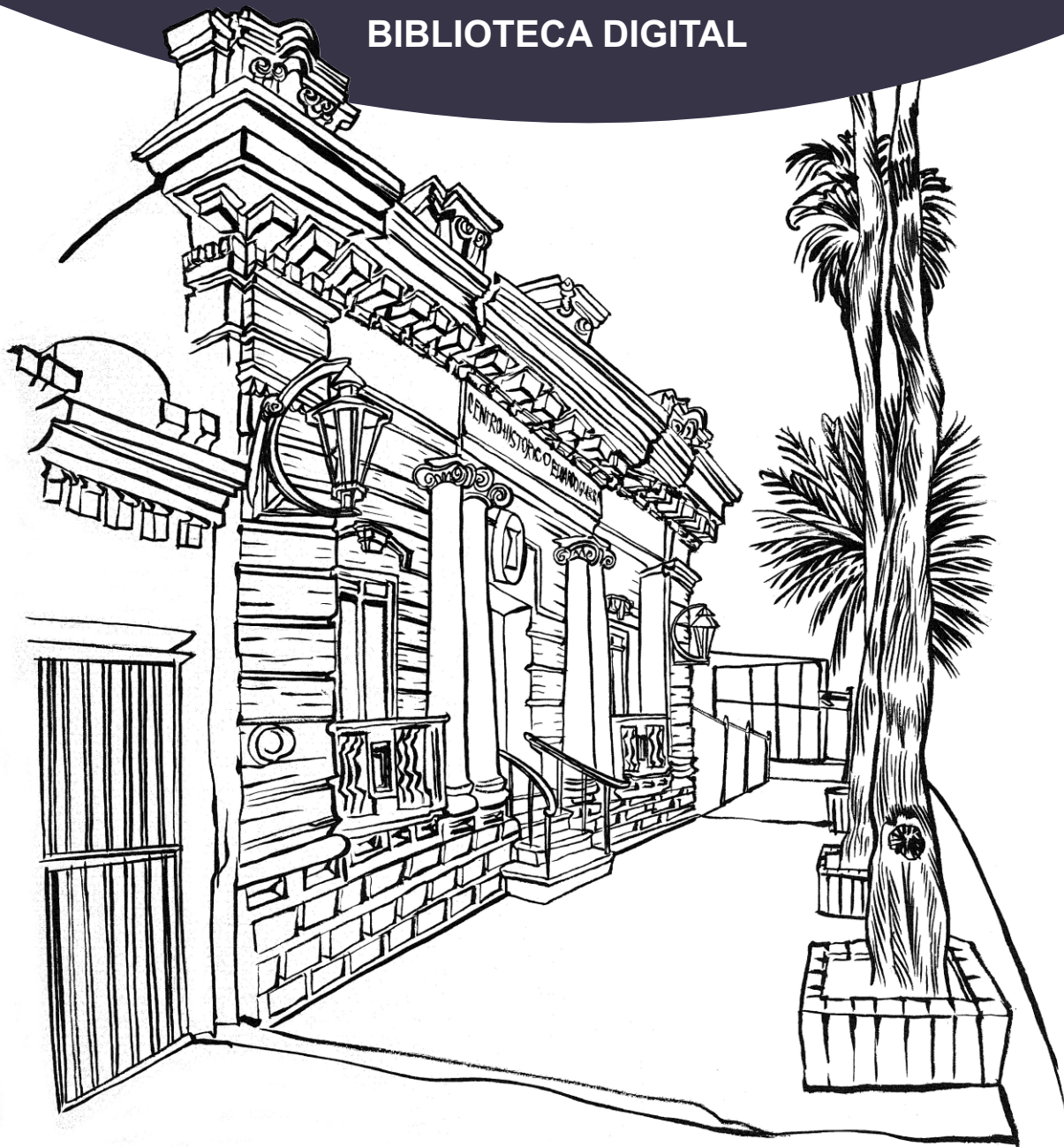




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STATEMENT

— re —

Mexican Cotton Estates of Tlahualilo, Limited.

Chairman.

THE RIGHT HONOURABLE THE LORD WELBY OF ALLINGTON, G.C.B.

Directors.

SIR ALEXANDER HARGREAVES BROWN, BART. (of Messrs. Brown, Shipley & Co.).

HENRY PARKMAN STURGIS, Esq. (Director of London and Westminster Bank.).

JAMES BROWN POTTER, Esq.

The above Company is the owner of all the Debentures (£350,000 Sterling) and nearly all the Shares (\$2,600,000 Mexican) of the *Compania Agricola y Colonizadora del Tlahualilo* (hereinafter called the "Mexican Company").

1. The Mexican Company was organised in Mexico with Mexican capital in 1885. It then acquired 25 sitios of land at Tlahualilo, and subsequently, in 1888, one sitio more. A sitio is 4,200 acres. The Company is one of the largest growers of cotton in Mexico, the average annual crop being many thousand bales. It employs several thousand workmen.

2. On 14th April, 1887, the Mexican Government entered into a contract with the Mexican Company giving it the right to take water from the River Nazas for irrigation of its lands.

3. On 30th March, 1888, this contract was promulgated by Congress of the United States of Mexico as a law of the nation (copy contract on page 157 of printed volume). Article 5 of the Contract said:—

“ For the purpose of having the water necessary for the irrigation of its lands,
“ as also the water required for domestic purposes, and for the establishment of industries
“ there is hereby granted to the Company authority to open for its own account a canal or

“aqueduct which shall start from San Fernando dam on the River Nazas and shall go into the lands of the said Company with the right to make such distribution of its waters as may be most in accord with the interests of the Company subject always to the conditions hereinafter set forth.”

Subsequent articles specified the place of intake, form, size, and gradient of the canal, and generally prescribed the conditions on which the Mexican Company was to carry on its business.

4. On 5th June, 1888 (nearly three months after the contract), the Water Law of 1888 was passed (p. 167 of printed volume). It authorised the Federal Executive to regulate the public and private use over rivers, and said:—

Article 2 B. “The rights of private individuals with reference to the servitudes, easements and uses constituted in their favour over rivers . . . shall be respected and confirmed provided that said rights shall be based on legitimate titles”

Article 2 C. “The confirmation of private rights in the rivers which are the subject of this law can only be made by the Department of Fomento when such confirmation shall not deprive the lower riparian owners of the use of their waters (sus aguas).”

5. On 24th June, 1891, a regulation for the distribution of the Nazas River waters was promulgated pursuant to the law of 1888, by the Department of Fomento (p. 171 of printed volume).

It defined with the greatest particularity the rights of all parties entitled to the waters including the Mexican Company. It was called “Provisional,” but Article 11, par. B, said:—

“. . . . modifications may be made by the Department on motion of the parties interested provided however that there shall not result therefrom alterations either in the basis of proportional distribution established by the present Regulation or in the right by which said Regulation is acknowledged in favour of each.”

That Regulation, though involving some interference with the Company's concession rights, was accepted by the Mexican Company as a final settlement of the question and as part of the arrangement, and to help the Government to bring about a final solution of it, the Mexican Company then, at the request of the Minister of Fomento, actually purchased the San Fernando property and water rights higher up the river so that they might be compensated through that ownership for some of the water they were losing under the Regulation at Tlahualilo.

6. In 1896 the Mexican Company, desiring to raise money in England for the purpose of the development of its property, obtained the leave of the Mexican Government to mortgage

its concession and with that leave issued in London £350,000 Six per cent. Debentures which were subscribed by influential merchants and others in the City of London upon the faith of the Company's concession.

7. On 1st April, 1896, for the purpose of the above debenture issue, the Mexican Company applied to the Government for a formal recognition of the Company's Contract rights which was granted by the Department of Fomento in the following words "Said contract (of 1887) is in full force and so declared."

8. Subsequently, owing to the defalcations in the former management, the Mexican Company got into difficulties, and a period of chaos ensued which was only ended after four years of incessant labour and with the help of representations made by the British and United States Governments, by a scheme passed in 1903, under which the English Company took over the whole of the Debentures and nearly all the Shares of the Mexican Company, and issued its own securities against the same.

As the result of these arrangements the Mexican Company has since been able to carry on its business successfully and with satisfaction to the parties interested until the present time.

9. Since the Regulation of 1891 there have been various alterations of the Regulations of 1891 (not assented to by the Company), and interferences with the Mexican Company's rights thereunder, but the Mexican Company contented itself with protesting until

10. On August 13th, 1908, the Department of Fomento promulgated a new order the effect of which is to deprive the Mexican Company of the whole of its water from the 20th August to 20th September, a time of the year at which it is absolutely essential for the protection of its standing, and the next year's crop preparatory irrigation, this September being but 2,000 acres against 12,500 two years ago, in consequence of this order.

The order is based upon a claim on the part of the Executive to vary at will the rights solemnly granted and confirmed by Congress to the Mexican Company in 1888, and again confirmed by the Regulation of 1891, and in support of this it is claimed that the contract granting to the Company the right to "use" the waters of the river for irrigation purposes "did not grant any ownership of said waters," thereby apparently assuming that the whole of the waters passing through the Mexican Company's canal must be delivered at the lower end!

Moreover, the order is justified upon the wholly untenable ground that the water at that time of the year is not required by the Company, and that the loss of it will not therefore prejudice its

position, and that in consequence the Executive in making the order is merely exercising "acts of police and supervision without prejudging the rights which may belong to each riparian owner!" (see p. 118).

It is not possible to enter into a discussion here of what the rights of the lower riparian owners may be. It is sufficient to say that these were, after full examination, dealt with by the Contract of 1887 and the Regulation of 1891, which is binding upon the Government.

It is not too much to say that if the order of 13th August, or any similar order depriving the Company of its rights under its Concession and the Regulation of 1891, is maintained the value of the property of the Mexican Company will be largely destroyed, and investors who have relied upon the sanctity of a contract formally granted by the Mexican Government, and sanctioned by the Mexican people, will lose a large part of their investments.

The consequences of this to Mexican credit in this country and in the United States of America cannot fail to be far-reaching.

Accompanying this Statement is the printed Report of the Company's General Counsel, Mr. S. MALLET-PREVOST, the eminent lawyer of New York, who acted as one of the Counsel for the United States of America in the Venezuela Arbitration.

November, 1908.

STATEMENT

ESTADO QUE MANIFIESTA EL MONTO DEL CAPITAL, HIPOTECAS (1896 y 1903) Y UTILIDADES INVERTIDAS POR LA COMPANIA AGRICOLA, INDUSTRIAL, COLONIZADORA, LIMITADA DEL TLAHUALILO, S. A. ; DE INTERESES AL 6% SOBRE CAPITAL Y FONDOS DE RESERVA, Y DE PAGOS POR CUPONES NOS. 1 AL 5; AMORTIZACION DE 184 BONOS, Y REMESAS A FIDEICOMISARIOS.—PERIODO DE JUNIO DE 1889 A 31 DE MAYO DE 1989.

Año Agrícola	Capital é Hipotecas Importe	Interés al 6%	Utilidades incluyendo Fondo de Reserva	Fondos de Reserva Importe	Interés al 6%	Cupones pagados Nos. 1 á 5	Amortiza- ción de 184 Bonos £18,400	Remesa á los Fidei- comisarios Londres
1889 - 1890	2,600,000.00							
1890 - 1891	2,600,000.00	156,000.00	25,642.00					
1891 - 1892	2,600,000.00	156,000.00	43,554.13					
1892 - 1893	2,600,000.00	156,000.00	18,279.61					
1893 - 1894	2,600,000.00	156,000.00	142,765.26					
1894 - 1895	2,600,000.90	156,000.00	42,404.26					
1895 - 1896	2,600,000.00	156,000.00	102,281.05					
1896 - 1897	5,910,344.83	156,000.00	510,695.30			65,142.86		
1897 - 1898	5,910,344.83	354,620.69	283,633.98			234,424.80	75,024.00	
1898 - 1899	5,910,344.83	354,620.69	37,249.00			214,072.94	78,006.50	
1899 - 1900	5,910,344.83	354,620.69	177,405.05				15,574.00	
1900 - 1901	5,910,344.83	354,620.69	257,741.33					
1901 - 1902	5,910,344.83	354,620.69	331,219.29					
1902 - 1903	5,910,344.83	354,620.69	1,022,258.19					
1903 - 1904	7,018,089.27	354,620.69	370,623.74	18,531.19				382,219.83
1904 - 1905	7,018,089.27	421,085.36	308,629.71	15,431.49	1,111.87			263,601.84
1905 - 1906	7,018,089.27	421,085.36	1,056,239.94	601,994.04	2,037.76			451,763.97
1906 - 1907	7,018,089.27	421,085.36	558,680.59	143,235.82	38,157.40			269,706.17
1907 - 1908	7,018,089.27	421,085.36	78,899.23	14,656.73	46,751.55			355,701.06
1908 - 1909	7,018,089.27	421,085.36	9,860.07	7,968.81	47,630.95			139,240.66
	7,018,089.27	5,679,771.63	3,753,721.24	801,818.08	135,689.53	513,640.60	168,604.50	1,862,233.03

NOTE.—Figures in heavy faced type indicate Losses.

RESUMEN :—

Capital invertido é Hipotecas.....	\$7,018,089.27	(Capital and Mortgage)
Utilidades.....	3,753,721.24	(Profits)
Interésés al 6% sobre capital s hipotecas.....	5,679,771.63	(Interest)
sobre Fondos de Reserva.....	135,689.53	(do.)
	<u>\$16,587,271.67</u>	

Menos :

Coupones pagados, Nos. 1 al 5..	\$513,640.60	(Coupons paid)
Amortización de 184 Bonos....	168,604.50	(Sinking fund payments)
Remesas á Fideicomisarios....	1,862,233.03	(Remittances to Trustees)
	<u>2,544,478.13</u>	
	<u>\$14,042,793.54</u>	

S.M-P.
C.C.F.
N.Y.
Mexico

S. E. ú O.

México, D. F., 14 de Junio de 1910.

JAMES E. KITCHIN,
Tesorero y Sub-Gerente General.