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TO : Department of State

FROM : HABANA 543 March 9 1950

REF : EMBASSY'S DESPATCH No. 328, Feb. 13, 1950

SUBJECT : PROPOSED HABANA BUS LINE

937-513/3-950
MAR 10 1950
DEPARTMENT OF STATE
BUREAU OF
INTER-AMERICAN AFFAIRS
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Obstacles appear to have arisen in connection with the proposed transfer of the franchise of the Habana Electric Railway to a new company, Omnibus Modernos, S. A. Objections have been made by the competing Omnibus Aliados; by the mayor of Habana (who alleges that since the city granted the 60-year franchise in 1893, the city becomes owner of the Havana Electric Railway properties when the franchise expires); by certain Cuban stockholders in the Havana Electric Railway; and by certain Habana newspapers.

An article in the Habana newspaper El Mundo (largely owned by the distributor of General Motors trucks) alleged that the organization of Omnibus Modernos involved the transfer to that new firm of the Havana Electric Company, a subsidiary of the Electric Bond and Share Company of New York; that Omnibus Modernos proposed to place in service 620 British-made Leyland "Comet" buses costing about \$14,750 each, whereas comparable American buses could be obtained for \$11,750 each; and that financing of the new enterprise would be arranged in the form of a loan by the Hong Kong Shanghai Banking Corporation and credits afforded by the British Government through the Export Credits Guarantee Department 1/.

In an interview reported in the newspaper El Mundo, the President of Omnibus Aliados asserted that the primary purpose of Omnibus Modernos was to eliminate the Havana Electric Railway and thus benefit the Electric Bond and Share Company through its Habana subsidiary, Compañia Cubana de Electricidad. It was explained that elimination of streetcars would make available electric power for sale at a minimum of four cents per kw-h, for which power the Havana Electric Railway is now charged but one and one-half cents, which, however, is never paid. It was alleged also that a commission of at least \$2,000 was being charged for each

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1/ In a letter to the press the British Legation confirmed protracted negotiations with Leyland Motors Limited, but pointed that the Export Credits Guarantee Department is not authorized to make loans but to afford protection against commercial risks in export trade.

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new bus purchased by Omnibus Modernos, in order to "raise necessary funds to buy the Havana Electric", and that this transaction would place at the disposal of Omnibus Modernos all properties of the electric railway, including real estate now used for offices, carbarns and repair shops, rails, trolley wires, etc., estimated to be worth more than \$500,000. Omnibus Aliados objected to the proposed transaction also on the ground that the fare charged by Omnibus Modernos would be eight cents, whereas Omnibus Aliados had been refused a fare increase although the average wage of its employees is \$2 an hour against proposed wages of \$1.26 an hour announced by Omnibus Modernos.

Omnibus Aliados also is reported as objecting to the new company on the ground that 25 percent of the stock in the latter would be delivered to the Railway and Streetcar Pension Fund to cover the \$1,500,000 now owed to that Fund by the Havana Electric Railway; and that the remaining 75 percent of the stock would be delivered to the Cuban Government, "which is the same as nationalizing public passenger transportation service in the city area".

Havana Electric Railway employees have indicated that they are not satisfied with proposed plans for the transfer of the franchise as they fear many streetcar employees would lose their jobs as a result.

In view of a proposal that the Government should submit to public tender the sale of the Havana Electric Railway and any alternative new transportation service, Compañía Cubana de Compensaciones and Constructora Mañana, S.A. (largely owned by the editor of the newspaper Mañana) have proposed to place in service French buses and trolley-buses of which 150 would be in operation in 90 days and 75 additional similar vehicles monthly thereafter. This offer also involves providing "25 percent of the profits for the workers", and a fare of six cents with one cent for transfers as at present.

Certain Cuban stockholders in Havana Electric Railway have objected to any transfer of the franchise that ignores due compensation for their holdings in the company, and on that ground they have opposed recent proposals involving such a transfer.

Certain newspapers have voiced objection to the Omnibus Modernos plan as announced, for the alleged reason that the terms were not sufficiently clear to residents of Habana who have to rely upon public transportation.

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It is understood that in view of the objections in question, the Cuban Government has postponed action regarding the matter, which is to be discussed at an early meeting of the Cabinet.

For the Ambassador:

Harold S. Tewell
Counselor of Embassy

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