our decision on the formula will presumably be influenced by our assessment of the amount of orders we expect to fill in Canada. In this connection, Trade and Commerce is sending a power mission to Mexico and other Latin American countries under the leadership of R. Sangster of the Department of Trade and Commerce (some Trade and Commerce officials were in the Bank yesterday for background information). This should improve our chances of getting orders and make more valuable a Bank commitment to finance 100 per cent of anything over a certain level.

All these informal contacts are without prejudice to the Bank's substantive reply to Mr. Sharp's letter of December 14.

Yours sincerely,

Pat

Patrick M. Reid

Mr. Denis Hudon
Director
International Programmes
Department of Finance
Ottawa, Canada

38-10-3-MEX

40

Melchor Ocampo 463-7,
Mexico 5, D. F.,
February 1, 1966.

Dear Dr. Taylor,

I am pleased to report that the Mexican Ministry of Finance has reacted favourably to our request for exemption on withholding tax on interest payable under section 21A loans, as you will see from the attached, with a rough and literal office translation, signed by the Director General of the Income Tax Division and with which was enclosed the Minister's personal card.

This concession is made on the express condition that similar treatment be accorded by Canadian taxation laws to loans made by the Mexican federal government and its organs, agencies and dependencies. Since you know the background of this problem you might wish to discuss with the Department of Finance what reply can be sent to the Mexican Government in this respect. Presumably the Mexican exemption will not take full effect until the Ministry of Finance here has received an assurance of reciprocal treatment.

I am sending a copy of this letter to the Departments of External Affairs, Finance, and Trade and Commerce so that they may have information about this matter available on their files.

Yours sincerely,

H. F. Feaver,
Ambassador

Dr. D. G. Taylor,
Manager,
Export Finance Division,
Export Credits Insurance Corporation,
P.O. Box 655,
Ottawa 4, Canada.

cc: Dept. of External Affairs, Ottawa
DM/Finance, Ottawa
DM/Trade and Commerce, Ottawa.

OFFICE TRANSLATION

Ministry of Finance &
Public Credit

Dependency: Income Tax Division
Office of the Director

Letter No. 311-3778
File: 340/51749

Subject: That no tax be levied on income from interest charges which comply with the necessary prerequisites

Mexico, D.F., January 19, 1966.

His Excellency Mr. H. F. Feaver,
Ambassador of Canada,
Melchor Ocampo 463-7,
City.

In due response to the attentive request placed before this Ministry by His Excellency Mr. D.W. Fulford, Chargé d'Affaires a.i., that it indicate whether interest charges levied by the Export Credits Insurance Corporation of Canada on loans made to the Federal Government, decentralized agencies, companies of partial state ownership and private Mexican companies are liable for taxation on Mexican income, this office taking into account the provisions of the Export Credits Insurance Act, which governs the functioning of the Export Credits Insurance Corporation of Canada, and establishes in section 21A that all loans will be made with funds from the consolidated revenue fund which is the Treasury of the Canadian Government and on the basis of the provisions of section 3 article 30 of the Fiscal Code of the Federation, resolves that no tax is payable on Mexican income derived from the interest charges mentioned above.

This resolution remains contingent upon Canadian taxation laws providing reciprocal treatment, which is to say not imposing charges upon loans which may be made by the Federal Government of Mexico, its organs, agencies and dependencies.

I beg you to accept the assurances of my highest and most distinguished consideration:

EFFECTIVE SUFFRAGE: NO RE-ELECTION
THE DIRECTOR

signed: Lic. (Licenciado, meaning graduate lawyer or economist)

JORGE I. AGUILAR

PODER EJECUTIVO FEDERAL
ESTADOS UNIDOS MEXICANOS
MEXICO D.F.

SECRETARIA
DE
HACIENDA Y CREDITO PUBLICO

Dependencia:- DIRECCION GENERAL DEL IMPUESTO SOBRE LA RTA. OFICINA DEL DIRECTOR.
Núm.:- 311-3778.
Exp.:- 340/51749.

ASUNTO:- Que no se causa impuesto sobre la -- renta sobre los intereses que se indican si se reúnen los requisitos previstos.

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México, D.F. a 19 de enero de 196

CANADIAN EMBASSY
ENE 23 1965
MEXICO D.F.
EMBAJADA DEL CANADA

Exmo. Sr. H. F. Feaver,
Embajador del Canada.
N. Ocampo No. 463, 7o. Piso.
Ciudad.

En debida respuesta a su atenta solicitud elevada ante esta Secretaría por el Exmo. señor D. W. Fulford Encargado de Negocios a.i. para que la misma defina si los intereses que se perciban por Export Credits Insurance Corporation of Canada, por préstamos hechos al Gobierno Federal, organismos descentralizados, empresas de participación estatal y empresas privadas mexicanas, causan el impuesto sobre la renta mexicano, esta Dirección, teniendo en cuenta el contenido del Export Credits Insurance Act, que norma el funcionamiento de Export Credits Insurance Corporation of Canada, en el que se establece en su Sección 21A que todos los préstamos se otorgan con recursos del Consolidated Revenue Fund que es la Tesorería del Gobierno Canadiense, con fundamento en lo dispuesto -- por el artículo 30 fracción III del Código Fiscal de la Federación, - resuelve que no se causa el impuesto sobre la renta mexicano, sobre los intereses a que se ha hecho referencia.

Esta resolución queda condicionada a que en igualdad de condiciones cualquier préstamo que pudiera efectuar el Gobierno Federal, sus organismos, agencias o dependencias no estén sujetos al -- mismo gravamen con arreglo a las leyes tributarias canadienses.

Ruego a usted aceptar las seguridades de mi más alta y distinguida consideración.

SUFRAGIO EFECTIVO. NO REELECCION.
El Director.

Lic. Jorge I. Aguilar.

JIA/mmc

**.PORT CREDITS INSURANCE CORPORATION**

**SOCIÉTÉ D'ASSURANCE DES CRÉDITS À L'EXPORTATION**

P.O. BOX *CASE POSTALE*: 655 / OTTAWA 4, CANADA / BRANCHES *SUCCURSALES*: MONTREAL, TORONTO / CABLE ADDRESS *CABLE-ADRESSE*: EXCREDCORP

FILE NO: 38-10-3-MEX

OTTAWA, 36 —

CONFIDENTIAL

OTTAWA 4, February 3, 1966.

TO MEMBERS OF THE COMMITTEE ON EXPORT FINANCE

Gentlemen:

Re: DOSCO - Mexico.

Enclosed is a copy of the Memorandum to the Cabinet covering the application for Section 21A financing by DOSCO for the 1966 sale of rails and track accessories to Mexico as part of the second stage of the railway rehabilitation programme.

We would appreciate receiving your approval of this Memorandum by February 9, 1966 in order that it can be forwarded to Privy Council for Cabinet consideration during the following week.

Yours very truly,

EXPORT CREDITS INSURANCE CORPORATION

I. B. Browne,
Loan Officer,
Export Finance Division.

Encl.
IBB:jw

THIS DOCUMENT IS THE PROPERTY OF THE GOVERNMENT OF CANADA

11

CONFIDENTIAL

FEBRUARY 3, 1966

MEMORANDUM TO THE CABINET

Application for Export Financing by
Dominion Steel & Coal Corporation, Limited
Under Section 21A of the Export Credits Insurance Act.

Object

The object of this Memorandum is to obtain Cabinet approval for financing under Section 21A of the Export Credits Insurance Act for the sale and export from Canada by the Dominion Steel & Coal Corporation, Limited to Ferrocarriles Nacionales de Mexico, S.A., Mexico, of rails and track accessories valued at US$10 million on credit terms of seven years from average delivery date.

Background

a) The applicant, Dominion Steel & Coal Corporation, Limited (DOSCO), was incorporated in Nova Scotia in 1928 and proceeded to take over the assets and operations of several predecessor corporations. These assets and operations were primarily in Nova Scotia and Newfoundland, and included ore and coal mining investments and steelmaking operations located at Sydney, Nova Scotia.

b) The borrower, Ferrocarriles Nacionales de Mexico, a decentralized public organization, was established by a law of the Mexican Congress published on December 30, 1948. This Corporation is responsible for operation and management of 85% of the total Mexican railway system.

c) The Mexican railway rehabilitation programme has been in effect for the last 10 to 12 years and ECIC has already provided long term export financing under Section 21A for rails and track accessories on behalf of DOSCO in the amount of US$36.5 million for the four year programme covering the years 1961 to 1964. In addition, in 1961 DOSCO insured with ECIC under Section 21 a rail order valued at US$12.8 million. Effective December, 1963 the US$8.7 million balance outstanding of this insured transaction was guaranteed by ECIC under Section 21A.

d) In 1965, the second stage of the rehabilitation programme covering the period 1965 to 1969 and valued at US$50 million, was initiated. DOSCO applied to ECIC for Section 21A financing of US$9.2 million for the first instalment of this five year programme. When requesting Cabinet approval, ECIC pointed out as follows:

> "This application covers deliveries for the first year of a new five year sales arrangement between DOSCO and Ferrocarriles Nacionales de Mexico for rails and accessories to a total value of US$50 million.

Cabinet approval was given and Order in Council, P. C. 1965-695, was passed on April 15, 1965 on the basis of repayment terms of 14 equal consecutive semi-annual instalments commencing March 15, 1966.

Factors

a) An application has been received by Export Credits Insurance Corporation from Dominion Steel & Coal Corporation, Limited (DOSCO), for long term export financing under Section 21A of the Export Credits Insurance Act in the amount of $10 million, U.S. currency, to cover the sale and export from Canada of steel rails and track accessories to Ferrocarriles Nacionales de Mexico on credit terms of seven years from average delivery date with repayment in 14 equal consecutive semi-annual instalments commencing March 15, 1967. Interest at 6%

...2/

per annum will be payable on the principal amount outstanding semi-annually commencing six months from the date of the signing of the Financing Agreement.

b) Promissory notes issued by Ferrocarriles Nacionales de Mexico will be fully guaranteed as to dollar payment of principal and interest by Nacional Financiera, S.A.

Nacional Financiera, S.A., the second largest financial institution in Mexico after the Central Bank, was created by the Federal Mexican Law of April 24, 1934. Its main function, determined by the laws of December 30, 1940 and December 30, 1947 is to obtain and manage foreign development credits to contribute to the financing of productive investments in Mexico.

c) In June, 1965, it was the opinion of the Export-Import Bank of Washington that the Mexican National Railways were a relatively efficient operation by normal standards of judging railways, and EXIMbank continued to finance the rehabilitation programme by providing a loan of US$13 million to Nacional Financiera, S.A. on repayment terms of 10 years commencing April 30, 1967.

d) The Canadian content of rails and track accessories supplied by DOSCO under this order ex plant Sydney would be 88%.

Financial Considerations

a) As of December 31, 1965, ECIC's net exposure in Mexico includes Can.$59.0 million Section 21A loans, Can.$4.7 million guaranteed under Section 21A, Can.$5.4 million under medium term insurance and Can.$3.1 million under short term insurance. The total annual reduction in net Section 21A liabilities in Mexico under contracts entered into up to the end of 1965 will be in excess of Can.$10 million for the years 1966, 1967 and 1968. With this proposed transaction included, liabilities will be reduced by more than Can.$10 million from 1966 to 1969 inclusive.

b) Although the DOSCO Sydney steel mill is poorly situated for the Canadian market and relatively unprofitable because of obsolescent plant and limited product lines, DOSCO's Sydney operations, with average annual sales of $40 million, are of considerable regional economic and social importance. DOSCO's rail mill accounts for 53% of total Sydney steel mill sales and export sales of rails, tie plates and accessories in turn represent 53% of total rail mill production. While the future of the Sydney steel mill is obscure, its operations probably can be maintained provided that the rail export business continues at a substantial level. This export order for US$10 million will provide some 24 to 28 weeks of production for the rail mill. Failure to win this business will result in the temporary shut-down of the rail mill and the laying off of many DOSCO employees.

c) By each successive order DOSCO tends to consolidate its position as the supplier of rails to Mexico. However, it might be considered to be more advantageous if available financing for Mexico was directed towards other types of projects involving capital equipment which would be more effective in promoting continuing export trade.

Conclusion

The Committee on Export Finance has reviewed this application and has agreed that despite the adverse considerations noted above, it would be appropriate to recommend that the Cabinet approve export financing for this transaction.

Impact of Conclusion

This US$10 million export transaction would provide 1,272,320 man-hours of employment for DOSCO and would inject a beneficial stimulus into the economy of the Cape Breton area.

Recommendations

a) I recommend that Export Credits Insurance Corporation should be authorized under Section 21A of the Export Credits Insurance Act to provide financing not in excess of $10 million in U.S. currency in connection with the sale and export from Canada of steel rails and track accessories by Dominion Steel & Coal Corporation, Limited, to Ferrocarriles Nacionales de Mexico, S.A.; the said

...3/

financing to be repayable in 14 equal consecutive semi-annual instalments commencing March 15, 1967, with interest at 6% per annum on the principal amount outstanding payable semi-annually commencing six months from the date of the signing of the Financing Agreement and with payment of principal and interest to be guaranteed by Nacional Financiera, S.A.

b) This commitment in principle of Section 21A financing shall expire on June 30, 1966 unless definite arrangements have been entered into by the Borrower by that date to utilize the credit.

OTTAWA

Minister of Trade and Commerce

CONFIDENTIAL

Ottawa 4, February 9, 1966.

Mr. D.C. Taylor,
Export Credits Insurance Corp.,
309 Cooper Street,
Ottawa, Ontario.

38-10-3-MEX
14

Dear Mr. Taylor:

Re: Mexico - Canadian Participation Under Section 21-A in Transmission Line Project

Further to our meeting last week, Mr. Schmidt phoned me this morning to say that the IBRD did not have any recent information on orders for this project placed by Mexico. The Mexican authorities are gathering together the information which Mr. Schmidt believes will become available next week.

The lastest material available which the IBRD has dates back to the autumn of 1965. At that time, Mexico had placed orders for material and equipment(which the IBRD understands to be firm) valued at \$39 million of which \$3.5 million in Canada, over \$10 million in Japan, \$4.5 million in France, \$1 million in Italy and \$3.2 million in Mexico itself. The distribution of the balance was not available.

Orders which were still to be placed amounted to \$89 million of which it was estimated that at least \$27 million would be placed in Mexico and \$27 million in other countries. Of this \$27 million, it was expected that \$2.5 million would be placed in Canada. The Mexican authorities could not indicate where the balance of \$35 million was expected to be placed.

The total cost of the project is estimated to be in the neighbourhood of \$150 million. The figures given above total \$128 million; the balance of \$22 million will be used essentially for local costs, such as labour.

Mr. Schmidt promised to give me the up-to-date information as soon as it becomes available.

Yours sincerely

L. Denis Hudon,
Director,
International Programmes Division.

c.c. Mr. J.C. Langley
Mr. W.G. Pybus
Mr. T.E. Bocking
Mr. G.S. Watts
Mr. P.M. Towe

copy for: Mr. J.C. Langley

38-10-3-MEX
26 36

DEPARTMENT OF FINANCE CANADA MINISTÈRE DES FINANCES

Ottawa 4, February 17, 1966.

Mr Barker
Mr

Mr. D.C. Taylor,
Manager,
Export Finance Division,
Export Credits Insurance Corp.,
309 Cooper Street,
Ottawa, Ontario.

Dear Mr. Taylor:

Mexico - Joint Financing
of Transmission Project

Further to my letter of February 9, 1966, Mr. Schmidt has now informed us that the IBRD (and Mexico) would be prepared to accept a joint financing formula for the transmission project under which the IBRD would finance 50 per cent of the value of orders placed in a participating country and the participating country would finance the balance.

Mr. Schmidt has not yet received from the Mexican authorities their estimate of the orders which have been placed, or will be placed, with suppliers in various member countries of the IBRD. In light of the foregoing information, I would suggest that this matter be placed on the agenda of an early meeting of the Committee on Export Financing.

Yours sincerely,

L. Denis Hudon,
Director,
International Programmes Division.

USSEA.

38-10-3-MEX
36

CONFIDENTIAL

February 23, 1966

SEEN BY THE MINISTER

MEMORANDUM FOR THE MINISTER

Application for ECIC 21A Export Financing by Dominion Steel and Coal Corporation, Sydney, Nova Scotia

... Attached is a copy of a Memorandum for Cabinet in which the Minister of Trade and Commerce recommends approval for 21A financing for the export by DOSCO of rails and track accessories to Mexico, value $10 million on credit terms of seven years.

2. Since the recent revision of ECIC policy, rails and track accessories have been considered eligible for 21A financing. This you will recall was not the case in the past and although previous DOSCO sales of steel rails to Mexico were approved by Cabinet, this was regarded as an exception to usual practice justified largely on the basis of the transaction's potential contribution to employment in the Sydney area.

3. We are pretty heavily committed in financing for Mexico and it is true that in terms of promoting export trade it might well be more productive to direct such financing resources as might be made available for Mexico at this time to projects involving other types of capital equipment. However the sales in Mexico over the years by DOSCO have consolidated its position in that market and, as noted in the attached Memorandum, Cabinet approved the last DOSCO request for 21A financing in April 1965 in the knowledge that future phases would be coming forward.

4. In the circumstances I would see no objection to approval of this transaction. I understand that officials of the Department of Finance will be recommending that the Minister of Finance take a favourable view of the recommendation.

already dealt with.

G.R.

M. C.

24.2.8 (VS)

THIS DOCUMENT IS THE PROPERTY OF THE GOVERNMENT OF CANADA

CONFIDENTIAL

FEBRUARY 11, 1966

MEMORANDUM TO THE CABINET

Application for Export Financing by
Dominion Steel & Coal Corporation, Limited
Under Section 21A of the Export Credits Insurance Act.

Object

The object of this Memorandum is to obtain Cabinet approval for financing under Section 21A of the Export Credits Insurance Act for the sale and export from Canada by the Dominion Steel & Coal Corporation, Limited to Ferrocarriles Nacionales de Mexico, S.A., Mexico, of rails and track accessories valued at US$10 million on credit terms of seven years from average delivery date.

Background

a) The applicant, Dominion Steel & Coal Corporation, Limited (DOSCO), was incorporated in Nova Scotia in 1928 and proceeded to take over the assets and operations of several predecessor corporations. These assets and operations were primarily in Nova Scotia and Newfoundland, and included ore and coal mining investments and steelmaking operations located at Sydney, Nova Scotia.

b) The borrower, Ferrocarriles Nacionales de Mexico, a decentralized public organization, was established by a law of the Mexican Congress published on December 30, 1948. This Corporation is responsible for operation and management of 85% of the total Mexican railway system.

c) The Mexican railway rehabilitation programme has been in effect for the last 10 to 12 years and Export Credits Insurance Corporation has already provided long term export financing under Section 21A for rails and track accessories on behalf of DOSCO in the amount of US$36.5 million for the four year programme covering the years 1961 to 1964. In addition, in 1961 DOSCO insured with ECIC under Section 21 a rail order valued at US$12.8 million. Subsequently the balance outstanding of this insured transaction was guaranteed by ECIC under Section 21A.

d) In 1965, the second stage of the rehabilitation programme covering the period 1965 to 1969 and valued at US$50 million, was initiated. DOSCO applied to ECIC for Section 21A financing of US$9.2 million for the first instalment of this five year programme and in the covering Memorandum to the Cabinet it was pointed out that: "This application covers deliveries for the first year of a new five year sales arrangement between DOSCO and Ferrocarriles Nacionales de Mexico for rails and accessories to a total value of US$50 million." Cabinet approval was given for US$9.2 million and Order in Council P. C. 1965-695 was passed on April 15, 1965 on the basis of repayment terms of 14 equal consecutive semi-annual instalments commencing March 15, 1966.

Factors

a) An application has been received by ECIC from DOSCO for long term export financing under Section 21A of the Export Credits Insurance Act in the amount of US$10 million to cover the sale and export from Canada of steel rails and track accessories to Ferrocarriles Nacionales de Mexico on credit terms of seven years from average delivery date with repayment in 14 equal consecutive semi-annual instalments commencing March 15, 1967. Interest at 6% per annum will be payable semi-annually on the principal amount outstanding. The promissory notes issued by Ferrocarriles Nacionales de Mexico will be fully guaranteed as to dollar payment of principal and interest by Nacional Financiera, S.A. which is the second largest government financial institution in Mexico after the Central Bank. Its main function is to obtain and manage foreign development credits to contribute to the financing of productive investments in Mexico.

b) The Export-Import Bank of Washington considers the Mexican National Railways to be a relatively efficient operation. In June, 1965, it provided a further loan of US$13 million for the rehabilitation and continuing maintenance programme on repayment terms of ten years from April, 1967.

...2/

c) As of December 31, 1965, ECIC's net exposure in Mexico included Can.$59.0 million in Section 21A loans, Can.$4.7 million guaranteed under Section 21A, Can.$5.4 million under medium-term insurance and Can.$3.1 million under short-term insurance. A Section 21A commitment in principle of Can. $18.2 million has been given for the supply of steel mill equipment to Mexico which is under negotiation. Repayments on Section 21A contracts, and therefore the annual reduction in net Section 21A liabilities in Mexico, under contracts entered into up to the end of 1965 will be in excess of Can.$10 million in each of the years 1966 to 1968.

d) DOSCO's Sydney operations, with average annual sales of Can.$40 million, are of considerable regional economic and social importance, although the steel mill is poorly situated for the Canadian market and is relatively unprofitable because of obsolescent plant and limited product lines. DOSCO's rail mill accounts for 53% of all sales from its Sydney steel mill, and export sales of rails and track accessories in turn represent 53% of total rail mill production. The future of the Sydney steel mill is obscure, but its operations can probably be maintained if the rail export business continues at a substantial level. This export order of US$10 million would provide some 24 to 28 weeks of production for the rail mill, and failure to win this business could result in the temporary shut-down of the rail mill and the laying-off of a number of employees.

e) With each successive order, DOSCO tends to consolidate its position as a supplier of rails to Mexico. On the other hand it might be considered more productive in terms of promoting continuing export trade if available financing for Mexico were directed to projects involving other types of capital equipment.

f) The Canadian content of rails and track accessories supplied by DOSCO under this order ex plant Sydney would be 88 per cent.

Conclusions

The Committee on Export Finance has reviewed this application and has noted that the first stage of the current five-year sales arrangement between DOSCO and Ferrocarriles Nacionales de Mexico had previously been approved by the Cabinet. The Committee accordingly has recommended approval by the Cabinet of the requested financing.

Recommendations

a) I recommend that Export Credits Insurance Corporation should be authorized under Section 21A of the Export Credits Insurance Act to provide financing not in excess of US$10 million in connection with the sale and export from Canada of steel rails and track accessories by Dominion Steel & Coal Corporation, Limited to Ferrocarriles Nacionales de Mexico S.A.; the said financing to be repayable in 14 equal consecutive semi-annual instalments commencing March 15, 1967, with interest at 6% per annum on the principal amount outstanding payable semi-annually commencing six months from the date of the signing of the Financing Agreement and with payment of principal and interest to be guaranteed by Nacional Financiera, S.A.

b) This commitment in principle of Section 21A financing shall expire on June 30, 1966 unless definite arrangements have been entered into by the Borrower by that date to utilize the credit.

OTTAWA

Minister of Trade and Commerce

File

PRIVY COUNCIL OFFICE    BUREAU DU CONSEIL PRIVÉ

CANADA

CONFIDENTIAL

38-10-3-MEX
5/5

RECORD OF CABINET DECISION

Meeting of February 24th,1966.

Export Financing - Sale of Steel Rails to Mexico

The Cabinet approved the recommendations of the Minister of Trade and Commerce that:

(a) the Export Credits Insurance Corporation be authorized under Section 21A of the Export Credits Insurance Act to provide financing not in excess of US $10 million in connection with the sale and export from Canada of steel rails and track accessories by Dominion Steel & Coal Corporation, Limited, to Ferrocarriles Nacionales de Mexico S.A.; the financing to be repayable in 14 equal consecutive semi-annual instalments commencing March 15,1967, with interest at 6 per cent per annum on the principal amount outstanding payable semi-annually commencing six months from the date of the signing of the Financing Agreement and with payment of principal and interest to be guaranteed by Nacional Financiera,S.A.; and,

(b) the commitment in principle to expire on June 30, 1966 unless definite arrangements have been entered into by the borrower by that date to utilize the credit.

D.J. Leach,
Supervisor of Cabinet Documents.

March 2nd, 1966.

EXTERNAL AFFAIRS — AFFAIRES EXTÉRIEURES

TO / À: Under-Secretary of State for External Affairs, Ottawa

SECURITY / Sécurité: CONFIDENTIAL

FROM / De: Canadian Embassy, Mexico City

DATE: February 25,1966

NUMBER / Numéro: 87

REFERENCE / Référence:

FILE / DOSSIER — OTTAWA: 38-10-3-MEX — MISSION: 40/40

SUBJECT / Sujet: World Bank Loan

ENCLOSURES / Annexes

DISTRIBUTION

orig 38-4-3

In view of Canada's special additional participation in the 110 million U.S. dollar World Bank loan to Mexico for investment in electric power, it is perhaps worth reporting that the loan agreement has come under some attack locally as infringing upon Mexican sovereignty. There is no doubt that the loan has high level official support - it could not have been approved without the explicit support of the President - and that, therefore, the Mexican government will abide by its undertaking. The money is needed, and there is no other source which could in the circumstances provide financial support on as advantageous terms for such a large amount. Moreover, a quarrel with the World Bank might result in credit being cut off from other sources, like Canada, where great weight is given to World Bank economic assessments.

2. There are three principal trade unions functioning in the electric power sector, now a nationalized industry but not yet under a single management. The CFE (Comision Federal de Electricidad - the Federal Electricity Commission) is expanding and in time the power industry will almost certainly be consolidated under its aegis. The union which has organized CFE workers is also the most acceptable from the government's point of view and will presumably emerge as the dominant union. Attacks by leaders of the other two unions on the loan which will permit further CFE expansion, thus, may represent no more than a rear guard action, probably hopeless, to protect their jobs.

3. The government may have allowed them to give vent to their grievances because of the present plan to form a single labour union federation which the two unions might have sabotaged if action had been taken against their leaders. Others suggest that the government was quite prepared to have the unions play upon nationalist sentiment as a means of conveying a veiled warning to the World Bank not to push Mexico too far in insisting upon restrictive terms in future loans which it may extend.

4. We have also heard a different interpretation based on the fact that the press seldom publicizes attacks on government policy when the government itself is united. One informant believes that there is a left wing faction in the government which is distressed at the power and influence which has gravitated into the hands of the Minister of Finance, Mr. Ortiz Mena. The charge that he had been neglectful of Mexican national interests was designed to dim the lustre of his reputation.

...2

5. The contractual terms of the loan with the World Bank have not been, and probably will not be, published. Most of them were probably welcomed by the CFE itself as a means of committing the Mexican government to policies which the CFE wanted to be followed.

6. There is presently a World Bank team surveying the Mexican economy and government development plans, and its members may be able to find out more about this flurry of simulated indignation on the left over the loan to the electric power sector of Mexico.

Delivered by Chargé d'Affaires 11/3 pm.

AMBASCIATA D'ITALIA

38-10-3-MEX
36/5

Verbal Note No. 00856

The Italian Embassy presents its compliments to the Department of External Affairs and has the honour to inform the Department that the Italian Government have informed BIRS that, in the matter of the international financing program for the electrification of Mexico, they are in favour of the joint financement formula, but that they consider necessary the clarification of details concerning its sharing; the joint financing technique for each contract; on whether the payments to be effected by the two parties are to be kept separate and referred to different contracts or different shipments or to different working groups and, finally, the other details concerning the implementation of the financing and also the question of the 50-50 formula not yet accepted by all the countries concerned. For these reasons the Italian Government have told BIRS that they consider urgently necessary a preparatory meeting of all the financing States, and have proposed that such a meeting should be held in Rome on March 24th.

BIRS have answered affirmatively, and have accepted the Italian Government's invitation for March 24th at 10:30 a.m., at the Italian Department of Foreign Affairs,

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Department of External Affairs,
Ottawa, Canada.

subject to acceptance by other financing States concerned and Mexico.

The Italian Government have therefore extended invitations in the above sense to France, Britain, Switzerland, Norway and Japan, and have asked this Embassy to invite the Canadian Government to send its qualified representatives in order to examine with BIRS the following subjects:

a) joint financement formula;

b) percentage quota to be definitely established;

c) technical forms of execution;

d) sharing out of the financement;

e) payment facilities;

f) all other questions Canada would wish to include in the Agenda.

The Italian Embassy will be extremely grateful to the Department if they will kindly convey the above invitation to the Canadian Government and enable the Embassy to telegraph a prompt reply to the Italian Foreign Ministry.

The Italian Embassy avails itself of this opportunity to renew to the Department of External Affairs the assurances of its highest consideration.

AMBASCIATA D'ITALIA OTTAWA

Ottawa, March 11th, 1966

ACTION COPY

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FM ROME MAR15/66 RESTR

TO EXTERNAL 306 PRIORITY

INFO OECDPARIS PERMISNY WASHDC

TT TANDC OTT FINANCE ECIC OTT DE OTT

BAG MXICO DE OTT

WORLD BANK-FINANCING OF MEXICAN ELECTIFICATION

WE ARE INFORMED BY MFA NOTE THAT ITALIAN EMB OTT IS FORWARDING INVITATIONS TO SEND QUALIFIED REPS TO A MTG IN ROME MAR24 AM ON ABOVE MENTIONED SUBJECT.IT WILL BE ATTENDED BY WORLD BANK OFFICIALS AND REPS OF MXICO AND COUNTRIES INTERESTED IN PARTICIPATING IN FINANCING PROGRAMME.TENTATIVE AGENDA INCLUDES STUDY OF FINANCING OPERATION,PERCENTAGE CONTRIBUTIONS FOR WORLD BANK AND PARTICIPATING COUNTRIES,CREDIT TERMS ETC.

2.MFA WOULD LIKE TO KNOW URGENTLY WHETHER YOU WISH TO BE REPRESENTED AND IF THERE ARE OTHER TOPICS WHICH YOU WOULD LIKE TO SEE ON AGENDA OR ON WHICH ADDITIONAL INFO IS REQUIRED.

3.FOR OUR OWN GUIDANCE,GRATEFUL FOR ANY INDICATION AS TO WHETHER TANDC OR OTHER ADDRESSEES ARE AWARE OF ANY POSSIBLE BIDS BY CDN FIRMS ON MXICAN PROJECT.WE CAN ASSUME THAT ITALIAN FIRMS OR BANKING INSTITUTIONS ARE AMONG INTERESTED PARTIES.

37-10-3-MEX

Mr. Barker

ES

B of C

Latin American Div

European Div

done Mar. 16/66 JC.

& file B

# MESSAGE

FILE COPY

| DATE | FILE/DOSSIER | | SECURITY SECURITE |
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TO/A ROME

INFO OECDPARIS PERMISNY WASHDC TANDCOTT FINANCE ECIC BOFC

**REF** YOURTEL 306 MAR15

**SUB/SUJ** WORLD BANK - FINANCING MEXICAN ELECTRIFICATION - ROME MTG

CONFIRM ITALIAN EMB HAS PASSED US INVITATION TO MTG MAR24. QUESTION IS UNDER URGENT INTERDEPTL CONSIDERATION AND WE WILL LET YOU KNOW DECISION AS SOON AS POSSIBLE.

2. RE YOUR PARA THREE, FOR YOUR OWN INFO ONLY, AS OF NOW ALCAN HAS RECEIVED AND IS PROCESSING ORDERS FOR DOLLARS 3.2 MILLION FOR CONDUCTOR. PRESENT INDICATION IS THAT CDN FIRMS COULD WIN ADDITIONAL CONDUCTOR BUSINESS UP TO ABOUT DOLLARS 2.5 MILLION PLUS MISCELLANEOUS HARDWARE ORDERS AMOUNTING POSSIBLY TO DOLLARS TWO MILLION MAXIMUM.

DISTRIBUTION LOCAL/LOCALE L.A. DIV. EUROPEAN DIV. NO STANDARD

| ORIGINATOR/REDACTEUR | DIVISION | TELEPHONE | APPROVED/AUTORISE |
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| SIG.......... J.R. BARKER/jc | ECONOMIC | | SIG. J. R. MCKINNEY J.R. MCKINNEY |

EXT 18/BIL (REV 5/64)
(COMMUNICATIONS DIV)

# MESSAGE

FILE COPY

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| DATE | MAR17/66 | |
| FILE/DOSSIER | 38-14-3-MEX | 36 / 36 |
| SECURITY SECURITE | CONFD | |
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| TO/A | ROME | |
| NO | E - 16 | |
| PRECEDENCE | IMMED | |
| INFO | OECDPARIS PERMISNY WASHDC MEXICO CITY TANDCOTT FINANCE ECIC BOFC | |

REF OUR TEL E-919 MAR16

SUB/SUJ WORLD BANK - FINANCING MEXICAN ELECTRIFICATION - ROME MTG

HAVE NOTIFIED ITALIAN EMB OF CDN ACCEPTANCE ITALIAN INVITATION TO MTG MARCH24. REPS WILL BE W.G. PYBUS, DIRECTOR SECTION ONE, OFFICE OF TRADE RELATIONS, TANDC, AND I.B. BROWN, OFFICIAL,ECIC. WE WILL HAVE SUGGESTIONS FOR AGENDA AND WILL ADVISE AS SOON AS POSSIBLE.

2. ITALIANS REPORT THAT IN ADDITION TO IBRD AND MEXICO, FRANCE, JAPAN AND BRITAIN HAVE NOW AGREED TO ATTEND.

3. BROWN HAS BOOKED ROOM AT AMBASSADOR HOTEL THROUGH TRAVEL AGENT. PLEASE ALSO BOOK PYBUS AMBASSADOR AND CONFIRM BOTH RESERVATIONS BY TELEGRAM. THEY WILL ARRIVE EARLY MORNING MAR23. PLEASE ENSURE ROOMS AVAILABLE ON ARRIVAL.

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| ORIGINATOR/REDACTEUR | DIVISION | TELEPHONE | APPROVED/AUTORISE |
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| SIG. J.R. BARKER/jal | Economic | | SIG. J.R. MCKINNEY |

EXT 18/BIL (REV 5/64)
(COMMUNICATIONS DIV)

Economic/J.R. Barker/jel

EXTERNAL AFFAIRS    AFFAIRES EXTÉRIEURES

183

TO / À: Mr. A.E. Ritchie

SECURITY / Sécurité: CONFIDENTIAL

DATE: March 17, 1966

FROM / De: Economic Division

NUMBER / Numéro:

REFERENCE / Référence:

FILE / DOSSIER — OTTAWA: 38-10-3-MEX — MISSION: 51—

SUBJECT / Sujet: ECIC Board Meeting today - Italian invitation to Rome Meeting on Joint Financing of Mexican Transmission project

ENCLOSURES / Annexes

DISTRIBUTION

Lat.Am. Div.

We understand that Hugh Aitken will raise at today's meeting the question of the Italian invitation to a meeting in Rome on March 24 to clarify the proposed joint international financial arrangements for the IBRD sponsored Mexican Transmission line project. The Italian invitation (copy of the Note attached) was conveyed to us late last Friday and the Italians have been pressing urgently for a reply. It is known that Mexico and the IBRD will participate in the proposed meeting and it is likely that there would be interdepartmental agreement on Canadian attendance except that Trade and Commerce developed last minute doubts about participation in the project itself on grounds that we were already assured of any business likely to accrue to Canada from the project and Canadian participation would simply mean that ECIC instead of the IBRD would finance half of this business. Trade and Commerce also has some more general reservations about IBRD's handling of the financing arrangements for this joint enterprise, their failure to provide detailed information at sufficiently early stages before the bulk of Mexican purchases were committed, their insistence on first call on repayment for IBRD, and so on. Finance considers that joint enterprises of this nature are in principle desirable, that this one is admittedly experimental and may be imperfect but that on the basis of agreement by the Export Finance Committee, including Trade and Commerce, in principle to participation and given subsequent agreement by IBRD to improve terms for Canadian participation from 20-80 to 50-50, Mr. Sharp had expressed to the IBRD what pretty well amounted to a commitment to participate.

2. This basic difference between the two departments has remained unresolved through two committee meetings. There is some indication that, in view of Finance's very firm stand, Trade and Commerce may now be prepared to agree to participate in this particular project and it will probably help them to do so if there is some interdepartmental recognition of the merit of their general criticisms of the arrangements on this occasion which could help to ensure our seeking more satisfactory arrangements in future. An exchange of

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Ext. 407A/Bil.
(Admin. Services Div.)

letters (copies attached) between Messrs. Warren and Bryce outlines the positions of the two Departments.

3. Whatever the decision about participation in the project Trade and Commerce may suggest that Hugh Aitken attend the Rome meeting to discuss broad principles and techniques of participation in any future joint projects. Finance has been taking the position that if we don't participate in the project we should not attend the meeting but Denis Hudon, at least, would agree to ECIC supplying the representative if Canada takes part.

4. The total cost of the project is estimated at about $150 million, local costs would be about $22 million. Mexico is understood to have placed orders for material and equipment valued at $39 million of which $3.5 million is in Canada (Alcan), $10 million in Japan, $4.5 million in France, $1 million in Italy and $3.2 million in Mexico itself (distribution of the balance was not known by IBRD last month). Orders still to be placed amount to $89 mill ion of which it is extimated at least $27 million would be placed in Mexico and $27 million in other countries. Of this $27 million it is expected that $2.5 million would be placed in Canada and we might also pick up a further $2 million. It was not known at last report where the Mexicans would place the balance of ~~the~~ $35 million.

Economic Division.

Copy for: A.J.Barry LDH/val

Ottawa 4, February 28, 1966.

Mr. J.H. Warren,
Deputy Minister,
Department of Trade and Commerce,
Wellington Street,
Ottawa, Ontario.

Dear Mr. Warren:

Thank you for your letter of February 22, 1966, in which you suggest that we should not participate in the joint financing with the IBRD and other countries, of a large transmission project in Mexico.

The question should, I think, be considered first in the light of the broad background against which the proposal for joint financing was put forward. The IBRD estimates that the growth potential of certain key Latin American countries such as Mexico, Argentina and Brazil is very high indeed. The realization of this potential will require huge investments running into the hundreds of millions of dollars in such sectors as power, transportation and industry. These investments in turn must be made in an economic setting conducive to sustainable growth and must be soundly managed and operated. As you know, one of the major obstacles to growth in several Latin American countries has been the heavy burden placed on their economies by the huge deficits of their public utilities. The railways in Argentina are a good example.

The IBRD because it is a relatively impartial international organization and because of its well established relationship with Latin America, is in a particularly good position to bring about desirable changes in economic policy and to direct investments to

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projects which will help rather than retard economic development. This, in the medium if not in the immediate short-term, can do much to broaden their opportunities to expand Canadian exports. To put the matter in a slightly different form, an economy which is perpetually mismanaged must sooner or later resort to and retain import restrictions of one sort or another. This is what happened in Argentina.

The IBRD because of the large amounts involved does believe that it could not finance all the investments without undue strain on its resources. It has therefore put forward proposals for joint financing. Joint financing has the triple advantage of tending to ensure that the major investments can be financed, that they are soundly conceived and executed, and that they stimulate economic development and open up trade opportunities. At the same time, it gives participating countries assurance that any funds which they are in a position to make available will be used to good purpose.

The Mexican project is the first proposal for joint financing put forward by the IBRD. If we agree that joint financing is worthwhile and can do much to promote the steady expansion in world trade, then we should encourage the IBRD by agreeing to participate in the Mexican project. It is partly for these reasons that the Committee on Export Finance agreed in principle to Canadian participation as early as last autumn, when the matter was first raised by the IBRD, and that Mr. Sharp wrote to the President of the IBRD, after the letter had been cleared inter-departmentally, indicating in effect agreement in principle to Canadian participation provided a satisfactory formula for splitting the financing between the IBRD and Canada could be found. At that time, the IBRD was proposing that it should finance 20 per cent and Canada 80 per cent. In the follow-up to Mr. Sharp's letter, which again was carried forward only after inter-departmental clearance, we indicated that the proposed formula was not acceptable. After some resistance, the IBRD agreed to a 50-50 split which the members of the Export Finance Committee consider to be quite reasonable.

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Against this background, your letter came as a surprise to me and you may wish to reconsider your position in the light of these facts.

I do not want to dwell on all the points made in the notes attached to your letter, but there are a few that call for comment. The value of goods and services in Canada in 1965 for IBRD and IDA financed projects was closer to U.S. $8 million than U.S. $4.1 million (your point 3). The 15 per cent preference was in lieu of a much higher tariff and was thus definitely to our advantage. Behind a high tariff more goods would have been procured in Mexico. In other words, the preference enlarged the area of competition and the opportunities for securing business (also your point 3). The Committee was of course fully aware of your points 6 and 7 when the Committee examined the matter. They are reflected in Mr. Sharp's letter to Mr. Woods. In addition, the loan agreement between the IBRD and Mexico contains provisions which protect other lenders against default. Finally, if the conditions under which competitive bidding were carried out were unfair, as your point 1 appears to imply, we should inform the IBRD accordingly in order to avoid repitition if at all possible (your point 1).

Yours sincerely,

Original Signed by Mr Bryce

OUSSEA/A.E.Ritchie/akp

March 17, 1966

38-103-MEX
5

MEMORANDUM TO MR. J. R. BARKER

Italian Invitation to Rome Meeting on Joint Financing of Mexican Transmission Project

The conclusion reached in the discussion of this subject at the ECIC Board meeting today was that:

(a) We should be represented at the Rome meeting by an officer of ECIC (Don Taylor's deputy);

(b) Our basic position should be that we would be willing to join in an arrangement with the IBRD in respect of contracts placed after the working out of the arrangement (i.e. excluding the $3.2 million worth of business already secured by Canadian firms on a cash basis);

(c) Our representative should be allowed a certain amount of flexibility, however, in case other countries which also have substantial amounts of business already covered by contract, are willing to see such cash business brought within the arrangement, in which case we would not necessarily go along but would be prepared at least to have another look at the matter.

A. E. R.



18.3.3(05)

ACTION COPY

38-10-3-MEX

40 | 40

Mr. Barker

E ECIC

(Mr Aitken) T&C, B of C

Finance

~~Far Eastern~~ Latin American

FM MXICO MAR17/66 RESTR

TO EXTERNAL 83 DE WASHDC

WITHHOLDING TAXES EXEMPTION ON ECIC SECTION 21A LOAN

WE WOULD BE GRATEFUL IF YOU WOULD ENSURE ACTION BEING TAKEN ON AMBASSADORS LET FEB FIRST TO LATE DOCTOR DC TAYLOR OF ECIC OF WHICH COPY REFERRED TO YOU.EXEMPTION MENTIONED ABOVE WILL NOT RPT NOT TAKE FULL EFFECT UNTIL THIS EMB IS ABLE TO PROVIDE ASSURANCE OF RECIPROCAL TREATMENT BY CDA.'

c.c. ECIC
T & C
Finance Dept.
B of C
Embassy Rome
Lat.Am. Div.

Economic/J.R. Barker/jel

38103-MEX
3636

No. E - 936

The Department of External Affairs presents its compliments to the Italian Embassy and has the honour to acknowledge the Embassy's Note No. 00856 of March 11 inviting the Canadian Government to be represented at a meeting in Rome on March 24 of representatives of States interested in joint financing, with the International Bank for Reconstruction and Development, of an electrification project in Mexico.

The Canadian Government is happy to accept this invitation and will be represented at the meeting in Rome by officials of the Department of Trade and Commerce and of the Export Credits Insurance Corporation. The Canadian authorities have noted with interest the matters proposed for the agenda of the meeting and the Department will let the Embassy know shortly what additional subjects they will propose for inclusion in the agenda.

The Department of External Affairs avails itself of this opportunity to renew to the Italian Embassy the assurances of its highest consideration.

J. R. MCKINNEY

OTTAWA, March 18, 1966.

# MESSAGE

FILE COPY

| | DATE | FILE/DOSSIER | SECURITY SECURITE |
|---|---|---|---|
| FM/DE EXTERNAL OTT | MAR18/66 | 38-10~~7~~-MEX 36 36 | Restr. |

| | NO | PRECEDENCE |
|---|---|---|
| TO/A ROME | E- 948 | PRIORITY |

INFO TANDC FINANCE ECIC BOFC

**REF** OURTEL E-919 MAR16

**SUB/SUJ** ROME MTG: MEXICAN ELECTRIFICATION PROPOSAL

PYBUS UNABLE ATTEND. J.R. MIDWINTER, CHIEF, FINANCING AND AID DIVISION DEPT TANDC WILL ATTEND IN HIS PLACE.

DISTRIBUTION LOCAL/LOCALE

NO STANDARD

| ORIGINATOR/REDACTEUR | DIVISION | TELEPHONE | APPROVED/AUTORISE |
|---|---|---|---|
| SIG J.R. BARKER | ECONOMIC | | J. R. BARKER SIG ~~J.R. MCKINNEY~~ |

EXT 18/BIL (REV 5/64)
(COMMUNICATIONS DIV)

FILE COPY

# MESSAGE

| DATE | FILE/DOSSIER | SECURITY SECURITE |
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| MAR22/66 | 38-10-3 MEX 36 36 | CONFD |

FM/DE EXTERNAL OTT

| NO | PRECEDENCE |
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| E-988 | IMMED |

TO/A ROME

INFO OECDPARIS PERMISNY WASHDC MEXICO CITY
TANDCOTT FINANCE ECIC BOFC

**REF** OURTEL E-16 MAR17

**SUB/SUJ** ROME MTG ON INTERNATIONAL FINANCING MEXICAN ELECTRIFICATION

AFTER EXAMINATION OF PROPOSED AGENDA WE CONSIDER IT BROAD ENOUGH TO ~~DEAL WITH~~ COVER QUESTIONS WHICH WE ~~WOULD~~ WISH DISCUSSED. WE ~~ARE~~ ASSUME ~~ING~~ THAT AGENDA HEADINGS WILL BE INTERPRETED FAIRLY FLEXIBLY; IF THIS NOT RPT NOT LIKELY TO BE SO IT MIGHT BE DESIRABLE TO INCLUDE ITEM QUOTE OTHER BUSINESS UNQUOTE.

DISTRIBUTION LOCAL/LOCALE L.A. DIV. EUROPEAN DIV. NO STANDARD

| ORIGINATOR/REDACTEUR | DIVISION | TELEPHONE | APPROVED/AUTORISE |
|---|---|---|---|
| SIG. J. R. BARKER<br>J.R. BARKER/jc | ECONOMIC | | SIG. J. C. LANGLEY<br>J.C. LANGLEY |

EXT 18/BIL (REV 5/64)
(COMMUNICATIONS DIV)

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DE WDC

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FM MEXICO MAR23/66

TO ROME TC45

INFO EXTERNAL

FOR MIDWINTER

RE TC2349 MAR22

WORLD BANK FINANCING MEXICAN ELECTRIFICATION

CFE HAS INFORMED US THAT DUTIES ARE PAID ON IMPORTS WHETHER UNDER WORLD BANK FINANCING OR OTHERWISE. SUCH DUTIES ARE NON REFUNDABLE.

NNNN

~~Mr. Barker~~

38-10-3-MEX

# MESSAGE

FILE COPY

| | DATE | FILE/DOSSIER | | SECURITY SECURITE |
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| | | 38-10-~~1~~ MEX | | |
| FM/DE EXTERNAL OTT | MAR23/66 | 36 | 36 | CONFD |

| | NO | PRECEDENCE |
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| TO/A ROME | E-1004 | IMMED ~~EMERGENCY~~ |

(CONCENTRE: PLEASE ENSURE DELIVERY BY 9:00 A.M. ROME TIME)

INFO WASHDC MEXICO OECDPARIS PERMISNY
TANDCOTT(PYBUS) ECIC FINANCE(HUDON) INDUSTRY(ABELL)
BOFC(WATTS) EAO(TOWE)

**REF** OUR TEL E-988 MAR22

**SUB/SUJ** JOINT INTERNL FINANCING OF MEXICAN ELEC POWER PROGRAMME

WE WELCOME ITALIAN GOVTS INITIATIVE IN CONVENING MTG ~~OF INTERESTED GOVTS AND IBRD~~ TO DISCUSS JOINT FINANCING OF MEXICAN POWER PROGRAMME PROPOSED BY IBRD. CLARIFICATION ~~OF VARIOUS ASPECTS WOULD BE DESIRABLE AND WE CAN SEE ADVANTAGES IN~~ AND EXCHANGE~~S~~ OF IDEAS ON TECHNICAL PROBLEMS IS DESIRABLE AS IS ~~WITH OTHER LENDERS AND IN~~ ACTION CONCERTING ~~OUR HANDLING OF THIS~~ TO EXTENT APPROPRIATE. WE DO NOT RPT NOT ANTICIPATE THAT TECHNICAL DISCUSSION WILL RAISE SERIOUS POLICY QUESTIONS. PROPOSAL DOES, HOWEVER, RAISE LARGER ISSUES RELATING TO ~~AND MORE GENERAL ISSUES OF~~ INTERNATIONAL FINANCING ~~OPERATIONS~~ IN CONJUNCTION WITH IBRD, IMPLICATIONS OF WHICH MIGHT BE EXPLORED IN A PRELIMINARY WAY. ~~WITH VIEW TO SUGGESTING LINES FOR SUBSEQUENT SUBSTANTIVE REVIEW.~~ PRESUMABLY THIS COULD BE DEALT WITH UNDER AGENDA ITEM (F) AS PROPOSED BY ITALIANS.

2. MINISTER OF FINANCE HAS INFORMED PRESIDENT ~~OF~~ IBRD THAT CDA WOULD BE PREPARED IN PRINCIPLE TO PARTICIPATE IN JOINT FINANCING OPERATION FOR MEXICO SUBJECT TO ~~DEVISING~~ ACCEPTABLE FORMULA FOR SHARING FINANCING OF PROCUREMENT IN CDA BETWEEN IBRD AND ECIC.

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DISTRIBUTION LOCAL/LOCALE LAT.AM. DIV. NO STANDARD

| ORIGINATOR/REDACTEUR | DIVISION | TELEPHONE | APPROVED/AUTORISE |
|---|---|---|---|
| SIG. J.R. BARKER/jel | Economic | | SIG. J. C. LANGLEY J.C. LANGLEY |

EXT 18/BIL (REV 5/64)
(COMMUNICATIONS DIV)

3. IN GENERAL WE FAVOUR IBRD SPONSORED JOINT FINANCING OPERATIONS FOR THE VERY LARGE DEVELOPMENT PROGRAMMES BEGINNING TO EMERGE IN SOME OF THE LARGER AND MORE ADVANCED LDCS AND SEE THESE BECOMING A MAJOR INVESTMENT TECHNIQUE OVER THE NEXT DECADE AND MORE. HOWEVER, WE QUESTION THE USE OF CDN EXPORT PROMOTION CREDITS UNDER SECTION 21A MUST BE LIMITED ~~I[illegible]~~ OPERATIONS WHERE OUR EXPORT INTERESTS WILL ~~WOULD NOT~~ BE ADVANCED.

4. ~~IN [illegible] MEXICO, OPERATION WAS REFERRED~~ MEXICAN OPERATION WAS PROPOSED TO US ONLY LATE LAST YEAR WHEN MOST MAJOR INVESTMENT DECISIONS HAD ALREADY BEEN TAKEN BY MEXICAN AUTHORITIES, MANY EQUIPMENT ORDERS PLACED AND WHEN IBRD ITSELF WAS IN FINAL STAGES OF ~~THE~~ LOAN NEGOTIATION. ~~A[illegible]~~. IN EFFECT, CDA AND OTHER GOVTS WERE ASKED TO PROVIDE SUPPLEMENTARY RATHER THAN JOINT FINANCING. DETAILED INFORMATION ON ~~THE~~ PROGRAMME HAS ONLY SLOWLY BEEN MADE AVAILABLE AND IS STILL INCOMPLETE. MOREOVER, ~~THE~~ DEPT OF TRADE AND COMMERCE HAS CARRIED OUT A MARKET SURVEY WHICH SUGGESTS THAT SALES OPPORTUNITIES FOR CDA ARE RELATIVELY UNATTRACTIVE. ORDERS IN HAND OR LIKELY TO COME TO CDA ARE FOR COMMODITIES (CONDUCTOR AND HARDWARE) RULED INELIGIBLE FOR SECTION 21A FINANCING A YEAR AGO AND OF DOUBTFUL ELIGIBILITY EVEN UNDER MORE FLEXIBLE CRITERIA NOW IN EFFECT. PARTICIPATION IN THE JOINT FINANCING OPERATION, WE BELIEVE, WOULD HAVE LIMITED EFFECT ON OUR IMMEDIATE EXPORT PROSPECTS AND WE DOUBT THAT GOODWILL GENERATED FOR CDA WOULD MEAN MUCH IN PRACTICAL TERMS.

5. IN LIGHT OF ABOVE CONSIDERATIONS, CDN REPRESENTATIVES SHOULD SEEK TO REACH UNDERSTANDING WITH IBRD AND ~~OTHER~~ COUNTRIES REPRESENTED THAT CDA WOULD PARTICIPATE IN FINANCING OF MEXICAN ELECTRICAL POWER PROGRAMME UNDER A FORMULA BY WHICH ORDERS PLACED IN CDA SUBSEQUENT TO DATE OF FINANCING AGREEMENT WITH IBRD WOULD BE FINANCED EQUALLY BY ECIC AND IBRD. CDN PORTION OF SUCH FINANCING UNDER THIS AGREEMENT WOULD NOT EXCEED DOLLARS FIVE MILLION. ~~IT SHOULD BE UNDERSTOOD, OF COURSE, THAT~~ ANY AGREEMENT BETWEEN ECIC AND BANK WOULD HAVE TO BE APPROVED BY CDN GOVT.

6. ~~IN EVENT THAT AN~~ IF ARRANGEMENT ALONG FOREGOING LINES ~~OUTLINED IN PARAS ABOVE~~ CANNOT BE WORKED OUT, YOU MIGHT, AS LAST RESORT, OFFER TO RECOMMEND CONSIDERATION BE GIVEN IN OTTAWA TO INCLUSION OF A PORTION OF ORDERS ALREADY PLACED IN CDA.

7. CDN REPRESENTATIVES SHOUID EXPLORE WITH ~~OTHERS~~ PARTICIPANTS IMPLICATIONS OF MEXICAN PROJECT ~~COULD HAVE~~ FOR FUTURE JOINT FINANCING OPERATIONS. ~~IN THIS CONNECTION~~, IF THERE IS SUPPORT FOR IDEA OF ~~MORE SUBSTANTIVE REVIEW~~ FURTHER EXPLORATION ALONG THESE LINES, YOU MIGHT ~~WISH TO~~ SUGGEST THAT IBRD CONVENE MORE ~~BROADLY BASED~~ REPRESENTATIVE ~~DISCUSSIONS WITH~~ MEETING OF INTERESTED COUNTRIES AT IBRD HEADQUARTERS WITH VIEW TO FORMULATING GENERAL POLICY FOR JOINT FINANCING OPERATIONS UNDER BANK SPONSORSHIP.

8. GRATEFUL ANY ASSISTANCE MISSION CAN PROVIDE MIDWINTER AND BROWNE.

E

ACTION COPY

FM ROME MAR25/66 CONFD

TO EXTERNAL 366 IMMED

INFO OECDPARIS WASHDC PERMISNY

TT TANDC OTT(PYBUS)FINANCE(HADON)INDUSTRY(ABELL)BOFC(WATTS)

EXAID(TOWE)DE OTT

BAG MEXICO DE OTT

REF YOURTEL E1004 MAR23

38-10-3-MEX

JOINT INTERNATL FINANCING OF MEXICAN ELECTRIC POWER PROGRAM

MTG CONVENED BY ITALIAN GOVT ATTENDED BY DELS FROM IBRD MEXICO CDA FRANCE GERMANY ITALY JAPAN SWITZERLAND AND OBSERVER FROM SWEDEN.

2.IT WAS IMMEDLY APPARENT THAT MOST GOVTS HAD BEEN HAVING CONSIDERABE DIFFICULTY WITH THE BANKS PROPOSALS WITH RESPECT TO MEXICAN JOINT FINANCING OPERATION.THERE WAS NO RPT NO SUPPORT FOR THE BANKS POSITION THAT PROCUREMENT IN PARTICIPATING COUNTRIES SHOULD BE FINANCED EQUALLY BY THE BANK OF THE PARTICIPANTS EXCEPT BY JAPANESE WHOSE ACCEPTANCE WAS CONDITIONAL UPON CONCURRENCE OF OTHER COUNTRIES.THE BANKS INSISTENCE ON DIRECT GOVT LOANS AT 15 YEARS, PROCUREMENT PROCEDURES AND RETROATIVE FINANCING OF ORDERS ALREADY PLACED CAUSED CONCERN.HOWEVER AFTER DISCUSSION GENERALLY SATISFACTORY COMPROMISES WERE WORKED OUT FOR RECOMMENDATION TO GOVTS.

3.DELEGATIONS AGREED:(A)THAT JOINT FINANCING WAS DESIRABLE IN PRINCIPLE AND THAT CARE SHOULD BE TAKEN TO DEVELOP A PROCEDURE WHICH WOULD PERMIT WIDESPREAD PARTICIPATION IN MEXICAN PROJECT AND THE USE OF JOINT FINANCING IN FUTURE PROJECTS;(B)THAT THE PRINCIPLE OF INTERNATL COMPETITIVE BIDDING SHOULD CONTINUE TO BE FOLLOWED WITH FIRMS IN MEMBER-COUNTRIES OF THE BANK AND IN

SWITZERLAND ELIGIBLE FOR CONTRACTS REGARDLESS OF WHETHER OR NOT RPT NOT THEIR GOVTS HAD PROVIDED JOINT FINANCING;(C)THAT THE MEXICAN PROJECT,WHILE IT PRESENTED CERTAIN DIFFICULTIES BECAUSE OF THE NATURE OF THE GOODS TO BE PROCURED,WAS AN APPROPRIATE CHOICE FOR A PILOT JOINT FINANCING OPERATION.

4.ON DIV OF FINANCING BETWEEN THE BANK AND PARTICIPATING COUNTRIES, DELS AGREED THAT TWO-THIRDS SHARE BY BANK AND ONE-THIRD BY PARTICIPANTS WOULD BE THE MOST APPROPRIATE SPLIT.SINCE THIS WOULD PRODUCE IN THE CASE OF CDA THE SAME GENERAL RESULT AS EXCLUDING ORDERS ALREADY PLACED FROM THE CDN SHARE,CDN DEL AGREED TO RECOMMEND CONCURRENCE.

5.ON THIS BASIS FINANCING OFFERS BY DEL SUBJECT TO RECEIPT OF ORDERS WERE:ITALY:GOVT LOAN OF USA DOLLAR 10 MILLION FOR 15 YEARS, FROM DATE OF CONTRACT.JAPAN:GOVT LOAN OF USA DOLLARS 10 MILLION FOR 15 YEARS,FROM DATE OF CONTRACT.CDA:ECIC LOAN OF UP TO DOLLARS 5 MILLION FOR 15 YEARS FROM DATE OF CONTRACT.FRANCE:GOVT CREDIT OF DOLLARS 10 MILLION FOR UP TO 10 YEARS FROM DATE OF DELIVERY DEPENDING ON NATURE OF GOODS ORDERED.SWITZERLAND:GOVT GUARANTEED BANK CREDIT OF DOLLARS 7 MILLION FOR 10 YEARS FROM DATE OF DELI-VERY.GERMANY:GUARANTEED SUPPLIERS CREDITS FOR A MINIMUM OF DOLLARS 10 MILLION FOR UP TO 10 YEARS FROM DATE OF DELIVERY DEPENDING UPON SIZE OF ORDER AND NATURE OF GOODS.UK:GUARANTEED SUPPLIERS CREDITS NO RPT NO CEILING FOR UP TO 10 YEARS DEPENDING UPON SIZE OF ORDER AND NATURE OF GOODS.SWEDEN DECLINED TO PARTICIPATE ON ANY BASIS.

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6.APPARENT AVAILABILITY OF FINANCING THEREFORE COULD TOTAL DOLLARS 35 MILLION IN DIRECT OFFICIAL LOANS,DOLLARS 7 IN OFFICIALLY GUARANTEED PRIVATE LOAN PLUS SUPPLIERS CREDITS.

7.UK AND GERMAN DELS STATED THAT 10 YEARS WAS THE LIMIT TO WHICH THEIR EXPORT INSURANCE AGENCIES COULD GUARANTEE SUPPLIERS CREDITS AND THAT MEXICO WAS NOT RPT NOT ELIGIBLE FOR DEVELOPMENT LOANS WITHIN FRAMEWORK OF THEIR RESPECTIVE AID PROGRAMS.JAPANESE DEL ADVISED THAT THEIR LOAN OFFER WAS CONDITIONAL UPON OTHER COUNTRIES ALSO GOING TO 15 YEARS AND THAT IT WOULD HAVE TO BE REVIEWED BY HIS GOVT IN VIEW OF THE SPLIT IN TERMS OFFERED BY VARIOUS COUNTRIES.

8.THE REP OF THE BANK URGED THAT ITALY CDA AND JAPAN EXTEND TERMS OF 15 YEARS DESPITE INSTITUTIONAL DIFFICULTIES WHICH PREVENTED OTHER GOVTS FROM DOING SO IN THIS INSTANCE.

9.THE REP OF THE BANK DECLARED THAT ALTHOUGH THEY FORESAW UNDER-UTILIZATION OF THE PARALLEL LOANS OFFERED AND WOULD HAVE DIFFICULTY IN SCHEDULING AMORTIZATION THEY WERE PREPARED TO PROCEED ON THE BASIS OF TWO-THIRDS ONE-THIRD DIV OF FINANCING AND MIXTURE OF BILATERAL FINANCING ARRANGEMENTS PROPOSED BY DELS.THE DEL OF MEXICO CONCURRED.

10.DELS WERE IN GENERAL AGREEMENT WITH THE ADMIN ARRANGEMENTS PROPOSED BY THE BANK ALTHOUGH RECOGNZING THAT ALIGNMENT OF BILATERAL CREDITS WITH EACH OTHER AND WITH THE BANKS LOAN AGREEMENT WILL NOT RPT NOT BE EASY.RETROACTIVE FINANCING CREATED DIFFICULTIES FOR SOME PARTICIPATNS INCLUDING SWITZERLAND FRANCE AND UK.TO

OVERCOME THIS THE BANK AGREED TO FINANCE ORDERS ALREADY PLACED FROM ITS SHARE.

11.CDN PROPOSAL THAT THERE BE FURTHER EXPLORATION OF JOINT FINANCING PRINCIPLES INCLUDING POSSIBLY A MORE REP MTG OF INTERESTED GOVTS TO BE CONVENED BY THE IBRD WITH A VIEW TO FORMULATING A GENERAL POLICY WAS ACCEPTED BY ALL DELS.

12.MINUTES OF THE MTG GOING FORWARD SEPARATELY CONTAIN DETAILS OF THE POINTS SUMMARIZED ABOVE.

38-10-7-MEX
32

OTTAWA 4, March 28, 1966.

Mr. H. ~~T.~~ Aitken,
President,
Export Credits Insurance Corporation,
5th Floor, Halifax Building,
309 Cooper St., P.O. 655,
Ottawa, Ontario.

Re: Joint International Financing
of Mexican Electric Power Program

Dear Mr. Aitken:

Attached are the minutes drawn up by the Italian Secretariat at the Rome meeting which were referred to in the telex report of the Canadian Delegation, dated March 25. Delegations had an opportunity to comment on the minutes but not to go over the final draft. They fairly reflect the discussion though perhaps a little too forthrightly; most delegations, including ours, made the point that any conclusions or agreements reached at the meeting could only be ad referendum.

As matters turned, most potential participants in the operation had obviously the same reservations about it as we had; indeed, the Canadian position was one of the more outgoing.

I would hope that our course of action could now be reviewed by the Committee on Export Finance with a view to submitting a Memorandum to Cabinet as soon as possible. Since our preoccupations have been met, it would seem desirable to push ahead quickly; this would be well-received by both the IBRD and the Mexican authorities.

Yours faithfully,

J. R. Midwinter, Chief,
Financing & Aid Division,
Office of Trade Relations.

JRM/fa

c.c. Mr. J. R. Barker, (External)
Mr. Denis Hudon, (Finance)
Mr. A. S. Abell, (Industry)
Mr. Geo. Watts, (Bank of Canada)
Mr. W. G. Pybus, (O.T.R.)
Mr. R. A. Scoon, (T & C)
Mr. P. M. Towe, (EAO)

# PROCES VERBAL OF MEETING ON JOINT FINANCING OF MEXICAN POWER PROJECT

1 - The meeting was held in the Ministry of Foreign Affairs of the Government of Italy in Rome on Thursday and Firday, March 24 and 25, 1966. The Countries and Institutions attending and their Representatives are indicated in the attached list.

2 - Ambassador Ortona welcomed the group indicating that Italy had taken the initiative in calling the meeting in the hope that it would lead to a common accord about the basis on which Countries might join with the World Bank in financing the Mexican Power Project and be helpful in developing a more general use of the principle of joint financing. He submitted a draft agenda which was accepted and is attached. The principal points discussed are summarized briefly under the agenda items in which they were discussed.

3 - Consideration of item 2 of the agenda with a statement by Mr. Schmidt of the Bank in which he described the main features of the proposed joint financing procedure as follows:

a) The World Bank and the Government of the borrowing Countries would select and appraise the project which would satisfy their normal standards with respect to such aspects as: priority, economic justification, technical feasibility, soundness of financial plan and the effectiveness of arrangements for administration.

b) The equipment and services for the project will be procured on the basis of international competitive bidding among the members of the Bank and Switzerland, in accordance with the practice usually followed on World Bank projects.

) Biddings would not be restricted to those providing joint financing and bids would be evaluated on a uniform basis regardless of the source of financing.

c) In order to permit exporters in all Countries to bid on the same basis, exporters should not be asked to provide part of the financing or bear part of the risk. Therefore, joint loans should be in the form of loans from financing institutions directly to the borrower and not in the form of credits from the suppliers. This would also simplify administration, especially in cases in which several exporters in one Country are involved.

d) The terms of the joint loans should be as near as possible to the terms of World Bank lending and be appropriate to the size and character of the project, rather than being determined by the character of the individual item being procured in each Country. The term suggested was 15 years after signing of the contract or 12 years after delivery, which is regarded as the equivalent.

e) In order to ensure that the total financial plan which emerges is appropriate to the project and the financial position of the borrower, the Bank would adjust the amortization schedule of its loan to take into account the schedules of those who join with the Bank in financing the project so that annual amortization payments required of the borrower would reasonably approximate those which the borrower would have made if the entire amount had been provided by the World Bank loan.

4 - After summarizing the possible advantages of the Plan, Mr. Schmidt explained how the procedure might be applied to the Mexican Power Project, calling attention to the provisions in the Bank loan documents providing for an interrelation between the World Bank loan and the loans to be made by Countries which participate in financing the Project. Mr. Navarrete described the nature of the Mexican Power Project. Mr. Schmidt indicated that the project called for a total



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investment of $ 300 million over the two years 1965-1966 of which Mexico would provide $ 155 million. The World Bank estimated that external financing required was $ 145 million, but had reduced its loan to $ 110 million in the expectation that Mexico might obtain joint loans that would provide to remaining $ 35 million.

In the discussion of this item there was general agreement:

a) that joint financing was desirable in principle and that care should be taken to develop a procedure which would permit widespread participation in the Mexican Project and the use of joint financing in other future projects;

b) that the principle of international competitive bidding should continue to be followed with all Countries free to bid regardless of whether they provided joint financing.

c) that the Mexican project, while it presented certain difficulties because of the nature of the goods to be procured, was an appropriate choice for a pilot operation.

5 - In beginning the discussion of items 3 and 4 of the agenda, which were considered together, Mr. Nelson of the I.B.R.D. indicated that estimates made on the basis of presently available information are that procurement for the Mexican project in the Countries attending the meeting would be of the order of about $ 64 million, without taking into account orders of the amount of about $ 14 million, for which it was found impossible to make an estimate of the likely sources of procurement. If, under these circumstances, joint loans were to finance 50% of the cost of goods to be procured in the respective Countries, with the remaining 50% to be financed by the I.B.R.D. loans, the total likely to be provided from the joint loans would not exceed $ 35 million and would probably be less.

The French delegate indicated that France desired to support the principle of joint financing and wanted to cooperate in the program. He welcomed the Mexican project as a test case but

:ressed the importance of arriving at a solution not merely on empirical grounds but on rational grounds which would provide a basis for future operations as well. He stressed the importance of basing the procedure upon international competitive bidding. He felt that the ratio of 50-50 was deficient in that it was based upon estimates of doubtful validity and that it imposed too heavy a burden upon participating Countries if Countries which did not give joint credits won important orders. France felt that a ratio of 25-75 corresponded more to the ratio of $ 35 and $ 110 million and was more equitable. If the principle of joint financing was to continue to be accepted and to be applied in other cases, it was important that those who participated not feel that they were carrying too great a burden or being penalized for their participation.

The Italian delegate said that among the considerations which had induced Italy to be willing to grant a loan of $ 10 million to Mexico, there were some of a political nature; Italy considered that a ratio of 50-50 could be acceptable in the case of Mexico but that such a formula would prevent other Countries from participating in other similar cases. It would therefore be preferable to use a 1/3-2/3 ratio.

The British delegate said that he preferred the 25-75 ratio suggested by the French delegation, whose concerns he shared, but would also be prepared to recommend acceptance of the 1/3-2/3 ratio.

The Swiss delegate emphasized that the ratio to be fixed should not have the effect of precluding accords to be made to non-participating Countries under a system of competitive international bidding.

After the Canadian delegate expressed support for the 1/3-2/3 ratio, che Chairman suggested to the Bank and Mexico that they consider accepting a ratio lower than 50-50, which would permit a wider participation in this project.

In the ensuing discussion, the delegates of most Countries reiterated the view that 50% was too high a proportion for the joint loans to finance in the Mexican project. The consensus of the prospective lenders was that the ratio of 1/3 from the joint loans and 2/3 from the I.B.R.D. loan would be acceptable for the Mexican project, it being understood that this ratio should not be considered as a precedent and that the ratio to be used in succeeding cases should be determined in the light of the characteristics of the project in question.

In the discussion of the proportion to be financed by joint loans, considerable attention was devoted to the question of the term on which joint loans should be made. Italy, Canada and Japan indicated that they were prepared to have terms of 15 years.

The Chairman then asked the participating Countries to indicate the size of the joint loans they were prepared to make for the Mexican Power Project and the terms on which they would make it.

The Canadian delegate said that his Government was prepared to lend up to $ 5 million on a 50-50 basis, after exclusion of orders already placed but would be prepared to recommend the 1/3-2/3 ratio. It had no difficulty with the term of 15 years.

The French delegate said that his Government was prepared to lend $ 10 million and preferred the ratio of 25 to 75. However, it would be prepared to consider the 1/3-2/3 ratio if this were generally agreed upon. The term of the credit, which will depend upon the nature and the size of orders, could be up to 10 years after delivery.

The German delegate said that his Government was prepared to extend guarantees, on a 1/3-2/3 basis, for credits with terms of up to 10 years after delivery for orders of at least $ 1.25 million and concerning equipment. For an application of a German bank in the amount of $ 10 millions, it had expressed its general willingness to give a guarantee for this credit.

The Japanese delegate said that his Government was prepared to lend $ 10 million and would accept the 50-50 ratio and provide a term of 15 years if the other Countries would lend on the same basis.

The British delegate said that his Government was not concerned about the upper limit of the amount of its loan if it got large orders, but it would not be able to lend on a term of 10 years for small amounts.

The Swiss delegate said that a group of banks were prepared, with appropriate guarantee of the Government, to lend $ 7 million with a term of 10 years after delivery for investment goods of a certain order of magnitude.

The Italian delegate said that his Government had already offered a loan of $ 10 million on a 15-year term and was prepared to adhere to this offer. However, he would hope that a general basis would be developed on which all Countries would participate and to which they would adhere. The Italian Government would prefer the 1/3-2/3 ratio for the Mexican Power Project.

6 - Items 5 and 6 of the agenda were considered together. It was agreed that each parallel loan would be worked out bilaterally between the respective lending institution and the borrower. Mr. Schmidt pointed to the desirability of giving the Bank the opportunity to examine the contracts while in draft, particularly the disbursement provisions, to ensure that they are compatible with the World Bank loan agreement and disbursement procedures. All agreed that their loans could be in the form of loans directly from their lending institutions to Nacional Financiera. The law of most Countries would require that funds be disbursed directly to their suppliers, although some said they could also disburse to Nacional Financiera as the borrower.

7 - In the final session of the meeting a consensus was reached, to proceed with parallel loans for the Mexican Power Project, on the basis of the ratio of 1/3-2/3.

This was accepted by Mr. Schmidt of the World Bank and Mr. Navarrete of the Mexican delegation with the understanding that in the application of this ratio, disbursements from the World Bank made for orders already placed or for down payments, would be considered part of the 2/3 to be financed by the World Bank loan.

While accepting this principle, the Swiss delegate asked the record to show that, in the case of Switzerland and a number of other Countries, reimbursements could not be made from parallel loans for payments already made by the Mexican Government on orders already placed.

Upon request and proposal of the Bank, confirmation was also given by the Italian and Canadian delegations of their willingness to lend on the basis of 15 years from signature of contracts. The Japanese delegation agreed to recommend that its Government do the same, notwithstanding the different conditions proposed by the other Countries participating in the meeting (ten years from delivery according to the nature of the order).

It was finally agreed, upon proposal of the Canadian delegation, that the Bank might pursue a further study of the problem in the light of the results of the present meeting at an appropriate time in the future and assemble another meeting with the participation of a larger group of Countries for further development of the principles and procedures for parallel loans.

# MEETING ON JOINT FINANCING OF MEXICAN POWER PROJECT

## MINISTER OF FOREIGN AFFAIRS - ROME

(Hall of International Conferences - March 24th 1966)

CHAIRMAN

| | |
|---|---|
| Mr. Egidio Ortona | Ambassador, General Director for Economic Affairs<br>Ministry of Foreign Affairs |

VICE-CHAIRMAN

| | |
|---|---|
| Mr. Cesare Pasquinelli | Plenipotentiary Minister<br>Vice-General Director for Economic Affairs<br>Ministry of Foreign Affairs |

DELEGATIONS :

I.B.R.D.

| | |
|---|---|
| Mr. Orvis A. Schmidt | Special Adviser to the President |
| Mr. Roger Nelson | I.B.R.D. |
| Mr. André Nespoulous-Neuville | I.B.R.D. |

CANADA

| | |
|---|---|
| Mr. J.R. Midwinter | Chief Financing and Aid Division<br>Department for Trade and Commerce<br>Ottawa |
| Mr. Georges Charpentier | Counselor - Canadian Embassy - Rome |
| Mr. William J. Jenkins | First Secretary (Commercial)<br>Canadian Embassy - Rome |
| Mr. John Brown | Export Credit Insurance Corporation<br>Ottawa |

FRANCE

| | |
|---|---|
| Mr. Ernest Castan | Counselor (Commercial) - French Embassy - Rome |
| Mr. Jacques de la Rosière de Campfeu | Department of Treasury - Ministry of Economy and Finance |

GERMANY

| | |
|---|---|
| Dr. Handke | First Secretary - Ministry of Foreign Affairs |
| Dr. Kautzer Schroeder | Ministry of Economy |
| Count Dr. Lerchenfeld | Counselor (Commercial) - German Embassy - Rome |

GREAT BRITAIN

| | |
|---|---|
| Mr. M.A. Copeman | Assistant Secretary - H.M. Treasury |
| Mr. E. B. Bennett | Adviser - Bank of England |
| Mr. J. Gill | Adviser - Export Credit Guar. Dpt. |
| Mr. D.A. Hamley | First Secretary (Commercial) - British Embassy - Rome |

JAPAN

| | |
|---|---|
| Mr. Koichiro Yamaguchi | First Secretary - Japanese Embassy Rome |
| Mr. Tomomitsu Oba | First Secretary - Japanese Embassy |
| Mr. Kyuya Komatsu | Attaché - Japanese Embassy - Rome |

MEXICO

| | |
|---|---|
| Mr. Alfredo Navarrete | Director of Nacional Financiera |
| Mr. Adolfo Maldonado | Nacional Financiera |
| Mr. Calderon de la Barca | Comission Federal de Electricidad |
| Mr. Pablo Tapie | Commission Federal de Electricidad |

SWITZERLAND

| | |
|---|---|
| Mr. Paul Rudolf Jolles | Plenipotentiary Minister - Delegate for Trade Agreements - Department of Commerce |
| Mr. Christian Zogg | Second Secretary - Swiss Embassy Rome |

SWEDEN (observer)

| | |
|---|---|
| Mr. Carl Gustaf Béve | Counselor - Swedish Embassy - Rome |

ITALY

| | |
|---|---|
| Mr. Cesare Pasquinelli | Plenipotentiary Minister - Vice General Director for Economic Affairs - Ministry of Foreign Affairs |
| Mr. Erberto Casagrandi | Ministry of Foreign Affairs |
| Mr. Antonio Ciccarello | Ministry of Foreign Trade |
| Mr. Emanuele Pezzarossa | Bank of Italy |
| Mr. Berardo Clementi | Ministry of Treasury |
| Mr. Roberto Giaccaglini | Ministry of Foreign Trade |
| Mr. A. Oddi Baglioni | Istituto Mobiliare Italiano |
| Mr. Adolfo Apolloni | Istituto Mobiliare Italiano |
| Mr. Giovanni Oliviero d'Antona | Istito Mobiliare Italiano |

SECRETARIAT

| | |
|---|---|
| Mr. Onofrio Solari-Bozzi | Ministry of Foreign Affairs |
| Miss Giuliana Ballesio | Ministry of Foreign Affairs |
| Miss Caterina Santoni | Ministry of Foreign Affairs |

# MEETING ON JOINT FINANCING OF MEXICAN POWER PROJECT

## DRAFT AGENDA

1. - Adoption of agenda.

2. - Background information: Discussion of Mexican Power Project and general description of approach to be followed in joint financing.

3. - Latest available information on procurement plan for the project: Information to be provided by Bank and Mexican representatives.

4. - Proportion to be financed by IBRD and proportion to be financed by participating Countries.

5. - Arrangements for disbursing respective proportions.

6. - Arrangements for concluding joint Loan Agreements.

7. - Other points of interest.

Roma, 25 Marzo 1966

COMUNICATO STAMPA

Si sono riuniti a Roma, al Ministero degli Esteri, su invito del Governo italiano, rappresentanti della Banca Mondiale, del Canada, Francia, Germania Federale, Giappone, Messico, Gran Bretagna, Svizzera. In qualità di osservatori anche rappresentanti della Svezia.

La riunione ha avuto lo scopo di esaminare modalità per possibili finanziamenti congiunti tra la Banca Mondiale ed i Paesi interessati al programma di sviluppo del settore elettrico del Messico, per cui era stato previsto da quel Governo un investimento di capitali pari a 300 milioni di dollari.

Nel corso della riunione si è ravvisata l'opportunità di favorire finanziamenti internazionali congiunti, non solo nel caso specifico del Messico, ma in generale anche per i Paesi in via di sviluppo. E' stata pertanto suggerita, per il Messico, una formula per cui le commesse aggiudicate ad un Paese che concorra al finanziamento congiunto, verranno finanziate per i due terzi dalla Banca Mondiale e per un terzo dal Paese stesso.

38-10-3-MEX
36

CONFIDENTIAL

EXPORT CREDITS INSURANCE CORPORATION

MEMORANDUM TO THE COMMITTEE ON EXPORT FINANCE

JOINT ECIC-IBRD FINANCING
FOR THE MEXICAN ELECTRIFICATION PROGRAMME

On March 24, 1966, representatives of Trade and Commerce and ECIC attended a meeting in Rome, convened by the Italian Ministry of Foreign Affairs, at which the IBRD proposal for additional financing totalling US$35 million from interested countries for the 1965-66 phase of the Mexican electrification programme, as a supplement to the US$110 million IBRD loan for this programme, was discussed. In attendance were representatives from Japan, France, West Germany, Switzerland, Sweden, United Kingdom, Italy and Canada as well as from Mexico and IBRD.

The result of this meeting was agreement that such a joint financing venture as was proposed by IBRD for the Mexican project was desirable in principle and that its use in other areas and for other projects should be considered. Under such a joint financing programme the critieria of international competitive bidding should be retained, but limited to exporters from those countries who are members of IBRD, plus Switzerland, whether or not the country concerned was entering into a joint financing arrangement for that particular project.

Under the present arrangement it was agreed that orders would be placed by Mexico, with the approval of IBRD, in those eligible countries offering best procurement possibilities. Where there was a joint financing agreement between the supplying country and Mexico, the order would be applied against the amount of the commitment. The basis would be 2/3 against IBRD loan funds and 1/3 against the joint loan. This would continue until all of the joint loan was used and then all further orders would be financed 100% from IBRD loan funds. Canada concurred in this arrangement since this formula, coupled with the declaration by IBRD that all orders placed to date would come entirely out of the IBRD loan, more than met the Canadian position of a 50-50 split on new orders only.

Canada, Italy and Japan, with the latter country conditioning its offer on other countries meeting Japanese terms, offered credit terms of 15 years from date of contract. Switzerland offered up to 10 years from date of delivery. Germany, France and the U. K. offered up to 10 years depending on the nature of the goods purchased. Sweden declined to offer joint financing. Both Germany and the U. K. are limited to a

...2/

maximum of 10 years under export guarantees.

IBRD urged Canada, Italy and Japan to continue to offer 15 years despite the position forced on the other countries under the limitations of their financing facilities for projects in Mexico. IBRD also urged that should orders not be placed with any joint financing country in sufficient volume to use up all of the joint loan, any balance should be made available for the 1967-68 programme.

It is recommended that ECIC be authorized to enter into a bilateral financing agreement with Nacional Financiera, S.A., Mexico, the fiscal agent for the Comision Federal de Electricidad, for US$5 million on overall credit terms of 15 years. This agreement would be required to meet the approval of IBRD as to loan requirements and disbursement arrangements in order that IBRD can co-ordinate the complete financing programme for the project.

Export Finance Division

March 30, 1966.
IBB:jw

EXPORT CREDITS INSURANCE CORPORATION

38-103-MEX

40 40

DEPARTMENT OF NATIONAL REVENUE Taxation Division

4th April, 1966.

444 Sussex Drive
OTTAWA 2, Ont.

Please quote this reference

R. E. Agnew
Technical Section
Administration Branch

Mr. Hugh Aitken,
President,
Export Credits Insurance Corporation,
P. O. Box 655,
Ottawa 4, Ontario.

TO: Barker
APR 12 1966
REGISTRY

Dear Mr. Aitken:

We have received from the Canadian Ambassador in Mexico City a copy of his letter of 1st February, to the late Mr. Taylor reporting that Mexico agreed to exempt interest payable under Section 21-A loans from withholding tax on the express condition that similar treatment would be accorded by Canadian taxation laws to loans made by the Mexican Federal Government and its organs, agencies and dependencies.

Canada does not impose Canadian taxes on investment income of foreign governments. This exemption is not specifically provided in the Canadian Income Tax Act but is extended as a customary courtesy to all foreign governments.

The Mexican government can therefore be informed that the Canadian government provides reciprocal treatment for any tax concessions granted by it on account of income payable to Export Credits Insurance Corporations arising from loans extended under authority of Section 21-A of the Export Credits Insurance Act.

Supervisor
Technical Section
Administration Branch.

c.c. Dept. of External Affairs, Ottawa
Dept. of Finance, Ottawa
Dept. of Trade and Commerce, Ottawa

FILE COPY

# MESSAGE

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|---|---|---|
| FM/DE EXTERNAL OTT | DATE APR22/66 | FILE/DOSSIER 38-10-~~3~~-MEX 32 36 |
| | | SECURITY SECURITE CONFD |
| TO/A MEXICO | NO E-1356 | PRECEDENCE IMMED |
| INFO FINANCE ECIC TANDCOTT BOFC NATREV.(TAXATION DIV.) | | |

REF OUR TEL E-1165 APR5

SUB/SUJ WITHHOLDING TAX EXEMPTION ON ECIC SECTION 21A LOANS

YOU MAY INFORM MEXICAN GOVT THAT CDN GOVT WILL PROVIDE RECIPROCAL TREATMENT FOR ANY TAX CONCESSIONS GRANTED BY MEXICAN GOVT ON ACCOUNT OF INCOME PAYABLE TO EXPORT CREDITS INSURANCE CORPORATION ARISING FROM LOANS EXTENDED UNDER AUTHORITY OF SECTION 21A OF THE EXPORT CREDITS INSURANCE ACT.

2.~~XXX~~ FOR YOUR INFO CDA DOES NOT IMPOSE CDN TAXES ON INVESTMENT INCOME OF FOREIGN GOVTS. THIS EXEMPTION IS NOT SPECIFICALLY PROVIDED IN CDN INCOME TAX ACT BUT IS EXTENDED AS CUSTOMARY COURTESY TO ALL FOREIGN GOVTS.

DISTRIBUTION LOCAL/LOCALE Lat.Am. Div. NO STANDARD

| ORIGINATOR/REDACTEUR | DIVISION | TELEPHONE | APPROVED/AUTORISE |
|---|---|---|---|
| SIG J.R. BARKER/jel | Economic | | J. R. MCKINNEY SIG J.C. LANGLEY |

EXT 18/BIL (REV 5/64)
(COMMUNICATIONS DIV)

E: Economic 8/6
Canada ... "Ser... Agreement"

D

EXTERNAL AFFAIRS AFFAIRES EXTÉRIEURES

TO / À: Under-Secretary of State for External Affairs, Ottawa, Canada

SECURITY / Sécurité: RESTRICTED

FROM / De: Canadian Embassy, Mexico City

DATE: June 3, 1966.

NUMBER / Numéro: 218

REFERENCE / Référence: Circular Document No. R.9/~~66 of March 1, 1966~~

TO: Dupuis
E JUN 8 1966 REGISTRY

FILE / DOSSIER
OTTAWA 38-10-3-MEX
MISSION 40/40

SUBJECT / Sujet: Visitors Programme

ENCLOSURES / Annexes

DISTRIBUTION

Economic Div (Mr.Barker)

We delayed answering your circular document under reference in view of the possibility that the President of Mexico might visit Canada next year since we anticipated that some of those in his suite might be persons whom we would otherwise have suggested be invited to Canada under the Visitors Programme. It has obviously become necessary, however, to make suggestions concerning Mexico before your limited funds for this year are committed elsewhere.

2. Let us first say how delighted we were that the Visitors Programme has been expanded to include persons other than journalists or representatives of the news or opinion-making media. In the case of Mexico we have had certain doubts as to how useful it would be to invite journalists particularly if this is going to be done on a reasonable scale by the Canadian Government Travel Bureau. We would recommend that in Mexico preference be given to invitations for Ministers or senior officials whose fields of responsibility are relevant to Canadian interests. For the most part, their counterpart in Canada should be the ostensible host even though the costs were met under the Visitors Programme. In view of the limited staff in our Department to administer this programme, other government departments could perhaps be asked to draw up the itinerary and make all arrangements in Canada for a visitor for whom they were acting as host. A visit by a Minister would generate far more publicity about Canada in the Mexican press than a visit by a journalist. Each government department has its own public relations section anxious to publicize the activities of its Minister and the Mexican press is highly responsive to government guidance. Even if a Minister were unable to accept, he would presumably be complimented by receiving an invitation from his counterpart in Canada and our local relations with him strengthened.

3. The most useful Ministers from the point of view of the Embassy, those of Industry and Commerce and Foreign Affairs, would presumably not fall within the ambit of the Visitors Programme but should be invited respectively by the Minister of Trade & Commerce or our own Minister whenever circumstances made this appropriate. There are, however, other Ministers or officials at the Deputy Minister level, whose cultivation would be useful to our objectives in Mexico but who apparently cannot easily be invited to Canada under any existing programme. We have in mind, for example, the Minister of Finance, Mr. Ortiz Mena, the Minister of Agriculture, Mr. Gil Preciado, the Minister of Communications and Transport, Mr. Padilla Segura, and the President of the Bank of Mexico, Mr. Rodrigo Gomez.

...2



Ext. 407C/Bil. (Admin. Services Div.)

We consider that whenever a high ranking Mexican has a reasonable command of English or French he should be invited to make a speech to an appropriate Canadian group. If a visitor to Canada receives the impression that we are interested in Mexico and that he has something to teach us, which is often the case, he will return more impressed with Canada and in a more favourable frame of mind than if he feels that, while anxious to sell Canada, we have no desire to learn about Mexico.

5. One Mexican official whom the Canadian Government might rather welcome inviting to Canada at the present time is Dr. Alfredo Navarette, Director of Nacional Financiera, Mexico's large and successful development bank. In view of the strong controversy which has surrounded our government's plans to establish a similar organization in Canada, there might be some value in arranging for Mr. Navarette to speak to Canadian clubs in Montreal and Toronto about his organization. He has a good command of English and is an experienced speaker. At the same time he could meet leading figures in the financial community of the two cities as well as officials in Ottawa. As it is likely that he will be visiting ECIC in Ottawa within the coming weeks, he should perhaps be given the first priority. Mr. Milton Blackwood, Commercial Counsellor of the Embassy, discussed this possibility briefly with Mr. Ian Browne of ECIC when phoning on another matter. The latter was enthusiastic and said that he would be in touch with Mr. Barker of Economic Division to whom, as a result, we are referring a copy of this letter. We would imagine that ECIC would be the government agency in the best position to make arrangements for a visit by Mr. Navarette, though the Bank of Canada might also be equipped to do so. We would welcome your reaction to this proposal by telegram after consultation with ECIC.

6. Apart from leading officials it would seem worthwhile to invite Mexican technicians in fields of particular interest to us, for example agriculture, mining and forestry. While the Department of Trade and Commerce is able to invite Trade missions to Canada it is not in a position, for example, to cultivate the goodwill of professors at Mexican agricultural colleges. Reference to Canadian practices in their courses, however, could have considerable long term advantages in enhancing the reputation of Canadian agriculture and hence the likelihood of turning to Canadian sources of supply. The same would be true in the fields of forestry and mining. In this case it would probably be more efficient to organize groups consisting of several persons either from Mexico or from a number of different countries. Ideally this kind of programme should operate in conjunction with technical assistance in the same field. We have suggested on a number of occasions that this would not only be valuable in its own right but constitute an excellent form of long term trade promotion (see for example our letter 506 of October 19, 1964).

7. The possibility of inviting a Minister should, perhaps, be left pending until we know whether President Diaz Ordaz will visit Canada and a decision is reached on the Mexican suggestion that a Canadian-Mexican Ministerial group might meet from time to time. In part this would take the place of our suggestion that Mexican Ministers be invited under the Visitors Programme, although there would likely still be Ministers of importance to the Embassy not included in such meetings. The Minister of Finance, Mr. Ortiz Mena, whom we would particularly like to see visit Canada would, however, more than likely be drawn into such discussions.

M. Bravet

The Embassy

NOTICE NO. 66-3

38-10-3-MEX
31

NOTICE OF ECIC INTENT TO PROCESS APPLICATION

DATE: June 27, 1966

COUNTRY: Mexico

IMPORTER: Mexican Telecommunications Authority

EXPORTER: RCA Victor Company, Ltd.

PROJECT: Installation of microwave equipment

OVERALL COST: $8 million

CANADIAN SHARE: $6 million - $2 million (see proposal attached)

ECIC POSITION IN MEXICO:

(a) Net Section 14 Exposure: $7 million
Net Section 21 Exposure: $1 million

(b) Net Section 21A Exposure: U.S.$78,085,607.46

(c) Annual Principal Repayments: 1966 - U.S.$11,163,395.89
1971 - U.S.$ 5,138,105.93

OTHER COMMENTS: Ingenious proposal designed to cover local currency financing.

June 28, 1966
SPW/cnr.

NOTE VERBALE

MEXICO - TELECOMMUNICATIONS PROJECT

SUGGESTED FINANCING BY EXPORT CREDITS INSURANCE CORPORATION
AND
RCA VICTOR COMPANY, LTD.

1. This memorandum is intended to set out a suggested basis of joint financing for a Mexican Telecommunications Project.

2. As outlined in our letter dated May 30, 1966, RCA Victor is engaged in bidding on a major Mexican Telecommunications Project. ECIC has indicated orally that we would have a good chance, subject to approval by ECIC's Advisory Committee and Cabinet, of obtaining a loan to defray the equipment part of the project on a 15-year basis, including a 2-year grace period. This paper accepts the uncertainty of ECIC participation, but deals with arrangements which may be considered if ECIC does participate.

3. It is believed that this project can come to RCA Victor only if the Company can provide financing for local Mexican costs as well as Canadian equipment costs. While there is considerable uncertainty, at this time, as to the relative magnitude of these components of the project as well as the total dollar size of the project, for purposes of this paper, it will be assumed that total project cost is $8 million including local Mexican costs of $2 million.

4. The Mexican Telecommunications authority is understood to be prepared to purchase only on the basis of 15-year terms for the entire project cost, but to be willing to incur a dollar obligation for both local costs and foreign costs. It is therefore essential that the ultimate financial arrangements call for a 2-year grace period followed by 27 semi-annual installments of approximately $300,000 each, plus interest.

5. RCA Victor is a Company of relatively limited financial resources (recent financial statements are in the possession of ECIC as a result of successful applications for Colombian and Egyptian financing). It is manifestly not feasible for RCA Victor to provide 15-year financing for a sum as large as $2 million. It may be feasible, however, for relatively short-term financing of this magnitude to be provided.

6. ECIC is prevented by its legislative mandate and its internal policies from financing local currency costs. It is obligated, also, not to extend terms at variance from those normally made available by other countries for projects of like kind.

7. ECIC has been advised, and has the capability of independently confirming, that Japanese, British and German bidders have extended terms parallel to those suggested above for other sections of this Telecommunications Project. Nevertheless, ECIC has suggested that, it would be open to criticism for infringement of the Berne Convention, if it were to follow our initial suggestion of extending a loan with a $5\frac{1}{2}$-year grace period to finance the equipment only, thus permitting RCA Victor to extend a 5-year loan with 2-year grace period to meet the local costs.

8. It is therefore proposed that ECIC and RCA Victor enter jointly into the Financing Agreement which would normally be entered into by ECIC alone. This Agreement would provide for the financing of goods and services, whether Canadian or Mexican, to a value of $8 million, repayable by 27 semi-annual installments. The Notes issued under the Agreement would be payable jointly to ECIC and RCA Victor, but ECIC would act as escrow agent in its own and RCA Victor's favour for the entire Note Issue.

The obligation to lend $8 million would be joint, but RCA Victor would by side letter, if necessary Bank guaranteed, assure ECIC of due performance of its 25% share.

9. The Canadian content requirement would be 80% of 75%, (the 80% would be increased to whatever figure RCA Victor represented in its application as the attainable Canadian content on the $6 million worth of equipment) or 60%.

10. The disbursement procedure letter would provide that ECIC would disburse in cash against invoicing and shipping documents covering Canadian equipment, requiring at the same time that RCA Victor endorse to ECIC without recourse the relative Notes. ECIC would disburse in Notes, endorsing them to RCA Victor, without recourse, against satisfactory evidence of performance of obligations arising from local currency costs of the project. By agreement with RCA Victor, ECIC would select for its own account, under the above disbursement procedure, Notes maturing from the 5th to the 15th year, and for endorsement in favour of RCA Victor, Notes maturing from the 2nd to the 5th years.

11. The suggested procedure would ensure that ECIC's money was applied only to expenditures of the class and Canadian content customarily financed by Section 21A loans, and also that the financing had the term and grace period requisite to fulfillment of Berne Union obligations.

12. The foregoing suggested procedure is applicable in principle not only to the subject contract, but also to any contract involving foreign procurement in excess of the accepted limits, and local costs. The principle involved, if accepted, will to an important degree broaden the utility of ECIC's arrangements, without in any way infringing upon the proper aims and objectives of a publicly financed institution.

June 23, 1966 -
ms

NOTICE NO. 66-3

38-10-3-MEX
40

NOTICE OF ECIC INTENT TO PROCESS APPLICATION

Mr Wardrop
r lh
Ny

DATE: June 27, 1966

COUNTRY: Mexico

IMPORTER: Mexican Telecommunications Authority

EXPORTER: RCA Victor Company, Ltd.

PROJECT: Installation of microwave equipment

OVERALL COST: $8 million

CANADIAN SHARE: $6 million - $2 million (see proposal attached)

ECIC POSITION IN MEXICO:

(a) Net Section 14 Exposure: $7 million
Net Section 21 Exposure: $1 million

(b) Net Section 21A Exposure: U.S.$78,085,607.46

(c) Annual Principal Repayments: 1966 - U.S.$11,163,395.89
1971 - U.S.$ 5,138,105.93

OTHER COMMENTS: Ingenious proposal designed to cover local currency financing.

June 28, 1966
SPW/cnr.

NOTICE NO. 66-9

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38-10-3-MEX
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NOTICE OF ECIC INTENT TO PROCESS APPLICATION

DATE: July 4, 1966

COUNTRY: Mexico

IMPORTER: PIPSA (Produccion & Importadora de Papel, S.A.)

EXPORTER: Canadian Consulting Firm

PROJECT: Bagasse Newsprint Mill

OVERALL COST: U.S.$44 million

CANADIAN SHARE: $26 million -
Consolidated Paper Corporation equity - $6 million
Requested loan - $20 million

ECIC POSITION IN MEXICO:

(a) Net Section 14 Exposure: $7.5 million
Net Section 21 Exposure: $1.1 million

(b) Net Section 21A Exposure: $68,753,360.69

(c) Annual Principal Repayments: 1966 - U.S.$11,163,395.89
1971 - U.S.$ 5,138,105.93

OTHER COMMENTS: Preliminary inquiry. Further investigations being made in mid-August, and subsequently formal application may be forthcoming.

July 4, 1966
(Revised July 14, 1966)
SPW/cnr.

NOTICE NO. 66-9

38-103-MEX
36

NOTICE OF ECIC INTENT TO PROCESS APPLICATION

DATE: July 4, 1966

COUNTRY: Mexico

IMPORTER: PIPSA (Produccion & Importadora de Papel, S.A.)

EXPORTER: Canadian Consulting Firm

PROJECT: Bagasse Newsprint Mill

OVERALL COST: U.S.$44 million

CANADIAN SHARE: $26 million -
- Consolidated Paper Corporation equity - $6 million
Requested loan - $20 million

ECIC POSITION IN MEXICO:

(a) Net Section 14 Exposure: $7.5 million
Net Section 21 Exposure: $1.1 million

(b) Net Section 21A Exposure: U.S.$77,853,327.16

(c) Annual Principal Repayments: 1966 - U.S.$11,163,395.89
1971 - U.S.$ 5,138,105.93

OTHER COMMENTS: Preliminary inquiry. Further investigations being made in mid-August, and subsequently formal application may be forthcoming.

July 5, 1966
SPW/cnr

mw Watts & IBB

EXPORT CREDITS INSURANCE CORPORATION
SOCIÉTÉ D'ASSURANCE DES CRÉDITS À L'EXPORTATION
P.O. BOX *CASE POSTALE*: 655 / OTTAWA 4, CANADA / BRANCHES *SUCCURSALES*: MONTREAL, TORONTO / CABLE ADDRESS *CABLE-ADRESSE*: EXCREDCORP

FILE NO: 3028

OTTAWA,

38-10-7-MEX
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CONFIDENTIAL

July 15, 1966.

To: Mr. A. S. Abell,
Mr. J. R. Barker,
Mr. L. D. Hudon,
Mr. W. G. Pybus,
Mr. G. S. Watts.

Gentlemen:

Re: Section 21A Financing - Mexico.

For your information, we are enclosing a copy of the Memorandum to the Cabinet in respect of the request for Section 21A financing by Nacional Financiera, S.A. in the amount of up to US$5 million on credit terms of 15 years for the sale and export from Canada of goods and services for the 1965/66 Mexican power sector expansion programme.

Yours very truly,

EXPORT CREDITS INSURANCE CORPORATION

I. B. Browne,
Loan Officer,
Export Finance Division.

Encl.

IBB:jw

THIS DOCUMENT IS THE PROPERTY OF THE GOVERNMENT OF CANADA

CONFIDENTIAL

JULY 14, 1966

MEMORANDUM TO THE CABINET

Export Financing in Participation with
the International Bank for Reconstruction and Development and Others
Under Section 21A of the Export Credits Insurance Act

1. Object

The object of this Memorandum is to obtain the approval in principle of the Cabinet for Export Credits Insurance Corporation (ECIC) to provide financing to Nacional Financiera, S.A. (Nafin), Mexico, under Section 21A of the Export Credits Insurance Act. This loan of up to US$5 million would be required for the sale and export from Canada of goods and services for the 1965/66 phase of the Mexican power sector expansion programme financed in part by the International Bank for Reconstruction and Development (IBRD).

2. Background

a) On November 15, 1965, Mr. George D. Woods, President of the IBRD, wrote to the Canadian Minister of Finance, the Hon. Walter L. Gordon, in Mr. Gordon's capacity as Governor for Canada of the IBRD, presenting the Bank's proposal for joint financing of large projects and programmes in developing countries and, in particular, the expansion programme of the Mexican power sector.

b) On December 15, 1965, the IBRD signed a Loan Agreement with Nacional Financiera, S.A. and Comision Federal de Electricidad for an amount of US$110 million. An additional US$35 million to complete the 1965/66 phase of the expansion programme was left open for joint financing by interested countries.

c) On December 23, 1965, the Hon. Mitchell W. Sharp, Minister of Finance, replied to Mr. George D. Woods advising that Canada was prepared, in principle, to participate in the plan provided that a formula would be agreed upon under which only a percentage of the orders placed in Canada on the basis of international competitive bidding would be financed with Canadian Section 21A funds and the remainder would be financed with IBRD funds.

d) On March 24, 1966, at a meeting in Rome of the representatives of the countries interested in entering into joint financing agreements with the IBRD and Mexico, Canada offered Section 21A funds up to an amount of US$5 million on overall credit terms of 15 years on a 2/3 IBRD - 1/3 ECIC formula basis. Such joint financing from Canada would be based upon international competitive bidding limited to exporters from IBRD member countries and Switzerland.

e) On March 31, 1966, the Committee on Export Finance agreed to the above formula on the understanding that this 2/3 - 1/3 formula would apply to orders placed in Canada subsequent to the Rome meeting of March 24, 1966.

3. Factors

a) The Mexican power sector expansion programme, with an estimated overall cost of US$300 million, will be financed as follows:

...2/

IBRD - US$110 million
Financing by exporting countries - US$35 million
(See (b) below)
Mexican participation - US$155 million

b) ECIC is informed that Italy has signed a Financing Agreement with Nafin for US$10 million on 15 year credit terms. Japan is expected to sign for US$10 million on 15 year credit terms in July, 1966 and France is ready to sign for US$10 million on 10 year credit terms. Switzerland is prepared to guarantee a credit of up to 10 years for US$7 million and guaranteed credits are available from West Germany and the United Kingdom on normal credit terms if required.

c) Repayment of the proposed ECIC loan would be made in 25 equal consecutive semi-annual instalments starting on August 1, 1969 and ending on August 1, 1981. Interest at 6% will be payable semi-annually on the principal amount outstanding from time to time.

d) One promissory note in the principal amount of US$5 million due and payable on August 1, 1969 will be issued by Nafin. This note will be renegotiated before August 1, 1969 and replaced by a series of 25 promissory notes for a total value amounting to the disbursements effected by ECIC as at July 1, 1969. The first of these notes will mature on August 1, 1969 and the last on August 1, 1981.

e) As of June 30, 1966, ECIC's net exposure in Mexico was:

| | |
|---|---|
| i) Section 21A long term financing | Can.$67.03 million |
| ii) Section 14 and 21 insurance | 8.60 |
| Total | Can.$75.63 million |

4. Recommendations

a) I recommend that Export Credits Insurance Corporation be given approval in principle to provide financing to Nacional Financiera, S.A. under Section 21A of the Export Credits Insurance Act up to a total amount not in excess of US$5 million in connection with the sale and export from Canada of goods and services by Canadian suppliers; the said financing to be repayable in 25 equal consecutive semi-annual instalments commencing August 1, 1969, with interest at 6% per annum on the principal amount outstanding from time to time payable semi-annually.

b) This commitment in principle of Section 21A financing shall expire on September 30, 1966.

OTTAWA

Minister of Trade and Commerce

NOTICE NO. 66-14

file B
for B

38-10-3-MEX
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NOTICE OF ECIC INTENT TO PROCESS APPLICATION

DATE: July 14, 1966

COUNTRY: Mexico

IMPORTER: Operadora Anahuac S.A.

EXPORTER: Bridge and Tank Company of Canada Ltd.

PROJECT: Sulphur Mining Project by the Frasch Method

OVERALL COST: $11 million to $12 million

CANADIAN SHARE: $4.5 million for equipment and engineering services.

ECIC POSITION IN MEXICO:

(a) Net Section 14 Exposure: $7 million
Net Section 21 Exposure: $1 million

(b) Net Section 21A Exposure: U.S.$68,753,360.69

(c) Annual Principal Repayments: 1966 - U.S.$11,163,395.89
1971 - U.S.$ 5,138,105.93

OTHER COMMENTS: Engineers for the project will be Resources Equipment Ltd., Toronto.

July 15, 1966
IBB/cnr

LATIN AMERICAN/J.W.GRAHAM/mem

**EXTERNAL AFFAIRS** **AFFAIRES EXTÉRIEURES**

10
13

| | | | |
|---|---|---|---|
| **TO** *À* | Economic Division,<br>Attn: Mr. Barker | **SECURITY** *Sécurité* | CONFIDENTIAL |
| **FROM** *De* | Latin American Division | **DATE** | July 27, 1966 |
| **REFERENCE** *Référence* | Attached Note of July 25 and meeting of July 28 | **NUMBER** *Numéro* | |
| **SUBJECT** *Sujet* | ECIC Financing for Mexican Telecommunications Project | **FILE / DOSSIER** OTTAWA | 38-10-~~3~~-MEX |
| | | **MISSION** | 40 ✓ |

**ENCLOSURES** *Annexes*

**DISTRIBUTION**

The Mexican economy remains sound and is unlikely to be disturbed by serious political difficulties in the foreseeable future. We support the ECIC joint financing proposal particularly as it provides an opportunity to diversify the type of goods exported to Mexico under ECIC financing. As you know, up to the present time the bulk of ECIC 21-A financing for Mexico has been for rails. An improved Mexican appreciation of Canadian technical equipment and competence would be in our interest.

A. J. Pick
Latin American Division

Ext. 407A/Bil.
(Admin. Services Div.)

file

PRIVY COUNCIL OFFICE — CANADA — BUREAU DU CONSEIL PRIVÉ

38-103-MEX
40

CONFIDENTIAL

# RECORD OF CABINET DECISION

Meeting of July 27th, 1966

## Export Financing: Mexican Power Sector Expansion Program

The Cabinet approved a recommendation of the Minister of Trade and Commerce, as set out in his memorandum of July 14, (Cab. Doc. 458/66):

(1) that Export Credits Insurance Corporation be given authority in principle to provide financing to Nacional Financiera S.A., Mexico, under Section 21A of the Export Credits Insurance Act up to a total amount not in excess of U.S. $5 million in connection with the sale and export from Canada of goods and services by Canadian suppliers for the 1965/66 phase of the Mexican power sector expansion program financed in part by the International Bank for Reconstruction and Development; the financing to be repayable in 25 equal consecutive semi-annual instalments commencing August 1, 1969, with interest at 6 per cent per annum payable semi-annually; and

(2) that this commitment in principle of Section 21A financing should expire on September 30, 1966.

André Lafambroise

for D.J. Leach,
Supervisor of Cabinet Documents.

August 11th, 1966.

EXTERNAL AFFAIRS — AFFAIRES EXTÉRIEURES

TO / À: The Under-Secretary of State for External Affairs, OTTAWA, Canada.

SECURITY / Sécurité: CONFIDENTIAL

DATE: August 24, 1966

FROM / De: The Canadian Embassy, BUENOS AIRES, Argentina.

NUMBER / Numéro: 306

REFERENCE / Référence: Memorandum to the Sub-Committee on External Aid of August 4, 1966.

FILE / DOSSIER
OTTAWA: 38-107-MEX
MISSION: 36 31

SUBJECT / Sujet: Pre-investment Loan for Mexico.

ENCLOSURES / Annexes: 13

DISTRIBUTION

TO: Mr. Dupuis
E AUG 30 1966 REGISTRY

We have received several additional copies of the document enclosed with this letter. We assume that Buenos Aires was not destined to receive all of them and accordingly have retained one for our files and are returning the rest to you to dispose of as desired.

Send this letter + all encl. to Mr R W Clark
DAO

The Embassy.

Done 6/9/66

File

Ext. 407B/Bil.
(Admin. Services Div.)

38-16-7-MEX
31 18

M. Dupuis

E

FM WASHDC SEP23/66 RESTR

TO EXTAID 2885 PRIORITY DE OTT

INFO EXTERNL TANDC OTT

ECIC DE TANDC OTT

FINANCE BOFC DE OTT

REF YOURTEL XA05131 AUG26

~~J H Dia~~ done Oct 7/66

& Feb

PRE-INVESTMENT LOAN FOR MXICO(PROPOSAL 22)

DURING RECENT DISCUSSION WITH OBST GENERAL CONSULTANT OPERATIONS DEPT IDB HE TOLD US THAT IN BANKS VIEW THERE WAS NO RPT NO PROSPECT MXICANS WOULD ACCEPT INTEREST RATE FOR PROPOSED DOLLARS 500 THOUSAND(USA)CDN SHARE OF LOAN BEING RAISED FROM .75 PERCENT TO 3 PERCENT.HE APPRECIATED REASONABLENESS OF CDN POSITION ON INTEREST RATE PARTICULARLY IN VIEW OF MXICAN ABILITY TO ASSUME HARDER TERMS AND ALSO IN VIEW OF HARDER TERMS OF DOLLARS 5 MILLION OF IDB LOAN.HE NOTED HOWEVER THAT MOST OF BANK FUNDS WOULD PROBABLY BE SPENT IN MXICO TO HIRE MXICAN CONSULTING FIRMS TO CARRY OUT STUDIES WHEREAS CDN LOAN WOULD BE LTD TO HIRING OF CDN CONSULTANTS.

2.OBST SAID BANK WAS STILL INTERESTED IN UTILIZING SOME CDN FUNDS TO PARTICIPATE IN THIS LOAN TO MXICO AND WONDERED WETHER YOU COULD CONSIDER OFFERING SOFTEST CDN TERMS ON INTEREST BUT PROPOSING HARDER TERMS FOR OTHER CONDITIONS OF LOAN EG REDUCING AMORTIZATION PERIOD TO PERHAPS AS SHORT AS FIFTEEN YEARS AND/OR SHORTENING GRACE PERIOD.THIS HE THOUGHT MXICANS MIGHT ACCEPT.IDB LOAN IS TO BE REPAID OVER FIFTEEN YEARS WITH FIVE YEARS GRACE.AND OBST SUGGESTED

...2

YOU MIGHT WISH TO CONSIDER PROPOSING SIMILAR TERMS FOR AMORTIZATION AND GRACE PERIOD.

3.WE UNDERSTAND THAT BANKS PROCESSING OF THIS LOAN TO MXICO IS NEARING COMPLETION AND WE WOULD THEREFORE BE GRATEFUL FOR FURTHER INDICATION AS SOON AS POSSIBLE OF YOUR INTEREST IN THIS LOAN PROPOSAL IN VIEW OF ABOVE SUGGESTIONS BY OBST.

Mr. Fagun / done
LA Div nov 17/66

38-10-MEX
16

FM EXTERNL AID OTT NOV15/66 CONFD

TO WASHDC XA07046 IMMED

INFO MXICO EXTERNL OTT FINANCE TANDC OTT

REF YOURTELS 3268 AND 3422 OF OCT28 AND NOV10

INVESTMENT LOAN TO MSICO.

ON THE BASIS OF FURTHER INTER-DEPARTEMENTAL DISCUSSION AND IN ABSENCE OF COMMENTS OUR MISSION IN MXICO

WE HAVE COME TO THE CONCLUSION THAT CDA IS PREPARED TO AGREE THAT THE PROPOSED LOAN BE EXTENDED TO MXICO ON THE TERMS PREVIOUSLY IN EFFECT FOR CDN DEVELOPMENT LOANS,IE FIFTY YEARS,INCLUDING TEN YEARS GRACE PERIOD AND THREE-QUARTERS OF ONE PER CENT SERVICE CHARGE.

YOU SHOULD EXPLAIN TO THE BANK,HOWEVER,THAT THIS IS CONSIDERED TO BE AN EXCEPTION AND THAT IN ANY FURTHER NEGOTIATIONS ON POSSIBLE PROJECTS FOR CDN FINANCING THE BANK MUST MAKE CLEAR THAT THE NEW TERMS APPLY.THE FACT THAT,UNDER THE PREVIOUS TERMS,A SOFTER LOAN MAY HAVE BEEN ISSUED TO A LATIN AMERICA COUNTRY WILL NOT RPT NOT BE CONSIDERED,JUSTIFICATION FOR PROVIDING UNNECESSARILY SOFT TERMS WHEN THE PFOJECT OR THE ECONOMIC POSITION OF THE BORROWER DOES NOT RPT NOT APPEAR TO WARRANT THEM.IN THIS INSTANCE,BECAUSE OF OUR INTEREST IN EXTENDING A PREINVESTMENT LOAN TO MXICO AND BECAUSE THE LOAN WAS IN FACT FIRST PROPOSED AT A TIME WHEN THE SOFTER TERMS WERE BEING APPLIED TO SUCH PROJECTS AN EXCEPTION HAS BEEN MADE.

THE BANK MAY THEREFORE PROCEDE TO PROCESS APPLICATION FOR THIS LOAN IN ITS NORMAL WAY AND TO FORWARD TO US THE OFFICIAL LOAN DOCU WHEN THESE ARE AVAILABLE.

L.A.

~~Aut Fagny~~ To file

CONFIDENTIAL

38-10-3-MEX
16

EXPORT CREDITS INSURANCE CORPORATION

MEMORANDUM TO THE COMMITTEE ON EXPORT FINANCE

RE: MONTREAL LOCOMOTIVE WORKS, LIMITED
- DIESEL-ELECTRIC LOCOMOTIVES - MEXICO

## SUMMARY

A preliminary application for Section 21A financing in an amount of $13 million has been received from Montreal Locomotive Works, Limited, Montreal, Quebec, (MONLOCO) in connection with the proposed sale to Ferrocarriles Nacionales de Mexico of 30 to 40 2,750 horsepower diesel-electric locomotives at a unit price of approximately $300,000, with an additional $1 million provision for possible spare parts, on proposed terms of 12 years including a two year grace period, with no down payment. Deliveries would commence in August, 1967 at a rate of eight locomotives per month approximately.

12 million

## IMPORTER

Ferrocarriles Nacionales de Mexico is a Government-owned autonomous entity which controls and operates 85% of the Mexican Railway system and which was incorporated in 1948.

In January, 1963, ECIC financed the sale of 80 diesel-electric locomotives by MONLOCO to Ferrocarriles Nacionales de Mexico in the amount of US$15,022,000. Regular repayments totalling Can.$3,597,000 have been received by ECIC up to November 30, 1966. ECIC's repayment experience of Ferrocarriles Nacionales de Mexico has been excellent.

## EXPORTER

Montreal Locomotive Works, Limited was incorporated in 1902. The Company was controlled by Alco Products Inc. of the U.S.A. until December, 1964. At that time the assets of Alco Products Inc., including their holding in MONLOCO, were purchased by Worthington Corporation (U.S.A.). In May, 1966, MONLOCO acquired all the outstanding shares of Worthington (Canada) Limited from the

...2/

latter's U.S. parent.

TERMS

MONLOCO is applying for terms of 12 years including a two year grace period, with no down payment.

On January 23, 1963, under P.C. 1963-1723, ECIC signed a Financing Agreement in the amount of US$15,022,000 covering the sale of 80 diesel-electric locomotives by Montreal Locomotive Works, Limited to Ferrocarriles Nacionales de Mexico on terms of 18 semi-annual instalments commencing April 30, 1965, with no down payment. Deliveries were completed December 31, 1963. 9 years

ECIC has granted MONLOCO, for two proposed sales of locomotives, financing of up to 90% of the respective eventual orders, not to exceed $5 million in Brazil and $2 million in Argentina, on terms of 16 semi-annual instalments with repayments starting six months after the average delivery date. These terms are similar to those of the EXIMbank Alliance for Progress loan dated June 14, 1966 to Rede Ferroviaria Federal, S.A. in the amount of $17 million, covering the sale of 69 diesel locomotives supplied by General Motors and General Electric of the U.S.A. 7 years

GUARANTEES

MONLOCO have not specified the guarantees which may be available for this transaction, but ECIC would require a guarantee by Nacional Financiera, S.A. of all dollar payments.

CANADIAN CONTENT

Canadian content of this transaction is stated by the Exporter to be between 75% and 80%.

OTHER CONSIDERATIONS

1. MONLOCO's agent in Mexico has informed our Embassy that Ferrocarriles Nacionales is fully committed financially for the years 1967 and 1968. Their budget, as proposed by their Ministry of Finance, will not allow for the acquisition of capital equipment for cash nor for a down payment on the purchase of capital equipment during those years.

2. Our Embassy is also informed that a Mexican company is actively considering the manufacture of locomotives in Mexico. If this should become a reality, the likely date for commencement of production would be late 1967 with the first units being available for

...3/

delivery to Ferrocarriles Nacionales in 1968. The transaction now before the Committee may therefore be the last large order to be placed outstide Mexico by the Railways.

3. The Committee may wish to bear in mind that on March 31, 1966, they agreed that the export position which has been built up by MONLOCO, principally with the assistance of Section 21A financing, should be given further consideration insofar as financing was concerned. On April 14, 1966, the Committee agreed to consider the provision of Section 21A financing up to $2 million for locomotive sales to Argentina and up to $4 million for sales to Brazil. On August 30, the Committee agreed that the latter amount could be raised to $5 million.

4. It is noted that the EXIMbank has been active in financing the sale of locomotives through Nacional Financiera, S.A. during recent years.

## ECIC EXPOSURE IN MEXICO

ECIC's exposure in Mexico as of November 30, 1966 was:

Section 14 : $7.4 million
Section 21 : $0.7 million
Section 21A: $66.7 million

## RECOMMENDATION

We recommend that the Committee on Export Finance support MONLOCO's application for financing on the terms requested.

Export Finance Division

EXPORT CREDITS INSURANCE CORPORATION

December 21, 1966.
AOW:jw

38-10-3-MEX
10

CONFIDENTIAL

File
ME

EXPORT CREDITS INSURANCE CORPORATION

MEMORANDUM TO THE COMMITTEE ON EXPORT FINANCE

PROJECT: MICROWAVE EQUIPMENT FOR MEXICO

EXPORTER: RCA VICTOR COMPANY, LTD.

IMPORTER: SECRETARIA DE COMUNICACIONES Y TRANSPORTES
GOVERNMENT OF MEXICO

## SUMMARY

RCA Victor Company, Ltd. (RCA) submitted a formal application in December, 1966 for long term financing under Section 21A of the Export Credits Insurance Act in support of a prospective sale of microwave equipment to Mexico. Essential details of the projects for which RCA has requested financing were made available to ECIC by telephone this morning, February 10, 1967.

RCA stated that the Mexican authorities have set a completely firm deadline on one of the projects in that it must be operational by June 30, 1968 and therefore requested ECIC to make every possible effort to present their submission to the Committee on Export Finance at the meeting to be held this afternoon. They also asked ECIC to take advantage of timing by presenting to the Committee at the same time a request for the financing of a second smaller project in Mexico. ECIC financing being requested is therefore:

| | | |
|---|---|---|
| | US$4.4 million | for urgent project (Mexico City - Matamoros) |
| | 1.3 million | for second project (Matamoros - Monterrey) |
| Total | US$5.7 million | |

## PROJECT I

The project consists of microwave communications between Mexico City and Matamoros. RCA has the Mexicans' "handshake" on this transaction and negotiations on the Commercial Contract are about 98% complete according to RCA.

...2/

There will be 21 stations connecting (among others) the towns of Mexico City, Pozarica, Tampico, C. Victoria and Matamoros. There will also be side circuits to six small Pemex locations.

The project will have a capacity of three channels as follows: one TV, one telephone, and one protection (standby), with automatic changeover between circuits in the event of failure. All circuits are inter-changeable functionally. With reference to telephones, an eventual total of 960 circuits is contemplated, of which 550 circuits would be provided at present including the corresponding multiplex equipment.

All civil works will be the responsibility of RCA to be executed by sub-contract where appropriate.

Estimated total project cost is US$6.3 million, including an "open-to-buy" of US$.2 million. Of this $6.3 million, $4.4 million financing is requested from ECIC, and $1.9 million to cover local costs would be obtained from Mexican Government notes to be placed on the New York market by RCA.

PROJECT II

The second project is also a microwave installation, connecting Matamoros and Monterrey. RCA state that at this moment they are negotiating in an attempt to obtain the contract, on which they feel they have a 50% chance. It is the equipment which is now being discussed.

This installation would inter-connect eight stations, of which the only other one worthy of mention is Reynosa. In this project, buildings already exist for all stations along the route, as well as access roads, power utilities, etc.

Four channels will be provided: two television, one telephone, and one protection (standby). One of the TV channels could be dropped (operationally) at Reynosa if desired. Of an eventual 960 telephone channels, 154 would be provided originally including the corresponding multiplex equipment.

Estimated total cost of the project is:

| | | |
|---|---|---|
| | US$1.3 million | (to be provided by ECIC) |
| | .3 million | (local costs which would be funded in the same way as in the larger project) |
| Total | US$1.6 million | |

...3/

IMPORTER

The Secretaria de Comunicaciones y Transportes (SCT), which is the government department responsible for the provision of long distance telephone systems in Mexico, will be the importer under the proposed sale. We have been advised by our Commercial Counsellor in Mexico, subject to verification, that the financing agreement covering this sale would probably be negotiated with the Department of Finance rather than with Nacional Financiera. Accordingly, a loan by ECIC to finance the proposed sale would be secured by the general credit of the Government of Mexico, and the financing agreement would presumably be signed by the Minister of Finance.

TERMS

RCA have requested overall payment terms of 15 years, including two years grace on principal payments. They state that the Mexicans have been offered these terms by the Germans and Japanese. In June, 1966, EXIMbank provided a loan of US$1.75 million to Mexico for microwave equipment, with repayment terms of 28 semi-annual instalments following one years grace.

Regarding local costs, on July 28 and August 30, 1966, the Committee considered proposals from RCA that local costs for the Mexican microwave project might be financed on a joint basis by ECIC and RCA. The Committee agreed that these proposals could not be accepted, as ECIC could not permit the RCA portion of the joint loan to be repaid before any payments were made on the ECIC portion of the loan.

CANADIAN CONTENT

RCA stated in their application that the proportion of Canadian content was not accurately known but, based on other projects of a similar nature, it was expected to exceed 82%. A preliminary review of anticipated project costs would indicate that, according to ECIC's method of applying Canadian content criteria, the proportion of Canadian content in this project will likely be less than 80%. We have received assurances from the exporter, however, that should Section 21A financing be made available for this project, a minimum of 80% Canadian content will be achieved.

...4/

RECOMMENDATION

The Committee is requested to give favourable consideration to the provision of long term financing in support of both projects, in an amount not to exceed US$4.4 million for the first and US$1.3 million for the second.

Export Finance Division

EXPORT CREDITS INSURANCE CORPORATION

February 10, 1967.
EJR:jw

# NOTE ON THE BALANCE OF PAYMENTS OF MEXICO

The IBRD report on Mexico dated October 26, 1966 mentions that possible pressures on the current account deficit may occur in the coming years. The reasons for this expected deterioration are that exports do not promise to expand as rapidly during the next few years as they have in the past, that internal and external price relationships are not as favourable as before, and that major opportunities for import substitution may have now been exploited. The report remarks that, while only 10% of domestic investment was financed from abroad, service on public and private debt rose steadily in relation to exports of goods and services from 13% in 1950 to 36% in 1965. The report suggests that new official commitments of US$300 million annually will be required during 1967 and 1968, in addition to some US$400 million already contracted for those two years. This capital inflow should be mostly of a long-term nature, for project financing, since the Government has pledged to limit short and medium-term borrowing in the coming years in order to avoid exceeding this ratio of 36%. The report feels that Mexico should be creditworthy for such borrowing.

The current account balance continued to improve but a substantial deficit occurred in the capital account during 1966. There was a year-over-year increase in exports during the first nine months of 1966 followed by a decline in October and November. Imports rose only moderately so that the 1966 trade deficit may be less than US$300 million compared with more than US$400 million the previous year. However, the total deficit in the balance of payments during the first nine months of 1966 amounted to US$180 million and the deficit for the year will probably be the largest in recent history This deterioration is largely due to movements of short-term capital probably attracted abroad and especially to the United States by high interest rates. This type of deficit is usually of a temporary nature and does not reflect any fundamental distortion in the economy, but it has probably caused a loss of foreign exchange reserves. At the end of September total reserves stood at US$523 million marginally up from the same period of the two previous years.

The Government has decided to double the import duty rates on machinery and on a few electrical product categories which prior to January 1967 had an ad valorem duty of 15% or less and a specific rate per kilo. This measure reflects the anticipated decline in reserves and the Government's decision to limit short and medium-term obligations.

In conclusion the Government's decision to limit borrowing and to maintain a reasonable level of foreign exchange may call for some further measures to limit the increase in imports to some 5% this year and next year, slightly below the annual average growth rate of 6%. Mexico will nevertheless continue to remain dependent on substantial capital inflows until domestic savings can be raised substantially. In view of its record of growth and economic management Mexico should continue to be viewed as creditworthy especially for long-term loans.

F. P. Jeanjean,
Assistant Economist.

Feb. 10, 1967.

RCA Victor to Mexico

CONFIDENTIAL

File

EXPORT CREDITS INSURANCE CORPORATION

MEMORANDUM TO THE COMMITTEE ON EXPORT FINANCE

38-10-3-MEX
10 —

Re: Montreal Locomotive Works, Limited,
Ferrocarriles Nacionales de Mexico.

On January 13, 1967, the Committee on Export Finance considered a preliminary proposal from Montreal Locomotive Works, Limited (MONLOCO) for Section 21A financing in an amount of US$13 million covering the proposed sale of thirty to forty 2750 hp diesel-electric locomotives and spare parts to Ferrocarriles Nacionales de Mexico on proposed terms of 12 years including a two-year grace period. The Committee agreed that the Exporter should be encouraged to continue negotiations for this business without commitment of Section 21A financing at that time.

A formal application covering this transaction was submitted on April 3, 1967 by MONLOCO to ECIC for financing under Section 21A to support the sale of forty (3000 hp) diesel-electric locomotives in an amount of US$13 million on the same credit terms.

On April 11, 1967 EXIMbank advised ECIC that MONLOCO had not requested a 10% cash payment by the Buyer, and EXIMbank had stipulated this condition to an American supplier. They suggested that ECIC should insist on a 10% down payment as a condition of the sale. In the opinion of EXIM the Railways could well afford the down payment.

Following this advice, ECIC asked MONLOCO to contact the Buyer and the Mexican authorities in an attempt to secure the cash payment. MONLOCO state that they have done so and that they have been advised categorically that no such cash payment could be made during 1967 or 1968, and that if a down payment were required, no sale would be consummated. ECIC subsequently requested the Embassy at Mexico to verify this position, and the Embassy has since confirmed MONLOCO's report, attributing the Mexican refusal to the cash position which has arisen as a result of expenditures in connection with the forthcoming Olympic Games in that country.

As of April 30, 1967, ECIC's net exposure in Mexico was:

| | | | | |
|---|---|---|---|---|
| i) | Section 14 : | | | Can.$ 7.0 million |
| ii) | Section 21 : | | | Can.$ .3 million |
| iii) | Section 21A: | a) | Financing: | Can.$60.0 million — Cash out 35 |
| | | b) | Guarantee: | Can.$ 2.5 million |

24.8 with RCA

87 - outstanding cash → 60-70

...2/

000206

In addition, the Committee on Export Finance has considered and the Minister of Trade and Commerce has recommended authorization under Section 21A of financing of Can.$4.8 million covering the supply of telecommunications equipment and US$8.4 million covering the sale of rails and track accessories to Mexico.

Repayments on account of Section 21A loans made up to April 30, 1967 will be $11.1 million in 1967, $9.7 million in 1968 and $10.6 million in 1969.

The Committee is requested to recommend financing for the proposed sale on the basis of no down payment, with repayment of principal in 18 equal semi-annual instalments commencing May 1, 1969 and ending November 1, 1977.

Export Finance Division

EXPORT CREDITS INSURANCE CORPORATION

May 16, 1967.
AOW:jw

38-10-3-MEX
10 —

**CONFIDENTIAL**

## RECORD OF CABINET DECISION

Meeting of May 16th, 1967

Export Credit -- Export To Mexico Of Telecommunications Equipment By The RCA Victor Company Limited

The Cabinet, on the recommendation of the Minister of Trade and Commerce, agreed that the Export Credits Insurance Corporation be authorized, in respect of the export from Canada of equipment and services,

(a) to provide financing not exceeding US $4.1 million to Secretaria de Hacienda y Credito Publico (Ministry of Finance), Mexico, for the sale by RCA Victor Company, Ltd. to Secretaria de Comunicaciones y Transportes of Mexico of telecommunications equipment and engineering, construction, technical or similar services designed to provide a microwave link system in the northeast region of Mexico; and

(b) to make the amount so financed repayable in 27 consecutive semi-annual instalments commencing two years after signing of the Financing Agreement, with interest at 6 per cent per annum on the balance outstanding from time to time payable semi-annually commencing six months after signing of the Financing Agreement;

provided this commitment in principle of Section 21A financing terminates on August 31, 1967 unless definite arrangements have been entered into by the Borrower by that day to utilize the credit.

D. J. Leach,
Supervisor of Cabinet Documents.

May 17th, 1967.

CONFIDENTIAL

# RECORD OF CABINET DECISION

Meeting of May 16th, 1967

## Export Credits -- Joint Financing Of Argentinian Power Project With The Inter-American Development Bank

The Cabinet approved the recommendation of the Minister of Trade and Commerce

(a) that Export Credits Insurance Corporation be given approval in principle to provide financing to Agua y Energia Electrica under Section 21A of the Export Credits Insurance Act up to a total amount not in excess of US$2 million in connection with the sale and export from Canada of equipment - and related services if necessary - by Canadian suppliers, the financing to be repayable in 25 consecutive semi-annual instalments commencing February 21, 1971, with interest at 6 per cent per annum on the principal amount outstanding from time to time payable semi-annually, the payments to be unconditionally guaranteed by the Republic of Argentina; and

(b) that this commitment in principle of Section 21A financing should expire on August 1, 1967 unless a final contract for the utilization of the credit is entered into by Agua y Energia Electrica and Export Credits Insurance Corporation.

D.J. Leach
D.J. Leach,
Supervisor of Cabinet Documents.

May 17th, 1967.

SEEN BY THE MINISTER
JUN 7 1967

CONFIDENTIAL

June 5, 1967

38-10-3-MEX
10 —

MEMORANDUM FOR THE MINISTER

ECIC 21A - Long Term Financing - Mexico

We are informed that two recommendations for the provision of financing to Mexico under Section 21A of the ECI Act will be discussed in Cabinet tomorrow. In brief the proposals, which are outlined in the attached memoranda, deal with:

A. The provision of financing in the amount of $13 million U.S. for the purchase of locomotives and spare parts from Montreal Locomotive Works (Monloco);

B. The provision of financing in the amount of $8.4 million U.S. for the purchase of steel rails and track accessories from Dominion Steel and Coal Corporation (Dosco) of Sydney, Nova Scotia.

These two recommendations have been the subject of thorough interdepartmental examination and are not expected to give rise to any extensive discussion in Cabinet. The sale of rails and track accessories to be produced by Dosco is of great regional significance as it would provide some 24-28 weeks of production for the rail mill in Sydney, Nova Scotia.

As pointed out in the attached memoranda, approval of these financing proposals will bring the total of outstanding ECIC 21A financing in Mexico to a very high level, ($64 million will be outstanding at the end of 1968). The Department of Finance is somewhat concerned about the level of ECIC "exposure" in Mexico but we are informed that officials of that department are recommending to Mr. Sharp that he should express concurrence in the two recommendations placed before Cabinet for discussion tomorrow.

File
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5.6.67 (us)

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CONFIDENTIAL

MAY 24, 1967

MEMORANDUM TO THE CABINET

Export Credits Insurance Act
Financing to Mexico for Rails and Track Accessories
Dominion Steel and Coal Corporation, Limited, Exporter

1. Object

To obtain Cabinet approval for financing under Section 21A of the Export Credits Insurance Act, in an amount of US$8.4 million on credit terms of seven years from average date of delivery. The aim is to assist an export sale by Dominion Steel and Coal Corporation, Limited (DOSCO) to Ferrocarriles Nacionales de Mexico, Mexico, (Buyer) of rails and track accessories.

2. Background

The Export Credits Insurance Corporation (ECIC) has already provided support for sales of rails and track accessories in Mexico, on behalf of DOSCO, as follows:

i) insurance under Section 21, in 1960, for an order for rails valued at US$12.8 million, the unpaid balance of which in an amount of US$8.68 million was subsequently guaranteed by ECIC under Section 21A in 1963;

ii) three loans under Section 21A totalling US$38.72 million, for the first stage of the Mexican railway rehabilitation programme covering the years 1961 to 1964; and

iii) two loans under Section 21A in the amount of US $18.24 million for the second stage of the Mexican railway rehabilitation programme covering the years 1965 to 1969; the proposed loan would be the third loan for the second stage.

3. Factors

(a) Credit Terms

The financing required by the Buyer amounts to US$8.4 million. Credit terms requested are seven years from average date of delivery, with repayment in 12 consecutive semi-annual instalments commencing March 15, 1969. The promissory notes to be given as security would be fully guaranteed as to dollar payment of principal and interest by Nacional Financiera, S.A., the guarantor of all previous ECIC loans to Mexico.

(b) ECIC Exposure

As of April 30, 1967, ECIC's net exposure in Mexico was:

| | | |
|---|---|---|
| i) | Section 14 : | Can.$ 7.0 million |
| ii) | Section 21 : | Can.$ .3 million |
| iii) | Section 21A: | |
| | a) net outstanding disbursements under Financing Agreements | Can.$55.0 million |
| | b) obligations to disburse, excluding net outstanding disbursements under Financing Agreements | Can.$ 5.0 million |
| | c) guarantee | Can.$ 2.5 million |

...2/

In addition, the Cabinet approved on May 16, 1967 financing of Can.$4.8 million covering the supply of telecommunications equipment to Mexico.

Repayments on account of Section 21A loans made to Mexican borrowers will amount to $11.1 million in 1967, $9.7 million in 1968 and $10.6 million in 1969.

(c) Benefits to Canada

DOSCO's operations at Sydney, Nova Scotia, are of considerable regional, economic and social importance. The Exporter advises that this order of US$8.4 million would provide some 24 to 28 weeks of production for the rail mill. The Commercial Contract was signed on May 11, 1967, and delay in arranging financing could result in the closing of DOSCO's rail mill operations in the Sydney area within the next two months.

(d) Canadian Content

The Canadian content of rails and track accessories supplied by DOSCO under this order would be 88%.

(e) Consideration by the Committee on Export Finance

The Committee on Export Finance considered DOSCO's application, noted that the Cabinet had previously approved financing for the 1965 and 1966 portion of the current five-year sales arrangement between DOSCO and Ferrocarriles Nacionales de Mexico and recommended Cabinet approval of the financing now requested.

4. Recommendations

I recommend that Cabinet approval be given for authority to Export Credits Insurance Corporation, pursuant to Section 21A of the Export Credits Insurance Act, in respect of the export of goods mentioned below:

i) to provide financing not exceeding US$8.4 million to Ferrocarriles Nacionales de Mexico for the purchase of steel rails and track accessories from Dominion Steel and Coal Corporation, Limited, Sydney, Nova Scotia;

ii) to make the amount so financed repayable in 12 consecutive semi-annual instalments commencing March 15, 1969, with interest at 6% per annum on the balance outstanding from time to time payable semi-annually commencing September 15, 1967 with payment of principal and interest to be guaranteed by Nacional Financiera, S.A.; and,

provided that such authority should terminate on July 31, 1967 if definite arrangements to utilize the credit have not been entered into by the Borrower by that date.

OTTAWA

Minister of Trade and Commerce

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CONFIDENTIAL

MAY 26, 1967

MEMORANDUM TO THE CABINET

Export Credits Insurance Act
Financing to Mexico for Locomotives and Spare Parts
Montreal Locomotive Works, Limited - Exporter

1. Object

To obtain Cabinet approval for financing under Section 21A of the Export Credits Insurance Act in an amount of up to US$13 million with repayment of principal in 18 consecutive semi-annual instalments commencing May 1, 1969. The aim is to assist an export sale by Montreal Locomotive Works, Limited (MONLOCO) to Ferrocarriles Nacionales de Mexico, Mexico, (Buyer) of up to forty 3000 HP diesel-electric locomotives and spare parts.

2. Background

In January 1963 Export Credits Insurance Corporation (ECIC) provided financing under Section 21A for a sale of locomotives in Mexico on behalf of MONLOCO in the amount of US$15,022,000 on almost identical terms, i.e. repayment of principal in 18 consecutive semi-annual instalments commencing April 30, 1965.

3. Factors

(a) Credit Terms

Repayment of the proposed loan will be made in 18 consecutive semi-annual instalments commencing May 1, 1969. The promissory notes to be given as security would be fully guaranteed as to dollar payment of principal and interest by Nacional Financiera, S.A., the guarantor of all previous ECIC loans to Mexico.

(b) ECIC Exposure

As of April 30, 1967, ECIC's net exposure in Mexico was:

i) Section 14 : Can.$7.0 million
ii) Section 21 : Can.$ .3 million
iii) Section 21A:
  (a) Net outstanding disbursements under Financing Agreements: Can.$55.0 million
  (b) Obligations to disburse excluding net outstanding disbursements under Financing Agreements: Can.$ 5.0 million
  (c) Guarantee: Can.$ 2.5 million

In addition the Cabinet approved on May 16, 1967 financing of Can.$4.8 million covering the supply of telecommunications equipment to Mexico. The Committee on Export Finance considered and the undersigned is currently recommending to the Cabinet the financing of Can.$9.1 million covering the sale of rails and track accessories to Mexico.

If all these recommendations are accepted, ECIC exposure in Mexico would reach a peak of $63.9 million at the end of 1968.

...2/

(c) Benefits to Canada

The Exporter advises that this order would provide 1,104,800 labour hours for the work forces of MONLOCO, its main associated firms and sub-contractors.

(d) Canadian Content

The Canadian content of the locomotives supplied under this order is stated by MONLOCO to be 73.6%.

(e) Consideration by the Committee on Export Finance

The Committee on Export Finance has recommended Cabinet approval of the financing now requested.

4. Recommendations

I recommend that Cabinet approval be given for authority to Export Credits Insurance Corporation, pursuant to Section 21A of the Export Credits Insurance Act, in respect of the export of goods mentioned below:

i) to provide financing not exceeding US$13 million to Ferrocarriles Nacionales de Mexico for the purchase of locomotives and spare parts from Montreal Locomotive Works, Limited, Montreal, Quebec;

ii) to make the amount so financed repayable in 18 consecutive semi-annual instalments commencing May 1, 1969, with interest at 6% on the balance outstanding from time to time payable semi-annually commencing November 1, 1967 with payment of principal and interest to be guaranteed by Nacional Financiera, S.A.; and,

provided that such authority should terminate on August 31, 1967 if definite arrangements to utilize the credit have not been entered into by the Borrower by that date.

OTTAWA

Minister of Trade and Commerce.

FILE COPY

# MESSAGE

| DATE | FILE/DOSSIER | | SECURITY SECURITE |
|---|---|---|---|
| OCT11/67 | 38-10-~~3~~ 16 | MEX 16 | CONFD |

FM/DE EXTERNAL OTT

| NO | PRECEDENCE |
|---|---|
| E-3131 | ROUTINE |

TO/A MEXICO

INFO TANDC(MIDWINTER) FINANCE IND ECIC(WHEELOCK)

**REF** OURTEL 635 SEP28

**SUB/SUJ** LONG TERM EXPORT FINANCING - MEXICO

TANDC TEL 11240 SEP19 REFLECTED ~~INDICATED~~ INTERDEPTL VIEW ~~WHICH~~ EXISTING AT THAT TIME WITH RESPECT TO PROVISION OF 21(A) FINANCING ASSISTANCE TO MEXICO WHICH WAS BASED ON ~~IN LIGHT OF~~ TWO CONSIDERATIONS. THESE WERE OUR RELATIVELY HIGH EXPOSURE IN MEXICO AND PRESENT HIGH LEVEL OF TOTAL POTENTIAL COMMITMENTS UNDER SECTION 21(A) PROGRAMME.

2. LAST WEEK AT COMBINED MTG OF ECIC BOARD OF DIRECTORS AND INTERDEPTL CTTEE ON EXPORT FINANCE, CURRENT AND FUTURE OPERATIONS UNDER SECTION 21(A) WERE GIVEN CAREFUL REVIEW. IT WAS CONCLUDED THAT LEGAL AUTHORITY EXISTED FOR A SOMEWHAT LESS RESTRICTIVE APPROACH TO TOTAL COMMITMENTS UNDER SECTION 21(A) PROGRAMME. WITH RESPECT TO OTHER CONSIDERATION PRESENT COMMITMENTS IN MEXICO REMAIN RELATIVELY HIGH BUT WE HAVE LEARNED THAT MONTLOCO HAS ~~HAVE~~ LOST CONTRACT FOR DIESEL LOCOMOTIVES AND THIS THEREFORE RELEASES FINANCING COMMITMENT WE HAD MADE FOR THAT PROJECT. IN LIGHT OF THESE TWO CONSIDERATIONS AND BEARING IN MIND REPAYMENTS WHICH WILL BE MADE UNDER EXISTING CREDITS WE ARE PREPARED TO CONSIDER ADDITIONAL REQUESTS FOR 21(A) FINANCING ASSISTANCE FOR MEXICO AS YOU SUGGEST. ....(2)

DISTRIBUTION
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| ORIGINATOR/REDACTEUR | DIVISION | TELEPHONE | APPROVED/AUTORISE |
|---|---|---|---|
| SIG. M. PAUMAN (TANDC) AND F.G.LIVINGSTON/LBS | Economic | 2-5421 | R.M. TAIT SIG. FOR D.H.W.Kirkwood |



EXT 18/BIL (REV 5/64)
(COMMUNICATIONS DIV)

3. ECIC'S RECENTLY IMPLEMENTED POLICY TO LEND FUNDS TO LOCAL INDUSTRIAL DEVELOPMENT BANKS FOR RELENDING IS INTENDED TO ~~IN~~ SUPPORT ~~OF~~ PROJECTS OF CONSIDERABLY LESS THAN ONE MILLION DOLLARS. IT IS INTENDED THAT THIS NEW FACILITY WILL PROVIDE GREATER SCOPE AND VERSATILITY TO THE 21(A) FACILITY. AS YOU KNOW ECIC IS CURRENTLY CONSIDERING THE EXTENSION OF A LINE OF CREDIT TO MEXICO FOR SUBLOAN PURPOSES.

4. TANDC ~~THIS DEPT~~ HAS REQUESTED THAT QUESTION OF APPROPRIATE 21(A) EXPOSURE IN MEXICO BE PLACED ON ~~THE~~ AGENDA FOR FORTHCOMING MTG OF CTTEE ON EXPORT FINANCE WHICH WILL TAKE PLACE FRI NEXT. IN CONTEXT OF THAT DISCUSSION TANDC ~~WE~~ WILL RAISE REQUESTS RECEIVED FOR LONG TERM EXPORT FINANCING ASSISTANCE FROM BOTH BEDARD GIRARD (DOLLARS 1.6 MILLION FOR TRACK SIGNALING EQUIPMENT) AND B & K MACHINERY INTERNATIONAL LTD (DOLLARS 1.6 TO 2 MILLION FOR ~~A~~ METAL STRIP GALVANIZING LINE). YOU ~~WE~~ WILL BE INFORMED OF ~~COMMUNICATING~~ RESULTS OF MTG ~~TO YOU WITH DISPATCH~~.

EXT 18A (5/64)
(COMM'S DIV)

38-10-[redacted]-MEX

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M. Small

ADS

FM TANDC MXICO NOV29/67 RESTR

TO ECIC TC399 DE TANDC OTT

INFO EXTER

TT TANDC OTT(MIDWINTER)DE OTT

AITKEN DE BLACKWOOD

IN OURTEL 270 AUG29 WE INFORMED YOU OF TUXTEPECS EXPANSION PLANS FOR WHICH EQPT AND CONSULTING SERVICES AMOUNTING TO ABOUT DOLLARS 400,000 USA ARE REQUIRED AND WE ENQUIRED WHETHER THIS AMOUNT COULD BE MADE AVAILABLE TO TUXTEPEC AND INCORPORATED INTO THEIR CURRENT LOAN FROM ECIC.

IN YOUR REPLY TC10256 AUG30 YOU SUGGESTED THAT COST OF PROPOSED EXPANSION BE HANDLED BY INSURANCE DIV UNDER NORMAL SUPPLIER CREDIT TERMS.

ON NOV27 JAIME ORTIZ MENA GENERAL MANAGER OF TUXTEPEC ACCOMPANIED BY ROY EMERY CALLED AT EMB TO AGAIN DISCUSS THIS MATTER.IF PROJECT WERE FINANCED THROUGH INSURANCE DIV EMERY EXPECTS INTEREST RATE AVAILABLE FROM CDN BANKS WILL BE AT LEAST 7 PERCENT AND REPAYMENT OF TOTAL AMOUNT WILL BE REQUIRED WITHIN FIVE YEARS FROM DATE OF SHIPMENT.ORTIZ MENA WOULD MUCH PREFER THAT COST OF EXPANSION BE INCORPORATED INTO FINANCING AGREEMENT CONCLUDED BETWEEN ECIC AND TUXTEPEC ON MAY12/64.TERMINATION DATE OF THAT FINANCING AGREEMENT IS MAY1/74 THUS IT WOULD BE POSSIBLE TO MAKE REPAYMENT OVER LONGER PERIOD.MOREOVER INTEREST RATE AT 6 PERCENT WOULD BE MORE ATTRACTIVE.

ACCORDING TO OUR CALCULATIONS TUXTEPEC HAVE ALREADY REPAID ABOUT DOLLARS 650,000 USA OUT OF TOTAL AMOUNT OF ORIGINAL LOAN OF DOLLARS 2.75 MILLION WHEREAS AMOUNT OF NEW LOAN REQUESTED IS DOLLARS 400,000 USA.

IN YOURTEL OCT11 ON GENERAL POLICY WITH RESPECT TO LONG TERM EXPORT FINANCING IN MXICO YOU INDICATED YOU WERE WILLING TO CONSIDER ADDITIONAL REQUESTS FOR 21 A FINANCING. AT THAT TIME YOU HAD BEFORE YOU TWO REQUESTS FOR LONG TERM FINANCING,ONE FROM BEDARD GIRARD FOR DOLLARS 1.6 MILLION USA AND ONE FROM B AND K MACHINERY FOR DOLLARS 1.6 TO 2 MILLION USA.NEITHER OF THESE COMPANIES WILL BE UTILIZING THESE CREDITS AS BOTH HAVE SINCE LOST OUT TO COMPETITORS. SINCE YOU WILL NOT RPT NOT THEREFORE BE REQUIRED TO PROVIDE FINANCING TO THESE TWO COMPANIES AT THIS TIME IT APPEARS TO US THAT FAVOURABLE CONSIDERATION OF TUXTEPECS REQUEST SHOULD BE POSSIBLE.

ADDITIONAL INVESTMENT OF DOLLARS 400,000 USA BY TUXTEPEC IS EXPECTED TO RAISE PRODUCTIVE CAPACITY FROM 7 TO 10 PERCENT ANNUALLY AND IMPROVE PAPER MILLS PROFITABILITY. WE ARE AWARE OF YOUR KEEN INTEREST IN MAKING LONG TERM FINANCING AVAILABLE ONLY TO PROJECTS WHICH WILL PROVE ECONOMICALLY VIABLE AND PROFITABLE.IT APPEARS TO US THEREFORE THAT THE PROVISION OF ADDITIONAL LONG TERM FUNDS TO TUXTEPEC IS ALL THE MORE JUSTIFIABLE.

...3

WE STRONGLY RECOMMEND THAT FAVOURABLE CONSIDERATION BE GIVEN TO REVISING LOAN AGREEMENT OF MAY 1964 TO INCORPORATE AN ADDITIONAL AMOUNT OF DOLLARS 400,000 USA. AGREEMENT WOULD STILL HAVE ORIGINAL TERMINATION DATE OF MAY 1974.

VJM

CANADA

DATED FROM 1/11/63 FILE No. 38-10-1-MEX

TO 31/12/67 VOLUME No. 1

# CLOSED VOLUME

DO NOT PLACE ANY CORRESPONDENCE ON THIS FILE

FOR SUBSEQUENT CORRESPONDENCE SEE:

FILE No. VOLUME No. 2

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