Multinational Oil Companies in Colombia and Mexico:
Corporate Strategy, Nationalism, and Local Politics, 1900-1951

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Introduction

No multinational corporation has operated around the world without having to deal with different degrees of nationalist sensitivities or hostile feelings from the local society. Even in the most "globalized" historical periods (from the 1880s until 1914 and from the 1990s to the present), multinationals have confronted anti-foreign corporations actions from the local societies, which have mutated, or changed forms, through the years and have manifested themselves in varied ways around the world: from communism, to anti-colonial movements, to Third World economic nationalism, to religious fundamentalism. Multinationals have reacted or adapted to these challenges confronting them in diverse and creative ways that have changed over time and differ from country to country. When expanding abroad, multinational corporations not only need to design their corporate strategy to different political and social systems, but also have to prepare these strategies to the uncertainties of regime changes. These regime changes can be smooth or tumultuous; they can take place in the host or home country; they can be the result of democratic elections, military coups, or revolutions; and they can radically change the host or home country's political landscape: from democracy to dictatorship, from left-wing to right-wing, from lay regime to theocracy, from pro-business to pro-unions, or from ally of the home country to enemy.

In this paper I compare the evolution of nationalist policies in two Latin American countries with different kinds of political regimes: Colombia and Mexico in the first half of the twentieth century. I draw the parallels and differences between both countries and show in which way the type of political regime and the role of the government political alliances determined the oil policy. I argue the following points: First, the existence of a relatively competitive electoral system in Colombia did not permit the governments to be too openly pro-foreign capital, but also did not allow them to be to aggressive against the multinationals either. In the other hand, pre-revolutionary Mexico was ruled by a dictatorship, which developed an extremely generous policy towards the multinationals. After the revolution, the lack or presence of aggressiveness against the multinationals depended on the mutual need the weak post-revolutionary governments and the foreign companies had from each other. Second, the Colombian government rarely had the labor movement as a political ally. Even in the brief period of the 1930s, when the Liberal government approached and supported the labor unions, the government always represented either the merchant class or the manufacturing class. The policy towards the multinationals responded to the interests of these two groups rather than those of the working class. As a result, the Colombian government could not use the working class as a tool against the multinationals. On the contrary, after the 1920s the Mexican government had increasingly closer relationships with the labor movement. By the time of the expropriation in 1938, the government had the labor unions as its main allies. Third, due to the close relationship the Colombian government had with the manufacturing elite, the creation of the Colombian national oil company (ECOPETROL) was a result more of negotiations between the government and the industrial elite, rather than between the government and the oil unions.

Nationalism, Political Systems, and Vertical Integration

During the late 1960s and early 1970s, scholars studying multinational corporations paid particular attention to the relationship between companies operating in the primary sector and host governments in less developed countries. The wave of economic nationalism and expropriation of foreign property in the Third World led several scholars to define new concepts useful to understand the new political economy of foreign direct investment. In their pioneer papers, Raymond Vernon and Louis Wells defined what they called the "obsolescing bargaining power" multinationals investing in the primary sector had. Roughly, Vernon and Wells argued that a multinational operating in the primary sector had its strongest bargaining power with the local government before starting any operation. However, given that the primary sector usually requires a vertically integrated structure, the more the company invested in the country, the lower its bargaining power will be. Moreover, once the company had established all the production infrastructure in the producing country, its bargaining power was at its lowest. These investments are not mobile and become easy targets for a government interested in expropriation.

In his analysis of expropriations of foreign property in the Third World, Stephen Kobrin argues that a government might be inclined to expropriate foreign property not only because the multinational lost bargaining power, but also because the host country became familiar with the technology used by the multinational and this technology became more accessible.[1] That is a situation in which the country simply does not need the multinational anymore and can reap more benefits by exploiting the sector itself. This was particularly important in sectors with a high political or economic strategic value. By following this logic, Kobrin explains the wave of nationalizations in the 1960s and early1970s as a period in which the governments of the less developed countries decided to take control of strategic sectors (especially oil) they were capable of exploiting.[2] Between the late 1970s and the 1990s, Kobrin and Minor argue that the less developed countries had finished the process of taking control of these strategic sectors and explaining the decrease in the number of expropriations.[3] Kobrin's and Minor's

[1] Kobrin, Stephen, "Foreign Enterprise and Forced Divestment in LDCs," *International Organization*, Vol. 34, No. 1 (Winter) 1980: 65-88.
[2] Kobrin, Stephen, "Expropriation as an Attempt to Control Foreign Firms in LDCs: Trends from 1960-1979,"
[3] Kobrin, Stephen, "Expropriation"; Minor, Michael, "The Demise of Expropriation as an Instrument of LDC Policy, 1980-1992," *Journal of International Business Studies,* Vol. 25, No. 1 (1994): 177-184.

findings contribute to the obsolescing bargaining theory by adding the logic the host countries follow when they decide to expropriate or renegotiate foreign property.

The nationalization of foreign property by host governments in the Third World has also inspired academic debate around the relationship between democratic or authoritarian regimes and foreign direct investment. The neo-Marxist Dependency scholars argue that the existence of authoritarian regimes in poor countries facilitates the operations of a multinational corporation by keeping a low labor cost through repression of the labor movement. In addition, they claim, a non-democratic regime can write the kind of legislation the multinational needs without any serious opposition. This is possible because the local elite and the country's rulers get economic benefits from the operations of foreign corporations. As a result, the Dependency scholars conclude, the operations of the multinational corporations in poor countries exacerbate the existing problems of poverty, unequal income distribution, and political repression.[4]

Scholars not influenced by the neo-Marxist tradition have also found a positive correlation between multinational corporation and authoritarian regimes in poor countries. Oneal argued that while multinationals prefer democratic regimes in develop countries, they do better in the underdeveloped countries when they are ruled by dictators. For Oneal, dictators and multinationals had a "cozy" and mutually beneficial relationship that encourages both parties to protect each other.[5]

More recently, the neo-institutional scholars found a positive relationship between democracy and the development of business and a market economy.[6] Nathan Jensen studied the case of FDI around the world in recent decades and concludes that a democratic system is more attractive for foreign corporations than an autocracy, because democracies tend to respect property rights and contracts. The existence of a system of checks and balances will not allow the government to abuse its power in favor or against the foreign investors. This creates the stability the corporations need to make long-term investments.[7] . Li and Resnick agree that a democracy tends to protect property rights

[4] See, Frank, Andre G., Cardoso, and O'Donnell.
[5] Oneal, John, "The Affinity of Foreign Investors for Authoritarian Regimes," *Political Research Quarterly*, Vol. 47, No. 3 (Sept. 1994): 565-588.
[6] See North and Weingast (Complete)
[7] Jensen, Nathan, "Democratic Governance and Multinational Corporations," *Industrial Organization*, No. 57 (Summer 2003): 587-616.

more than an autocracy. However, they also point out that elected politicians tend to control monopolies, and cannot offer foreign investors incentives that look too generous to their constituency. They find a correlation in which the weaker the democracy, the more likely the foreigners will have monopolistic power.

Reyes and Díaz: Modernization Through Foreign Investment and Internal Opposition

During the first years of the twentieth century, Colombia and Mexico had similar political regimes. Colombia was recovering from the bloody "War of the Thousand Days" (1899-1902), a conflict between Liberals and Conservatives, which destroyed the country's economic infrastructure. The triumphant Conservatives, under the leadership of President Rafael Reyes, decided that the only way to jump-start the economy was through foreign investment, so after 1902, the government actively sought the arrival of foreign corporations.[8] The Conservatives remained in power until 1930, and during these years Colombia enjoyed unprecedented economic growth through coffee exports, the birth of the manufacturing industry, foreign loans, and foreign direct investment.

Mexico, on the other hand, was enjoying unprecedented times of prosperity under the leadership of dictator Porfirio Diaz. Diaz ended a long period of political instability when he took power in 1876. Ruling with an iron fist, Díaz managed to have growth rates of 8% (1876-1900) through promotion of foreign investment in oil, railroads, public utilities, banking, and agriculture. It was during the Díaz administration that most multinationals arrived to Mexico and made this country an important oil producer. Colombian President Rafael Reyes was a strong admirer of Diaz, and considered the Mexican president's agenda the best way to reach economic prosperity and political stability. Although Reyes did not manage to attract amounts of foreign investment comparable to those of Mexico, he undoubtedly created the conditions for the further modernization Colombia went through in the next three decades.

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[8] Vélez, Humberto, "Rafael Reyes: Quinquenio, regimen politico y capitalismo (1904-1909)," in Tirado, Alvaro, *Nueva Historia de Colombia*, vol. 1 (Bogotá: Planeta, 1989): 193-196.

The Mexican Revolution and its Effects in the Colombian Conservative Government

Not all Mexicans were enjoying the economic prosperity of the Díaz era. Some members of the upper classes felt neglected by the dictator believing that only those belonging to Díaz's inner circle were getting most of the economic growth benefits. For the peasants, the economic growth had brought with it land expropriation by big landowners or multinationals leaving them as mere landless cheap labor. These tensions exploded in 1910 when some rich landowners rebelled against Díaz, sparking a national-wide rebellion from the lower classes against the regime and the economic system it had created. The first upper class rebels eventually lost control of the insurgency they had encouraged and a bloody war started between the different factions that had rebelled against Díaz in 1910 in a conflict that lasted until 1920. In that period 825,000 Mexicans died (most of them peasants) and the rural areas were devastated.

The Revolution made Mexico lose its previous advantages for foreign investors. As the revolutionaries consolidated their power, they gradually changed the oil legislation. In 1917, the revolutionary government wrote a new constitution that declared the Mexican subsoil property of the Mexican nation opening the possibility of expropriation (Article 27). Moreover, the government got closer to the increasingly belligerent oil labor unions, raised taxation to big corporations, and even showed some sympathy towards the Bolshevik Revolution. Much to the concern of the foreign corporations the government even started considering making the article retroactive to include the concessions granted during the Díaz administration.[9]

During the period in which Mexico fell into chaos, the Colombian government was facing difficulties at attracting foreign investment due to the rise of anti-American feelings after the loss of Panama in 1903. The United States had openly supported the separatist movement of the Colombian province of Panama taking control of what would become the "Canal Zone" later on. In 1909, the Colombian government signed the Cortes-Root Treaty with which it recognized Panama as an independent state. This opposition to this treaty in Colombia was so strong that Reyes limited individual freedom

[9] Brown, Jonathan, *Oil and Revolution in Mexico* (Berkeley: University of California Press, 1993): 239-240.

in order to control criticism. This however, was not enough to stop the opposition from the press and street demonstrations against to what many considered a humiliating treaty with the US. Unable to control the opposition to the Cortes-Root Treaty, Reyes resigned in that same year of 1909.[10]

In 1913, the British firm Pearson and Son Ltd., started negotiations with the Colombian government for an oil concession. The United States government distrusted Pearson, who they saw as one of the conspirators for the outbreak of the Mexican Revolution. Pearson and Son was a very powerful company in Mexico, producing 60% of that country's output through its subsidiary El Aguila, and was looking for new sources in South America.[11] In order to reduce nationalist opposition, Pearson proposed the Colombian government to create a Colombian oil company with which Pearson would work. Although the government liked the idea, it was reluctant to go ahead because these were also times in which Colombia was negotiating reparations from the United States for the loss of Panama.[12] In spite of this, Pearson continued doing explorations in Colombia.[13]

The US government was following the events in Mexico more closely. However, although many in Washington feared that the chaotic political situation could threaten the constant flow of oil from Mexico, the production and exports of that country only increased during the first years of the revolution. The different factions fighting the war saw oil as the only stable source of income, so they fought for the control of the oil regions, but did not want to destroy the industry. The short military adventure President Wilson ordered in 1914, proved to be a disaster. Believing that some of the revolutionary factions and the oil companies would welcome a US military intervention, Wilson sent the marines to the port of Veracruz, only generating unity among the Mexicans and rejection by the oil companies who believed that this action put them under higher risk.[14]

[10] López Michelsen, Alfonso, "La cuestión del Canal desde la secesión de Panamá hasta el Tratado de Montería," in Tirado, *Nueva Historia de Colombia,* 154-159.
[11] Lael, Richard, *Arrogant Diplomacy: US Policy Toward Colombia, 1903-1922* (Wilmington: Scholarly Resources, 1987): 88. For the skirmishes between Pearson and the US companies in Mexico, see Brown, Jonathan, *Oil and Revolution in Mexico* (Berkeley: University of California, 1993)
[12] Letter from Ribbon to Lord Murray, January 25, 1914. Pearson (S.) and Son Ltd. Papers, Reel 133, LAC. Benson Library, University of Texas at Austin.
[13] Lael, *Arrogant Diplomacy*, 94
[14] Brown, *Oil and Revolution*, 186-203.

In 1914, the effects of the conflict in Mexico started affecting the US relations with Colombia. In that year, the US Ambassador in Colombia signed the so-called Urrutia-Thomson Treaty in which the United States acknowledged its participation in the Panama secession and the negative effects this had in Colombia, committing to pay $25,000,000 in reparations. The treaty still needed to be ratified in the US Senate and found a strong opposition from the opposition Republican Party which considered the document a *mea culpa* for getting control of the Panama Canal, which they considered "one of the great acts, of a great president, in a great era of American history."[15] However, some Democratic senators and President Woodrow Wilson considered it crucial to normalize relationships with Colombia, a country, which they considered with great potential as oil producer. In addition, aware of the moves Pearson was doing in Colombia the Wilson administration considered that the treaty was a great opportunity to open the doors of Colombian oil to American companies. [16]

Standard Oil arrived to Mexico in 1917, the year of the new constitution and Article 27. The oil companies had recently created the Association of Foreign Oil Producers in Mexico, in which the newly arrived Standard had a dominant position because of its size. The main concern of the Association members was the possibility of the retroactive effects of Article 27, and the companies were pressurizing the US and British governments to directly intervene and stop the Mexicans government. For Jersey, the main problem was not the retroactivity of Article 27 but the very existence of the article. This time, however, believing that the oil companies were supporting the opposition Republican Party, Democratic President Wilson decided to simply send a formal protest. The companies accused Wilson of ineptitude and started openly supporting the Republican Party. To make things worse, the companies in the Association could not agree on whether they wanted economic sanctions (the preferred option of the big companies) or an invasion of Mexico (the preferred option of the small companies). Additionally, Texas' producers were lobbying against protecting the

[15] Parks, Taylor, *Colombia and the United States, 1765-1934* (Durham: Duke University Press, 1935): 451.
[16] Lael, *Arrogant Diplomacy*, 93

companies operating in Mexico fearing that a stable Mexico would become a strong competitor for Texas' oil.[17]

In short, creating a producers' association did not work. The Association's lobby was unsuccessful in Washington and could not maintain unity among its members. In fact, frustrated with their differences with the big companies, the smaller pro-invasion companies eventually withdrew and created their own association.[18] Given that the companies had no support from Washington, were not united, and were facing a new nationalistic government, why did they continue making great profits in Mexico? There were two reasons: first, the oil companies enjoyed increasing oil prices during these years. Even though they protested against higher taxes and royalties imposed by the Mexican government, the oil companies could well afford to pay them. And second, the Mexican president was too busy trying to defeat his enemies, so most of the nationalist discourse was just rhetoric until the mid-1920s.[19]

Around the times the American companies were dealing with the uncertainties created by Article 27, the Colombian government made some new moves. With the debate over the Urrutia-Thomson Treaty on the Panama reparations still going on, in 1916 Tropical Oil Company, an American corporation, purchased the territory of the De Mares concession and started drilling in 1918 and made its first discovery in 1919.[20] The De Mares concession belonged to a wealthy Colombian who never managed to exploit it and sold it to Tropical. As soon as Tropical started pumping oil, the Liberal opposition pressured the government for a more nationalistic legislation. In addition, according to the Liberal newspaper *El Tiempo* most of the Colombian territory had already been divided among foreign companies. The government reacted to the criticisms by writing a new legislation, which declared the country's subsoil property of the state, similar to what was the Mexican revolutionaries wrote in their country's Constitution.[21] The oil companies considered the new legislation as a potential threat and the US government decided to postpone the ratification of the Urrutia-Thomson Treaty until the Colombian government

[17] Brown, *Oil and Revolution*, 239-252.
[18] Brown, *Oil and Revolution*, 245.
[19] Brown, *Oil and Revolution*, 236.
[20] Gibb, George and Evelyn Knowlton, *The History of Standard Oil Company (New Jersey): The Resurgent Years, 1911-1927* (New York: Harper, 1956): 39-370.
[21] López, "La cuestión del Canal," 164.

made some changes to the oil law.[22] Fearing the loss of the Panama reparations, Colombian President Marco Fidel Suárez informed the US government and the American companies that they had nothing to fear from the new oil legislation. However, this attitude only generated more internal opposition, which eventually led to Suárez resignation.[23] In December 1919, the Colombian Supreme Court declared the law unconstitutional ending with the impasse that risked the Urrutia-Thomson Treaty.[24]

In the meantime, despite all the protests from the companies and the US government, the Mexican government kept Article 27 hanging over the oil companies like a sword of Damocles. The companies kept operating with the constant possibility of expropriation. After 1920, the violent phase of the revolution finished, but the new revolutionary government did not act against the companies because it considered them an essential actor in the country's reconstruction. The companies kept operating in Mexico under a relative stability that lasted until 1934.

The Relative Stability of the 1920s and the Expansion of the Multinationals' Operations

In 1920, Standard Oil Company (New Jersey) acquired Tropical Oil, starting operations in Colombia. The Urrutia-Thomson Treaty still needed its final ratification, so Standard sought for ways to speed up the process by sending to Colombia Colonel James Flanagan, the company's main negotiator for South America. The Colombian government had granted a thirty-year concession to Tropical Oil. Keeping his affiliation with Standard secret, Flanagan negotiated with the Colombian government the creation of a new "independent" pipeline company, the Andian National Corporation -registered in Canada. Andian would be in charge of building the pipeline and providing Tropical (or the Colombian government once the concession finished) with transportation services. In

[22] Wilkins, Mira, "Multinational Oil Companies in South America in the 1920s: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, and Peru." *Business History Review*, Vol. 48, No. 3 (Autumn 1974): 430; Wilkins, Mira, *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970* (Cambridge: Harvard University Press, 1974): 27; López, "La cuestión del Canal, 164.
[23] Melo, Jorge Orlando, "De Carlos E. Restrepo a Marco Fidel Suárez. Republicanismo y gobiernos conservadores," in Tirado, *Nueva Historia de Colombia*, vol. 3: 237-241;
[24] Colmenares, Germán, "Ospina y Abadía: La política en el decenio de los veinte," in Tirado, *Nueva Historia de Colombia*, vol. 3: 243-251.

order to get the Colombian government on its side, Flanagan traveled to Washington and informally lobbied at the US government to get the approval of the Urrutia-Thomson treaty. As one of the main negotiators for Colombia in Washington, Flanagan got a privileged position within the Colombian government, which approved the contract with Andian after the American government accepted to pay Colombia the reparations in 1922. [25] Pearson had left Colombia in 1919 after the new legislation and by pressures from the British government, so the American supremacy on the Colombian oil sector was defined after the arrival of Standard Oil.

After 1922, Colombia started a new period of economic prosperity. The Panama reparations provided free cash the government used for public works and as collateral for cheap foreign loans (a period known as the "Dance of the Millions"). The industrial sector flourished like never before and coffee exports boomed. Economic changes led to social transformations: an urban working class appeared and the industrial elite became increasingly powerful with respect to the traditional landowning class. These transformations also permitted the growth of the opposition Liberal party, which had a larger constituency due to the creation of labor unions and the enlargement of urban population.

During the 1920s, the Mexican oil sector started suffering some problems that were not related to the revolution. After 1923, the companies and the government realized that Mexico was simply running out of oil despite the efforts made by the companies to increase production. This led to a steady decline in exports during the 1920s, a period in which Venezuela and Colombia, were increasing their production.[26] In fact, in 1920, Standard Oil acquired Tropical Oil in Colombia and started operating in that country.

[25] The information on the role of Flanagan is taken from the unpublished manuscripts of the interviews made by Henrietta Larson for her classic books on the history of Standard Oil (New Jersey). See, Larson, Henrietta, "Reports from Interviews, Standard Oil (NJ), 1944-45" (Boston: Harvard Graduate School of Business Administration, unpublished manuscript): 68-76.

[26] Haber, Stephen, Noel Maurer, and Armando Razo, "When Law Does Not Matter: The Rise and Decline of the Mexican Oil Industry," *Journal of Economic History*, vol. No. 1 (March 2003): 1-30; Brown, Jonathan, "Why Foreign Companies Shifted Their Production from Mexico to Venezuela in the 1920s," *American Historical Review*, vol. 90, No. 2 (June 1996): 243-276.

Mexican Influences in the Colombian Conservative Nationalism of the 1920s

The Conservative Party never changed its anti-left-wing labor union position. However, the late 1920s showed a version of oil nationalism influenced by the events in Mexico but without the labor unionism component. The Conservatives were aware of their decreasing popularity and the perception the country had of the power of the US multinationals. In 1927, the Ministry of Industries, José Antonio Montalvo, tried to increase the royalties paid by foreign multinationals from 10% to 15%. Tropical, however, rejected the idea forcing Montalvo to look for other means to increase the government's bargaining power with the company. Montalvo's strategy was to secretly approach Anglo-Persian and negotiate with them a concession in the Urabá region close to the Panama border. The government signed a contract with Anglo-Persian's secret envoy, colonel H.IF. Yates in July 1927. The contract needed the Congress' final approval.[27]

Montalvo wanted to use recently expired Barco Concession to attract the British. The Barco Concession, in a territory close to the Venezuela border had been awarded to the Carib Syndicate in 1918, but the company did not comply with its obligations to exploit the oil within the time stipulated, and the concession was declared null in 1926.[28]

The secret contract between Yates and the Colombian government was filtered to the press causing an outrage in both the US companies and the opposition. Standard informed the US Department of State and lobbied in the Colombian Congress for a rejection of the contract. Although the US companies did not get the Department of State support they wanted, the British government saw this issue as a source of potential conflict with the United States in the Western Hemisphere and decided to cancel Anglo-Persian projects in Colombia.[29]

Some members of the Conservative Party also opposed the Yates contract but for different reasons. Charismatic Conservative leader, Laureano Gómez, accused the government of willing to put Colombia under the yoke of the British Empire and

[27] De la Pedraja, René, *Petróleo, Electricidad, Carbón y Política en Colombia* (Bogotá: Ancora, 1993): 23-25; Colmenares, "Ospina y Abadía," 262;
[28] Rippy, Fred, *The Capitalists and Colombia* (New York: Vanguard, 1931): 135.
[29] De la Pedraja, *Petróleo*, 27-28.

proposed as an alternative the nationalization of oil. Gómez, an ultra-right, Catholic fanatic, anti-Semitic, openly racist, and Mussolini admirer politician had also a strong dislike of the United States and the industrial elite of Medellín. He believed in clear social hierarchies kept in order by the government and the Catholic Church. In spite of these beliefs, however, his proposal of oil nationalization made him popular among young Conservatives and Liberals. [30]

In spite of the opposition, the government continued with its own nationalistic agenda. In November 1927, Montalvo sent to Congress a new "Oil Emergency" law, which gave the government unlimited powers over the oil industry until a new nationalistic oil legislation was written. The "Emergency" law was approved in 1928, and afterwards Montalvo showed the press evidence that Tropical had not complied with its contract and announced that the De Mares concession would be nullified. This announcement provoked a strong reaction from the companies and the American embassy. The US Department of Commerce advised against buying Colombian bonds and the *Wall Street Journal* told its readers that Colombia was following the same steps of Mexico and Russia. As a last resort, Montalvo sought the support of the Colombian elite, but was disappointed. In a poll he organized he found out that although the elite wanted an increase in royalties (as Montalvo), they did not want to conflict with the multinationals. [31]

In order to gain the support of the national elite, Montalvo proposed a new law in 1929, which dropped the idea of royalties increase, but forced the companies to sell 20% of the stock to Colombian citizens.[32] This idea got even more opposition than the previous ones. The oil companies considered it illegal, the nationalists that had supported Montalvo thought this was a step back from the previous initiatives, and many fellow Conservatives and several Liberals thought this put the U.S-Colombia relations in jeopardy.[33] With all these opposition, Montalvo's projects collapsed. The year after, Colombia went to new presidential elections with a divided and fatigued Conservative Party and a Liberal Party popular among the working class due to the government's

[30] Henderson, *Modernization in Colombia*, 147-148
[31] Colmenares, "Ospina y Abadía," 263-264; De la Pedraja, *Petróleo*, 28-32.
[32] Villegas, Jorge, *Petróleo Colombiano Ganancia Gringa* (Medellín: Prisma, 1971): 61
[33] Colmenares, "Ospina y Abadía," 263-264; De la Pedraja, *Petróleo*, 32-33.

actions in the banana and oil strikes. After thirty years in power, the Conservatives lost the elections and Liberal Enrique Olaya became the new president.

Lázaro Cárdenas, Alfonso López Pumarejo, and the New Deal

The decline of oil after 1923, plus the effects of the Great Depression generated new social pressures in Mexico. In 1934, the country elected left-wing presidential candidate Lázaro Cárdenas who blamed the foreign companies for the oil crisis. The foreign corporations did not hide their distrust of Cárdenas, and prepared for confrontation since the beginning. Jersey's management rejected its geologists' suggestion of proposing a joint venture with the Mexican government, as they feared it would set a precedent. Similarly, Shell's founder Henri Deterding accused the company's manager in Mexico of being "half Bolshevik" for proposing an adjustment to the new Mexican political situation. In an almost prophetic way the manager replied that "the sooner that these big international companies learn that in the world of today, if they want the oil they have to got to pay the price demanded, however unreasonable, the better it will be for them and their shareholders." [34]

The companies' strategy reflected their lack of will to work with the Mexican government, the trust they had in the US government actions, and their underestimation of the Mexican government's determination. In 1938, when the Mexican government told the companies to increase wages in proportion to their high profits, the companies threatened with leaving the country. The unions started taking over the plants while the government and the companies continued their negotiations for months. In March 18 1938, facing what he called the "rebellion" of the companies and the pressures of the labor unions, Cárdenas declared the expropriation of all the foreign oil properties.

The multinationals believed the US government would not allow Mexico to get away with the expropriation. However, the US government did not give the companies the support they expected due to a combination of foreign and domestic factors. According to the US Senate Commission investigating the US oil interests abroad, the

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[34] Yergin, Daniel, *The Prize: The Epic Quest for Oil, Money and Power* (New York: Simon and Schuster, 1992): 273-274.

government protection of oil companies operating in other countries started to decrease after 1930 due to the "Good Neighbor" policy, an application of the New Deal ideology at home and abroad, as well as the fact that the United States was an important oil producer.[35] The US ambassador himself even said: "it was scandalous that the companies should not have raised their wages to the level demanded."[36] The Senate commission acknowledged that these two factors put the American companies in a weaker position when confronting or bargaining with foreign governments.

The international political situation did not help the companies. Nazi Germany and Fascist Italy were becoming increasingly dangerous in Europe. Although the US declared its neutrality in the beginning of the conflict, it clearly showed no sympathy for the Axis. At the same time, the US government was watching, closely, the rising attraction that several Latin American dictators and ordinary citizens had for the Fascist project.[37] Cárdenas, however, showed his opposition to the Axis since the very beginning. Mexico had become an important war ally in the Western Hemisphere and the US government did not want to alienate it.[38] This situation led President Roosevelt to limit his protest to a demand of "fair compensation." The companies calculated a fair compensation in $250,000,000, while the Mexicans offered $ 7,000,000. After the attack to Pearl Harbor in 1942, Roosevelt pressured for a prompt solution and the Mexican and the American governments (although not the companies) agreed on $ 29,000,000. The US government told the companies they were free to accept or reject the compensation, but that they could not expect further assistance from their government. Under these circumstances, the companies reluctantly accepted the Mexican compensation and lost their properties in that country.[39]

While the Mexicans succeeded in their expropriation project thanks to an alliance with the labor union movement and a new administration in Washington, Colombia was going through major political changes after 1930. The industrial elite of Medellín

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[35] United States Senate Special Committee, *American Petroleum Interests in Foreign Countries* (Washington: US Government Printing Office, 1946): 432.
[36] Philip, George, *Oil and Politics in Latin America: Nationalist Movements and State Companies* (Cambridge: Cambridge University Press, 1982): 56.
[37] Moreno, Julio, *Yankee Don't Go Home: Mexican Nationalism, American Business Culture, and the Shaping of Modern Mexico, 1920-1950* (Chapel Hill: University of North Carolina Press, 2003)
[38] Yergin, *The Prize*, 277-278.
[39] Yergin, *The Prize*, 275-277.

approached its former critic Conservative Laureano Gómez, who wanted to stop the rise of labor unionism. The interest of the factory owners on keeping labor cheap made Gómez their natural ally. On the other hand, the Liberals were divided in three factions. One led by Alfonso López Pumarejo, a strong advocate of labor and social reforms that was supported by the import and export merchants and the labor unions.[40] The commercial elite needed a working class with higher purchasing power and labor reforms were the best way to reach them. Another faction was Jorge Eliécer Gaitán's. Gaitán, a leader of working class origins who was very popular in poor urban neighborhoods and was a fierce critic of the way the government allied with the multinationals. Gaitán made the strongest criticism to the Abadía government after the Army's intervention in the banana strike of 1928. Finally, there was the faction led by President Olaya, who wanted a closer relationship with the US with timid social reforms.

In 1930, Liberal Enrique Olaya took power as the new Colombian president. In order to assure the American multinationals that they were safe in Colombia, Olaya proposed the Congress a new oil law in 1930. Both the multinationals and the foreign banks expressed Olaya their interest in having a new friendlier legislation, which eliminated some clauses that survived from the Montalvo years. In addition, several New York banks informed Olaya that without new oil legislation, the country risked not having new loans in the future.[41] The law Olaya proposed to Congress eliminated the requirements to foreign oil companies had of a 25% minimum of Colombian workers, and the obligation to fully comply with the Colombian legislation without diplomatic arbitration. In addition, the law permitted the companies to finish their operations before the concession deadline, decreased royalties from 12.5-6% to 11-2%, decreased taxation on private property from 8-4% to 8-1%, and decreased taxes on pipelines operations in 50%.[42] The multinationals and the US government were not completely satisfied with the changes, however.[43] Under these circumstances, Olaya believed that the only way to get the multinationals and the foreign banks on his side was by using the Barco Concession.

[40] Leal Buitrago, Francisco, *Estado y política en Colombia* (Bogotá: Siglo XXI Cerec, 1989): 160-165.
[41] De la Pedraja, *Petróleo*, 40-46.
[42] Villegas, *Petróleo Colombiano,* 68.
[43] De la Pedraja, *Petróleo*, 46-47.

The Barco Concession, as I explain above, was declared null by the Conservative government in 1926. The original grantee of the concession was the Carib Syndicate, which was later purchased by the Doherty interests, and later sold to Gulf Oil Company.[44] Andrew Mellon, US Secretary of Treasury and founder of Gulf, suggested Olaya to re-establish the Barco Concession as a way to assure new loans in the future and to avoid more US opposition to his new oil legislation.[45] Olaya proposed the nullification of the previous nullification to the Barco Concession and found an initial strong opposition in Congress and the media.[46] However, Olaya convinced the opposition that without the Barco Concession the country's economic stability was under great risk. In June 1931, Congress approved the new oil legislation.

In 1934, the Liberals won the elections again with Alfonso López Pumarejo, also nicknamed as the "Roosevelt of the Andes." Lopez won with the endorsement of the labor unions, and the Socialist and Communist parties. A former banker, Lopez transformed the country through dramatic changes in the labor and social legislation. His main goal was to modernize Colombia following the model of the American New Deal. He approached the labor unions and got the endorsement of the Communist and Socialist parties.

Lopez also increased taxation to big corporations. In fact, just during the first year of the tax reform Tropical Oil paid in one year as much taxes as it had paid in the preceding eight years.[47] Taxation kept increasing in the following years. From Col. $ 197,125 that Tropical paid in 1934, it jumped to Col$ 1,108,908 in 1935, and 3,382,657 in 1936. The government proudly showed this as the only way with which it could increase its welfare expenses.[48]

In his first year (1934), Lopez's sought to decrease the oil multinationals' power by proposing a law to create a state owned refinery. This project, however, faced the opposition of Standard and the US embassy. Not willing to confront the US, Lopez changed his proposal coming with a new project in 1936 with which he created incentives for both foreign and national investors to build a new refinery in the country. In this

[44] Rippy, *Capitalists*, 143.
[45] De la Pedraja, *Petróleo*, 51-52.
[46] Estrada, Efraín, *Sucesos Colombianos, 1925-1950* (Medellín: Universidad de Antoquia, 1990): 348-359
[47] Bushnell, David, *The Making of Modern Colombia* (Berkeley: University of California Press, 1993): 189.
[48] Estrada, *Sucesos*, 515-516.

proposal, the government permitted the operation of companies partially owned by foreign governments, something indirectly targeted to Anglo-Persian, a company Lopez tried to attract to balance the US power in Colombia.[49] Anglo-Persian, however, did not come and Standard remained the most powerful oil company in the country.

The Creation of the Mexican and Colombian Oil State Companies: Labor Unionism and Industrial Elite

After the expropriation, the Mexican government started producing the oil itself through PEMEX, a state-owned monopoly. The oil multinationals had been kicked out, but Mexico remained an important producer, so the companies could not afford to simply disappear after the expropriation. Officially, after 1938, all production and distribution of oil in Mexico was done by PEMEX. However, for the newly created PEMEX, replacing companies like Shell or Jersey was not an easy task. Since the beginning this state monopoly realized it lacked the know-how and skills necessary to develop the industry. The Mexican oil industry had been developed with foreign technology and management, and it was not possible for PEMEX to replace that overnight.[50] This problem was exacerbated by the fact that just days before the expropriation, the companies crossed the border with trucks full of equipment.[51] Finally, given that the foreign multinationals still controlled most of the international marketing of oil and exploration equipment, these companies organized a boycott against Mexican production against which PEMEX could not defend itself easily. The multinationals were closely observing the situation in Mexico waiting for the government to give up and call them back again.

As early as 1939, just one year after the expropriation, PEMEX decided that the only option to jumpstart its oil industry was by permitting some foreign participation. This was heavily constrained by the extremely nationalistic legislation written by the revolutionaries and changing it would have been a political suicide for the government. So, the way the government dealt with it was by awarding several service contracts to

[49] De la Pedraja, *Petróleo,* 55-57; Villegas, *Petróleo Colombiano,* 83-84.
[50] Barbosa, Fabio, "Technical and Economic Problems in the Newly Nationalized Oil Industry," in Brown, Jonathan and Alan Knight, *The Mexican Petroleum Industry in the Twentieth-Century* (Austin: University of Texas Press, 1992): 189, 194-203.
[51] Ibid. 190

small American and European companies. The big pre-1938 multinationals (Jersey and Shell) had an early big disappointment: PEMEX officials and the Mexican government punished them by making sure they would not get any of these new contracts. Permitting the return of Jersey or Shell to Mexico would have had a very high political cost for the Mexican government.

Despite being rejected by the Mexicans, Jersey continued trying to return. By the end of World War II the company started unofficial negotiations for new contracts with the Mexican government. This time Jersey came with a more humble attitude. They promised better behavior and higher profits for the Mexicans. Northrop Clarey, head of public relations of Jersey, said in an unpublished interview given in 1946 that he was confident Jersey would get contracts with PEMEX as long as it changed its attitude towards the Mexicans. Clarey even blamed Jersey for the resentment Mexicans felt against the company before the expropriation. "Americans scorn the natives and do not mingle with them," he said and added that the New York management was arrogant and lacked any basic knowledge about Mexico and simply did not care about learning about it.[52]   Clarey's private view highly contrasted with the detailed report Jersey gave its shareholders during the expropriation process on the welfare benefits it provided to its Mexican workers. The US Senate commission also made mention of the welfare expenses of Jersey in Mexico and highlighted how the Mexican oil workers were doing much better than the Mexican workers in other sectors[53]   Both Standard and the US Senate commission considered the welfare expenses made by the company as evidence of the unfair accusations made by the Mexican government. Both things are not necessarily contradictory –a company can pay welfare and be arrogant at the same time- but for the company's officials it was clear that, after WWII it needed to change the way it related with the local society.

Standard returned to Mexico in 1946, but not as a producer but as a marketing company. Marketing activities for the final consumer were not covered with the expropriation so Standard re-started those activities through Esso. Later, in 1956, Standard started importing chemicals from the US for the growing Mexican industrial

[52] Larson, "Reports," 42-44.
[53] Standard Oil Company (New Jersey), *Annual Report* (New York, 1938): 8-11; United States Senate, *American Petroleum*, 264.

sector.[54] Standard had to wait until the 1970s to get its first service contracts with PEMEX extracting oil in Southern Mexico for the state company.

The creation of a national oil company in Colombia was less traumatic for Standard partly because of the lack of participation of the labor force in the process, and part because of the interests of the industrial elite. In 1938 the Mexican expropriation forced the Colombian elite to rethink what they considered the way oil should be exploited. With this event the government thought that a national oil industry was possible, so in 1940 it made its first step by creating the Ministry of Oil.[55]

Shortly after its creation, the Ministry of Oil had its first conflict with Tropical. According to the government's lawyers, the De Mares concession expired in 1946, but according to Tropical it expired until 1951. The litigations extended until 1944 when the case was taken to the Colombian Supreme Court, which eventually decided unanimously for the company settling the end of the concession in 1951.[56] This process was not easy, however. Although the company publicly showed confidence on his case and the Colombian courts, the Conservative opposition used the Supreme Court's decision to criticize the ruling party.

Despite the Supreme Court's final ruling, the Colombian elite saw 1951 as the year in which they could create a national oil company with the De Mares concession. There was, however, a debate of how this company should be. While some argued for a state-owned company (like PEMEX), others advocated for joint ventures between the Colombian state and local entrepreneurs, or a foreign company and local capitalists.[57]

In the 1940s, Colombian industrial capitalists organized themselves in an organization known as ANDI (National Industrial Association, in its Spanish acronym). Established in Medellín in 1944, ANDI became a powerful lobbying group with close ties with the Conservative Party. After ANDI's creation, its members paid close attention to the developments of the oil industry. Until then, the ANDI members' main concern was the constant supply of oil at affordable prices. However, after 1945, they started thinking

[54] "Mexico Building on a Storied Past," *The Lamp,* vol. 86, No. 2 (2004): 4.
[55] De la Pedraja, *Petróleo,* 70.
[56] International Petroleum Company, *Annual Report* (Toronto: IPC, various years).
[57] De la Pedraja, *Petróleo,* 76.

of actively participating in the industry.[58] The Mexican events showed them that a Third World country could manage oil technology successfully, probably unaware of the technical problems PEMEX was facing then.

For ANDI, the political environment changed in their favor in 1946 when the Conservatives came back to power after a disappointing Lopez's second administration. This was clear in 1947, when Conservative President Mariano Ospina proposed Congress a new law to create a national oil company with 49% of private capital (local or foreign), which was approved by Congress in 1948 (Law 165).[59] Although ANDI wanted the new company to be completely privately owned, this still was consistent with some ANDI's goals, because they did not want a state-owned company a la PEMEX. The Medellín industrialists did not want to set a precedent of private property expropriation in Colombia.[60] The law established that the new company would acquire the De Mares concession after 1951.

In 1949, the Colombian government offered Standard to participate as part of the private investors in the new post-1951 company, but the company rejected the idea arguing that it would only participate with at least 51% of ownership.[61] After this, the government and ANDI started negotiations on how to create the company. Both the ANDI and the government wanted to have the final say in the company's decisions. The negotiations extended until 1950, when the country went to elections again. This time, the country elected Laureano Gomez, ANDI's closest ally.

Laureano Gomez's economic policy was highly protectionist permitting new golden years for the Medellín industry. During his administration, ANDI enjoyed incredible lobbying power in the government in detriment of the merchant class (who in 1949 created FENALCO, their own lobbying organization to advocate for free trade), and the working class (who suffered prosecution and violence from a government that never liked Liberal and Socialist influence in labor unions).[62]

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[58] Sáenz Rovner, Eduardo, *Colombia Anos 50: Industriales, política y diplomacia* (Bogotá: Universidad Nacional de Colombia, 2002): 55-56.
[59] De la Pedraja, *Petróleo*, 81-82.
[60] Sáenz, *Colombia*, 55.
[61] Sáenz, *Colombia*, 57.
[62] For a detailed study of ANDI's power in the Conservative administrations see, Sáenz Rovner, Eduardo, *La ofensiva empresarial: Industriales, politicos y violencia en los anos 40 en Colombia* (Bogotá: Universidad de los Andes, 1992)

Despite Gomez close relationship with ANDI, the president was open to hear proposals from both foreign and local companies for the creation of the national oil company. This forced ANDI to compete with Standard's proposal. While Standard proposed the government to provide management, technical, and refining services to the new company, the Medellín industrialists could not make a credible, viable and affordable proposal. The government gave ANDI the opportunity to come up with the capital they needed to develop their own proposal, but this did not happen. Under these circumstances, Gomez decided for Standard's proposal, which gave the government more income and saved the country more money. The government, however, agreed with Standard on decreasing the multinational's participation in the refinery's profits from 50 to 25% and on opening its distribution business to local capitalists, something the company did in 1951 when it sold 40% of its shares in Esso Colombiana to local investors.[63] In this way, Colombian industrialists could still participate in the oil business.

In August 25, 1951, Standard reverted De Mares concession to the Colombian government. Both the Colombian government and the multinational highlighted in the reversion ceremony how this constituted an example of "civilized" relationships between governments and foreign corporations. In fact, it was the first time in Latin American history that an oil concession had been transferred to the local government due to the expiration of the original contract. Moreover, contrary to what happened in Mexico, the appropriation of the concession by the new government company, ECOPETROL, did not mean that foreign companies could not apply for new concessions. In fact, Standard got new contracts and concessions in the following years.[64] In 1961, Standard handed over the administration of the Barranca refinery, and only until 2003 ECOPETROL became public.[65]

Conclusion

[63] "Sale of Oil Stock in Colombia is Set," *New York Times*, January 3, 1951; "Colombia Signs Oil Field Pacts," *The New York Times*, December 9, 1950; "Jersey Standard Affiliate to Run Colombia Refinery," *The Wall Street Journal*, July 18, 1951; International Petroleum Company, *Annual Report*, 1950; Sáenz, *Colombia*, 68-72.

[64] International Petroleum Company, *Annual Report*, 1951, 1952.

[65] International Petroleum Company, *Annual Report*, 1961; ECOPETROL, "Emisiones de Acciones," in ECOPETROL official website (www.ecopetrol.com.co), last accessed August 5, 2006.

In the first half of the twentieth-century, Mexico and Colombia wanted to develop policies with which the countries could earn higher rents from oil production. These kind of ambitions naturally generated conflict with the foreign multinational corporations. However, the way the conflict evolved and the kind of actions the government took were determined by the type of regime each of these nations had.

Mexico reached its peak in nationalist policies after an armed conflict that overthrew the business-friendly Diaz regime. The pro-multinational policy from Diaz times represented the pre-revolutionary past the post-1910 Mexican leaders did not want to reproduce. In addition, the revolutionary government had to rely more and more on an alliance with the working class for its survival. This created the conditions to have a completely state-owned company with strong participation of the oil union for its management.

In the Colombian case the nationalist policies were closely affected by the electoral competition between parties. Although one party (Liberal) was closer to the working class than the other (Conservative), none of them seriously encouraged the working class masses to take fight a class war. Each party represented a different faction of the national elite, but had to attract working class votes. This system created an equilibrium in which the government could never go completely against the foreign companies. The only way to get the concessions back was by complying with its part of the contract, even when sometimes the companies did not complied with theirs. The lack of an element of class-nationalist war permitted a smooth transfer of the concession to the Colombian government and the participation of foreign companies in the oil business.

Which country gained more with its nationalist policy? Does a radical measure pay off more than a respect for contracts signed under dubious ethical behavior? Further research is needed to answer these questions, but these two cases show how in less developed countries, the type of government leads to very different outcomes in terms of nationalist policy.