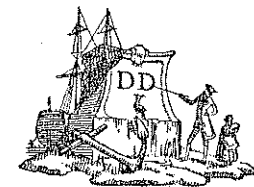


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CHAPTER VI

Oil

THE SITUATION CREATED by the nationalization of seventeen American and British oil companies is of first importance for a number of reasons. Oil production is Mexico's third industry, exceeded in importance only by agriculture and mining. The oil industry was an active and a redeveloping one. Its nationalization created problems for Mexico that, whether they are solved or not, must determine the future course of Mexican history.

It requires no soothsayer to opine that, if Mexico is successful in maintaining and operating the oil properties, then remaining American industries in Mexico, including mining, will be seized and the Mexican government will bulwark a new order. If Mexico fails, then, logically, the course of Mexican official policies for the past three decades must be altered radically. One of the main goals of these policies has been attained, at least temporarily, in oil expropriation. If matters do not work out successfully, the policies would appear mistaken.

Quite apart from what may happen within Mexico,

and irrespective of the present organization of oil companies operating on a world-wide basis, the expropriation in one fell swoop of these major foreign properties involves important international considerations. Anglo-American control of world oil supplies is threatened. Great Britain today must obtain almost all its oil from outside its territory and possessions. The United States stands to lose control of important reserves that may become more vital as home fields are exhausted. Moreover, an important precedent is by way of being set in international usage. If any one country—at peace, unfaced by an overwhelming crisis and allegedly operating along orthodox lines—can seize an industry outright and pay what it likes, or not pay at all, a precedent is set not only for the rest of Latin America but for the world.

Important as is the oil controversy, it is necessary to note that a struggle is not being waged exclusively between world-wide oil companies and the Mexican government, as some propagandists seek to make it appear. The Department of Commerce in Washington reported early in 1938 that, between 1929 and the beginning of 1937, the United States investment in Mexico fell \$203,000,000, although it still represented the fourth largest American stake in the world. The report remarked that "economic and political influences" had a sharp effect upon the decline. The finding covered a period ending over a year before the Mexican government expropriated the oil companies.

The amount of property involved in the oil controversy is tremendous, for, besides the working prop-

erties expropriated, millions of acres of unworked reserves have been seized. The single Poza Rica field, developed and formerly operated by the British, is one of the richest in the world, with half a million proven barrels in sight, and every reason to believe that at least another billion barrels can be drawn from it. The American companies claim that their expropriated properties were worth at least \$150,000,000; the British and Dutch assert that theirs had a minimum value of \$250,000,000. The Mexican government claims, under the Constitution of 1917, that the subsoil is Mexican and bases its figures only on installations. Valuation of unworked holdings would be difficult indeed.

The controversy has as many facets as a diamond. There is the moral issue, the legal issue and the operation of plain force. Mexico has a background of Spanish law, with its loose conception of fixed property rights, and of Indian usage. In the field of international law this runs against the dominant Anglo-Saxon concepts of property rights. The issues are debatable, but it is possible to trace certain trends and happenings in the development of the controversy.

The fundamental Mexican official conception is that the property of the oil companies in Mexico was acquired by dubious methods, if not fraudulently, and that it should revert to the Mexican nation. The contention of the companies is that they obtained their rights properly under then existing Mexican laws; that they spent considerable sums to develop the Mexican oil industry; and that now the Mexican government

seeks to "rob" them as, they assert, preceding "revolutionary" governments tried to do.

An examination of the battles that have been joined between Mexican officials and the companies since 1917 indicates that legerdemain and sophistry, as well as brute force, have been resorted to by both sides: the Mexican governments attempting to gain control of the properties, and the companies trying to maintain the status quo.

In five cases down the years, the Mexican courts upheld the right of property owners to hold oil rights in perpetuity on the grounds that the Constitution of 1917 could not be retroactive. Almost all private holdings were obtained in fee simple prior to promulgation of that document. In all of these cases American governments brought influence to bear. In 1923 a deal was made when President Alvaro Obregon was in danger. In 1927 another deal was made with Plutarco Calles, who faced revolution. The companies cite these cases as evidence of the strength of their legal positions.

On the other hand President Cardenas, while boasting of the alleged "legality" of his position, has dominated the courts as Mexican executives always have. He had laws made to permit seizures and, finally, picked as a pretext for the oil expropriation a labor controversy in which the position of labor was not the real issue. In choosing the oil companies as the major spearhead of his expropriation drive, President Cardenas was not unaware of the effect of the Teapot Dome scandal upon the opinion of the American public with regard to oil companies. The evidence in the case indicates that he

deliberately selected the most unpopular foreign-controlled industry.

To many impartial observers, the real weakness of the foreign companies' stand is that, for years, they refused to alter the basis upon which they obtained rights to operate in Mexico and to give a greater share of the wealth produced to the Mexican nation. The true weakness of the government's position is that it has sought to take over properties which it did nothing to develop and could not have developed without foreign aid. In the meantime Mexican oil production fell from a peak of 189,712,000 barrels in 1922, when Mexico occupied second place in the world, to 40,234,000 barrels in 1935, about an average for later years.

Petroleum development started in Mexico just before the turn of the century. The Furbero Company, an American concern, leased twenty-five thousand square meters of land at a point south of the present Poza Rica field but had little luck. Lord Cowdray, then a young Britisher without a title, started operations on the southern Isthmus of Tehuantepec and was largely unsuccessful. He struck oil, however, after moving farther north. In 1909 Edward L. Doheny made a deal with Porfirio Diaz to explore for oil and, if he found it, to pay only import and stamp taxes. Doheny had \$800,000 to spend and had sunk almost the entire amount when he struck oil.

Development of oil production was something of a gamble from beginning to end in Mexico. British interests backed by Dutch-Shell are said to have spent \$20,000,000 on the Poza Rica field before striking oil

in 1930. Early oil operations were carried out under a Diaz law of 1884 which was so worded that it made possible the holding of petroleum rights by private persons in perpetuity. Petroleum production did not develop on a large scale in Mexico, however, until after Diaz left the country. Many "rights" of foreign companies were acquired during the early revolutionary period when Federal power was contested by various generals and was weak. In 1910 Mexico produced only 3,600,000 barrels of oil. By 1913, after Diaz had been out of Mexico some time, it was 25,600,000 barrels, and in 1920 it took a sudden spurt to 163,620,000 barrels. By 1917 all the major foreign companies were rushing into the fields around Tampico, on the north-east coast, largely because of the demand for oil created by the World War.

The oil operators were dealing with ignorant, exceedingly poor people, for the most part, in acquiring property rights, and full advantage was taken of them. The subsoil rights on private lands were bought up for as little as the companies could pay for them, usually on the basis of a small royalty. Peons were signed up in groups. In some cases they were quite willing to take a thousand pesos in cash rather than a regular royalty on land, although the royalty eventually might run to much more money. In the opinion of unbiased attorneys who made a specialty of the matter, there were some cases of corruption but, taken by and large, the deals were legal even though questionable ethically.

There was, for instance, the case of Señora Merinos who owned a large tract of land she previously had

tried to sell for thirty-five pesos (about \$17.50). Doheny paid her a royalty of two hundred pesos a year, and a huge producing well subsequently was brought in on her land. Suit to upset the deal and collect damages was brought in the United States, but the American courts upheld Doheny's agreement as legal.

In dealing with more intelligent people, of course, higher prices had to be paid, and in cases where offset wells were developed next to producing properties, it was impossible to get rights at bargain rates.

Companies employed their own bands of armed thugs, termed guards, and there were killings, although usually in struggles between various companies over rights, rather than in subduing the Indians as the case frequently has been painted. The oil companies, both for protection in the troubled times and in their own interests, bought up generals and controlled affairs in the district about Tampico. These generals, rather than the central government of Mexico, were for a long period paid "taxes."

Tampico itself was a roaring boom town with wide-open honky-tonks and Texas "girls." American drillers were paid large wages, and a bed in a crowded room cost five dollars a night. The inexpert Mexican laborers were paid relatively insignificant salaries.

The oil boom collapsed after 1922 for three reasons. The Tampico fields began to give out and salt water seeped in; the Mexican Constitution of 1917, declaring the subsoil the property of the nation, provided an uncertain operating future for foreign companies; Venezuelan laws by which the companies gave royalties

directly to the government of that country, and consequently obtained the government's support, led to rapid development of the Venezuelan fields. Under uncertain conditions, the companies did not want to spend large sums of money for further exploration and development in Mexico.

In the mid-Twenties, the Standard Oil Company of Indiana bought out the Doheny interests in Mexico, and in 1932 the Standard Oil Company of New Jersey bought out the Indiana interests. In taking over the Indiana interests, the New Jersey company claims it carefully reviewed all property titles and accepted only those believed to be clear. Also in the mid-Twenties, the Sinclair interests absorbed the old Pierce Company, one of the early American competitors of the British. Thus properties and leases were largely transferred from the original companies.

When the British, about 1930, started to explore and develop the Poza Rica field, located near the central eastern seacoast midway between Tampico and Vera Cruz, they paid royalties to all owners of property. They agreed to pay an average of about 11 per cent royalty to the private holders, and 5 to 10 per cent on public lands to the government. This represented a distinct change from the old manner of obtaining rights. Many of the Poza Rica properties were obtained as straight thirty-year concessions. Recalling that about half of British oil came from Mexico during the World War, and that it is a short trip across the Atlantic from Mexico to England, the British threw considerable money into developing Poza Rica with the most modern

equipment. Development started soon after the first well was brought in. There is strong reason to believe that the British Admiralty took a direct interest in this. After Italian seizure of Ethiopia and the Spanish Civil War threatened to close the Mediterranean to British oil from the Near East, and dark war clouds appeared in the European skies, the British interests prepared to extend Poza Rica operations to a point where Mexico might have resumed its place as a leading oil-exporting nation.

The opinion frequently is expressed in various circles in Mexico City that the Mexican government would not have expropriated the oil companies if Poza Rica had not been discovered and put in operation. The American companies certainly had done little, or nothing, toward development for fifteen years, and there was little point in taking over these properties producing 25,000 barrels of oil a day, compared to the British 66,000 in Poza Rica, plus about 15,000 in the British southern Minatitlan fields, where development also was pushed.

The first evidence that the Cardenas administration was driving toward taking over the petroleum properties came on February 4, 1935, when, by executive decree, all concessions of national land made to the Dutch-Shell-controlled Mexican Aguila (Eagle) Company in 1906 were canceled. This was merely a straw in the wind; the company hastened into print to assert that "all its oil production comes today from private lands, that is to say, from private owners who have been paid substantial sums for leases or royalties."