Confronting the Octopus:
United Fruit, Standard Oil, and the Colombian State in the Twentieth-Century

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Introduction

In September 17 1945, business historian Henrietta Larson met Colonel James Flanagan at the Waldorf Astoria Hotel in New York to interview him about his activities with Standard Oil Company (New Jersey) in Latin America. A picturesque character and with a history of adventures around the world, Colonel Flanagan had been a key figure at negotiating the oil concessions in South America for Standard with the local governments.[1] During their conversation, Larson asked Flanagan about the relationship Standard Oil had with the Latin American governments and labor force and he replied saying proudly that Standard's behavior towards the local societies was outstanding compared to other American multinationals. Flanagan chose the specific case of the United Fruit, to illustrate the good relations between Jersey and the host countries and said that while United Fruit was a good example of corporate arrogance and disrespect

[1] Larson, Henrietta, "Reports from Interviews, Standard Oil (NJ), 1944-45" (Boston: Harvard Graduate School of Business Administration, unpublished manuscript). This interview, and the many others included in Larson's manuscript, became primary material for the book *The History of the Standard Oil Company (New Jersey) 1927-1950: New Horizons* (New York: Harper and Row, 1971) by, Henrietta Larson, Evelyn Knowlton, and Charles Popple. The other books in the Standard Oil history collection are: Ralph Hidy and Muriel Hidy, *Pioneering in Big Business, 1882-1911* (New York: Harper, 1955); Gibb, George and Evelyn Knowlton, *The Resurgent Years, 1911-1927* (New York: Harper, 1956); and Wall, Benneth, *Growth in a Changing Environment, 1950-1975* (New York: McGraw-Hill, 1988).

towards local societies, Standard had shown a remarkable behavior in terms of contributions to the local society and respect to the local legislation and culture.[2]

Flanagan's choice of comparing Standard with United Fruit –from all the American companies operating in Latin America in that time- was not a coincidence. Both United Fruit and Standard Oil have been traditionally perceived as the quintessential representatives of American imperialism in Latin America. The two companies have been portrayed as powerful institutions that violently transformed the local countries in their benefit by oppressing workers, and profiting from the exploitation of the host countries' natural resources, leaving little or no benefit to the local societies thanks to a mutually beneficial relationship with the local elite and the US government support. In fact, both companies shared the same nickname in Latin America: the local population called them both *El Pulpo* ("The Octopus") because of the perception people had of these companies as monsters with powerful tentacles that permitted them to control everything. Thus, it is not surprise that these two companies have sparked strong nationalist sentiments in the countries in which they have operated. (Quote mamertos)

In this paper I study the operations of Standard Oil and United Fruit in Colombia during the 20th century, and particularly how the economic nationalist policies from the Colombian government towards these two companies differed and why. I argue that each of these two industries' technological entry barriers determined the government's nationalist policy towards them. Moreover, these technological entry barriers also determined the role played by the labor class and the local elite in the development of an economic nationalist agenda.

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[2] Larson, "Reports," 68-76.

The oil industry has high technological entry barriers. Companies have to make enormous investments in early exploration phases, followed by the construction of very expensive production infrastructure and little certainty of the returns a field can generate. These early high investments make it almost impossible for an oil multinational corporation to think of local subcontractors in less developed countries. Local elites usually do not have the capital and skills necessary to join the exploration and production effort. The only possible partnership in this effort is usually with the national state, with whom the negotiations are made with a different criterion from that of private capitalists. The only role the local elite can aspire to in this industry is that of land speculators, a participation in the industry as skilled labor force, or lobbyists at the local government

On the other hand, although an agro-export industry also requires significant initial investments, a multinational corporation can use the local elite as providers. The foreign company can provide technical or financial assistance to local growers and not rely solely in its own production. A landowner elite might already be familiar with the agricultural industry and already has the skills and knowledge necessary to participate in agricultural production. As a result, it will be much easier for an agricultural multinational to find partners or subcontractors in a less developed country, than for an oil company. Entry barriers are not as high as in oil, being the strongest barrier the infrastructure and network necessary to develop the international distribution of the product.

How do these technical characteristics affect economic nationalist policies? In this paper I show that with high entry barriers to the oil industry, the national elite would not oppose to government initiatives that increase the rents the country gets from oil production. The national elite will seek higher benefits from the oil industry, and greater government intervention in the sector can be the best way to get those benefits. On the contrary, an elite that is working as a subcontractor of a foreign corporation might distrust nationalist initiatives towards the multinational. No planter will like to see the government expropriating plantations (unless he/she is the new owner of these lands). The only reason an agrarian producer would like to see government intervention would be either when the industry is in crisis, or when the multinational is abusing its power. Otherwise, they just want to have a smooth flow of exports with minimal government intervention. As a result, we can see a nationalist elite with the oil industry and a non-interventionist elite in the agro-export industry, which translate in different government policies.

Nationalism, Vertical Integration, and Sectoral Foreign Direct Investment

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.[3] 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.[4] 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.[5] Kobrin and Minor's

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[3] Kobrin, Stephen, "Foreign Enterprise and Forced Divestment in LDCs," *International Organization*, Vol. 34, No. 1 (Winter) 1980: 65-88.
[4] Kobrin, Stephen, "Expropriation as an Attempt to Control Foreign Firms in LDCs: Trends from 1960-1979,"
[5] 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.[6]

Not all industries with large investments in infrastructure are subject to the same expropriation risks. Different authors have found that foreign direct investment in manufacturing faces lower expropriation risks due to several factors. First, governments in less develop countries tend to see manufacturing industry as an ally to generate development and economic independence.[7] And second, the companies can operate along a nationalist protectionist policy, which eventually protects them as well. In some cases, the manufacturing multinationals can adopt a nationalistic discourse and operate within the government's nationalist agenda.[8] These two factors create a situation in which manufacturing industries generate less resentment from the local population than the extractive ones.[9]

Many scholars agree that foreign investment in manufacturing can generate more economic growth and social stability than that in extractive industries. The classic Dependency scholars argued that FDI in extractive industries exacerbated the problems of poverty and political repression.[10] Authors who do not take a Dependency approach have argued that not only FDI in manufacturing generates economic growth, but also that

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[6] The decrease on the wave of nationalizations did not respond to purely technical reasons. The debt crisis of the 1980s and the collapse of the Soviet Union also created a new development paradigm in the less developed countries, which opened their doors again to foreign investors (see, Love, Joseph, "Economic Ideas and Ideologies in Latin America Since 1930," in Bethell, Leslie (ed.), *The Cambridge History of Latin America* (Cambridge: Cambridge University Press, 1994)

[7] See, Evans, Peter, *Dependent Development: The Alliance of Multinational, State, and Local Capital in Brazil* (Princeton: Princeton University Press, 1979)

[8] A good study of this case is 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)

[9] In fact, Kobrin argues that for the manufacturing industry the "obsolescing bargaining power" concept just does not apply. See, Kobrin, Stephen, "Testing the Bargaining Hypothesis in the Manufacturing Sector in Developing Countries," *International Organization,* Vol. 41, No. 4 (Autumn 1987): 609-638.

[10] Frank, Andre G., *Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brazil* (Monthly Review Press, 1969). Add Dos Santos and those guys.

FDI in the extractive industries has a negative impact in economic growth, political stability, and the creation of democratic regimes in poor countries.[11] These studies analyze the political economy of FDI by isolating investment in extractive industries from other industries. My paper makes a contribution to the literature by comparing two sectors *within* the extractive industries. I find that the technological differences between extractive industries and their capability to integrate or disintegrate determine the relationship the company has with the host country's government and society.

The Conservative years: Promotion and resistance to FDI, 1900-1922

During the first years of the 20th century, 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.[12] 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.

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[11] Alfaro, Laura, "Foreign Direct Investment and Growth: Does the Sector Matter?" (MS, Harvard Business School, 2003); Le Billion, Philippe, "The Political Ecology of War: Natural Resources and Armed Conflicts," *Political Geography,* Vol. 20, No. 5 (2001): 561-584; Ross, Michael, "What do We Know About Natural Resources and Civil War", *Journal of Peace Research,* No. 41 (2004): 337-356; Li, Qian and Andreea Mihalache, "Democratic Institutions and Sectoral Foreign Direct Investment." (MS, paper presented at the International Studies Association Meeting, 2006).

[12] 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.

Attracting United Fruit

United Fruit started its operations in Colombia in 1899, in the midst of the War of the Thousand Days. However, the company was operating in the Atlantic Coast, a region who suffered less than the rest of the country in terms of combats and destruction. By the end of the war, United Fruit was the only solid corporation operating in the Colombian Caribbean. Reyes considered United Fruit a regional engine for economic growth, so it provided the company with tax incentives and land grants to create a banana export industry in the Magdalena region. [13]

During its first years of operations, Reyes' incentives had the effects he sought. Magdalena turned into an important banana producer in the Western Hemisphere, the company invested in infrastructure such as railways, telegraph lines, hospitals, housing for the workers, and port facilities, and the planters were exporting their fruit, something they had been unable to do on their own prior to United Fruit's arrival. Simultaneously, Magdalena witnessed the arrival of a mass of unemployed people who migrated to the region attracted by the high wages United Fruit offered.

The economic changes generated by United Fruit did not mean that the company faced no resistance or criticism. Before 1922, United Fruit had to deal with two big strikes in 1918 and 1919. In these two strikes the workers demanded wage increase, an eight-hour day, the formalization of their work with the company through written contracts, and health benefits. Although the workers did not get the contracts, these two

[13] Bucheli, Marcelo, *Bananas and Business: United Fruit Company in Colombia, 1899-2000* (New York: New York University Press, 2005): 86-91.

strikes marked the beginning of an increasingly organized and powerful banana workers' union movement.[14]

United Fruit also dealt with some opposition from a group of small planters in Magdalena. Although many planters were satisfied with their role as United Fruit providers, others wanted to work independently, something impossible due to the contracts they had previously signed with United Fruit. The multinational had made sure that the planters could not sell their fruit to any other company (including the fruit United Fruit rejected) and created a complex enforcing system that included the use of foreign courts whenever a planter exported the fruit without United Fruit's permission. The company also made the different contracts with local providers to expire at different times, so that there would not be too many "free" planters at any time, which could unite and create their own export company. The attempts from some planters to create their own business parallel to United Fruit failed and the company kept undisputable control of the business in Magdalena until 1945.[15]

Finally, the policies towards United Fruit faced some opposition from the Magdalena government. First, they were disappointed with the tax exemptions President Reyes granted United Fruit. The Magdalena government saw in the banana boom an opportunity to increase its rents, so leaving the main sector of the economy tax-free did not help. Second, they also disliked the thirty-year railway concession the central government granted to United Fruit. The main opposition to these policies came from the Liberal politicians in Magdalena who represented the region's small holders and the

[14] Bucheli, *Bananas and Business,* 120-124.
[15] Bucheli, Marcelo, "Enforcing Business Contracts in South America: The United Fruit Company and Colombian Banana Planters in the Twentieth Century," *Business History Review*, 78 (Summer 2004): 181-212.

planters who wanted to gain independence from United Fruit. The large landowners remained faithfully loyal to the Conservative government and their business with United Fruit.[16]

How did the Conservative government react to the different kinds of opposition United Fruit faced? The government remained devoted to its commitment of facilitating United Fruit's operations. The undeniable economic growth the banana zone was going through and the prosperity some of its inhabitants enjoyed as a result of the banana exports, justified, under the government's viewpoint, the protection of the company. In addition, both the company and the government shared a dislike towards labor unionism, which they saw as "Bolshevism" infiltrating the country. This is why it was not hard for United Fruit to get government support when dealing with the 1918 and 1919 strikes.

The planters who wanted to develop their own business independent from United Fruit, found little support from the central government. In the 1920s, some planters and the local government requested the central government to open a branch of the state-owned Agrarian Mortgage Bank in Magdalena in order to compete with the loans United Fruit provided. In fact, United Fruit was the only serious credit institution in the region. The government, however, took too long to open the bank, and once the bank opened the local planters suffered a disillusion when they found out that the interest rates of the Agrarian Mortgage Bank were higher than those charged by United Fruit and the application requirements more complicated.[17]

Finally, the opposition of the local government to the taxation system could not succeed in the highly centralized Colombian political system. Not only most fiscal

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[16] Bucheli, *Bananas and Business,* 91-94.
[17] Bucheli, *Bananas and Business,* 156-157; Bucheli, "Enforcing Business Contracts," 193-196.

decisions were made in Bogotá, but also was Magdalena a particularly politically weak region in the country.[18]

Oil and the Loss of Panama

The policies towards foreign investment in oil proved to be more complicated than those in the banana sector. Although the Conservative government wanted to attract foreign corporations, they did not want them to be extremely powerful in the country. The Mexican Revolution that started in 1910 was seen as a lesson of what could happen to a country when foreign oil corporations become too politically powerful. In addition, opposition to an excessive control of the oil sector by the foreign companies was much stronger than that found in the banana sector. This is understandable for three reasons: first, strategically speaking oil is undoubtedly more important for a country than bananas. Second, by the 1910s Colombians were convinced that their country had extremely rich oil reserves under its soil.[19] And third, the oil policy will be strongly tied to the issues around the US support for the separation of Panama from Colombia in 1903.

Right after the end of the War of the Thousand Days, there was a strong anti-American sentiment in Colombia. 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 in order to control criticism. This however, was not enough to stop the opposition from the press

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[18] Bucheli, *Bananas and Business,* 92-94.
[19] *New York Times* (Complete reference)

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.[20]

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.[21] 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.[22] In spite of this, Pearson continued doing explorations in Colombia.[23]

In 1914, 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

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[20] 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.
[21] 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)
[22] 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.
[23] Lael, *Arrogant Diplomacy*, 94

acts, of a great president, in a great era of American history."[24] 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. [25]

With the debate over the treaty 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.[26] 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.[27] 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 made some changes to the oil law.[28] Fearing the loss of the Panama reparations, Colombian President Marco Fidel Suárez informed the US government and the American companies that they had nothing

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[24] Parks, Taylor, *Colombia and the United States, 1765-1934* (Durham: Duke University Press, 1935): 451.
[25] Lael, *Arrogant Diplomacy*, 93
[26] Gibb, George and Evelyn Knowlton, *The History of Standard Oil Company (New Jersey): The Resurgent Years, 1911-1927* (New York: Harper, 1956): 39-370.
[27] López, "La cuestión del Canal," 164.
[28] 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.

to fear from the new oil legislation. However, this attitude only generated more internal opposition, which eventually led to Suárez resignation.[29] In December 1919, the Colombian Supreme Court declared the law unconstitutional ending with the impasse that risked the Urrutia-Thomson Treaty.[30]

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 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. [31] Pearson had left Colombia in 1919 after the new legislation and

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[29] 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;

[30] Colmenares, Germán, "Ospina y Abadía: La política en el decenio de los veinte," in Tirado, *Nueva Historia de Colombia,* vol. 3: 243-251.

[31] 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.

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.

Negotiating before the "Dance of the Millions"

What does the pre-1922 experience with United Fruit and the oil companies tell us? Although there was a consensus around the need of foreign direct investment for the national economic development, the government and the society did not take the same approach to bananas and oil. In the banana sector, United Fruit had a relatively important group of local planters who worked alongside with the multinational. Although United Fruit had its own plantations, the local growers produced more than half of the fruit. Some local growers tried to compete with United Fruit, and that is when they requested some government intervention. However, the kind of intervention they wanted was in the form of cheap loans. The local planters did not want the government competing against them by creating some government owned banana company. The Liberal opposition protested against the company's power and wanted a stronger participation of the local elite in the business through soft loans. It is worth highlighting, that the local banana growers did not ally with their regional government against the company. The Magdalena government wanted to increase taxation, and the local growers certainly did not want that. That explains why the Magdalena growers and the Magdalena government never got together against the company.

In the oil sector I find a very different situation. There was no local elite involved in the business. The discussion was around taxation and concession terms. Since the local elite had nothing to lose with higher taxation to oil companies, politicians could afford to go against them. The high technological barriers of the oil industry did not permit the creation of a local oil elite even with soft loans or tax incentives. One also finds a strong relationship between the oil policy and the separation of Panama. The high importance of oil tied the two issues together, and the reparations around Panama and the Colombian oil legislation were a topic of heated debate in the US Senate, something that did not happen with the banana industry. So, the even though both companies were multinational corporations, the policy towards oil was an issue of domestic policy and foreign policy at the same time. We cannot ignore that two presidents (Reyes and Suárez) had to resign because of their oil policy. However, the social changes Colombia went through after 1922 had a deep effect in the way the government related to these two corporations.

The Late 1920s: Growing Unionism and Conservative Nationalism

The $25,000,000 reparations for Panama brought the country a period of economic prosperity and social transformations. On one hand, the country, and in particular the city of Medellín witnessed the rapid growth of an industrial elite. This elite benefited from coffee exports by producing textiles for a population with increasing purchasing power. In other cities, food industry permitted the enrichment of other entrepreneurs. Parallel to these changes came also the rise of labor unionism. During this period, workers got acquainted with Socialism and Communism and started organizing themselves in both the cities and the countryside. The creation of this industrial bourgeoisie and a proletariat deeply affected the operations of these two companies and the way the government related to them.

Unionism under a Conservative regime

United Fruit and Standard Oil were the first companies in Colombia dealing with large-scale strikes. There is a consensus that both companies paid higher wages than any other employer in Colombia. It is also widely accepted that these companies also provided the workers with welfare unknown for the Colombian working class and which was not even demanded in the local legislation.[32] So, why do we see in these workers the first coordinated actions against their employers?

The banana and oil workers are considered the first proletarians in Colombia and, therefore more mature and more sophisticated in the understanding of labor relations than

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[32] Bucheli, *Bananas and Business*; LeGrand, Catherine, "Colombian Transformations: Wage Labourers in the Santa Marta Banana Zone," *Journal of Peasant Studies,* vol. 2, No. 4 (July 1984): 187-200; LeGrand, Catherine, *Frontier Expansion and Peasant Frontier in Colombia, 1830-1936* (Albuquerque: New Mexico University Press, 1986); White, Judith, "The United Fruit Company in the Santa Marta Banana Zone. Conflicts of the 20s" (MS, Oxford University, 1971); Gibb and Knowlton, *The Resurgent Years,* 374-376; Villegas, De la Pedraja (Complete reference).

their illiterate peasant counterparts. These were also the reasons why the early Socialist and Communist thinkers in Colombia approached them first. As close followers of Marxist theory, these left-wing leaders believed that a revolution was only possible among the industrial proletariat rather than among peasants living in semi-servile conditions. These Socialist leaders included Raul Antonio Mahecha, who studied in the Soviet Union, and Maria Cano, a charismatic union leader. The two of them organized strikes in both the oil and the banana regions in the 1920s.

When it comes to labor relations it is possible to draw strong parallels between the banana and oil sectors. Although closer to the Liberals than to the Conservatives, the most radical union leaders were distrusted by both the Liberal and the Conservative elites. The government also followed the same approach with both of them: it started with negotiations but ended with repression. However, as time passed the Liberals found in an approach to the union movement a way to increase its constituency and win the presidential elections.

Labor Conflicts in the 1920s

In 1922, Mahecha settled in the city of Barrancabermeja (also known as Barranca), the center of Tropical Oil's activity. He chose Barranca because he considered the oil workers the most "modern" in the country and, therefore the ones who could lead a proletarian revolution.[33] In 1923, Mahecha created the Union Obrera, the labor organization of the oil workers and managed the candidacy of a union member for the city elections. Because of these actions the government incarcerated him for a month

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[33] Rueda Enciso, José, "Raúl Eduardo Mahecha," in *Gran Enciclopedia de Colombia*, Banco de la Republica, Biblioteca Virtual (lablaa.org), last accessed 8/5/2006; Colmenares, "Ospina y Abadía," 256-257.

after which he returned to his union activities. Under his leadership, workers organized protest demonstrations that led the Conservative government to send a negotiator to Barranca in early 1924. The negotiators made Tropical to sign a document in which the company committed to accept some of the workers' demands, but this did not eliminate the tensions and in October 1924, the oil workers went on strike for the first time and were joined by the local peasants and small shopkeepers who resented the power of Tropical's stores. Ten days later, the workers and the company reached an agreement, but Mahecha was arrested afterwards for seventeen months.

After his arrest, Mahecha returned to his union activities. In 1926, he organized a new strike arguing that Tropical did not comply with what it agreed in 1924. In addition, the workers demanded a 25% wage increase (against the 6% offered by Tropical), jobs security, Sundays off with pay, and improvements in working conditions.[34] The workers started a new strike in January 1927, 7,000 workers went on strike and they were followed by thousands of workers around the country who also stopped activities in solidarity. The Conservative government saw in this movement a threat for political stability and decided to end the strikes using the Army. By using violence the Army forced 4,000 people out of Barranca and arrested Mahecha for six months.

After his second arrest, Mahecha moved to Magdalena to collaborate with the banana union movement. The banana workers had already organized their union and went on strike in 1924 demanding the formalization of contracts between the company and the workers. United Fruit used a subcontracting system with which most workers did not formally belong to the company. In addition to this, the workers also demanded

[34] Henderson, James D., *Modernization in Colombia: The Laureano Gómez Years, 1899-1965I* (Gainesville: University Press of Florida, 2001): 163.

better working conditions and an increase in welfare expenses. The company and the workers agreed on everything except for the elimination of the subcontracting system.[35]

The company's rejection to sign a contract radicalized the union movement who allied with other workers in the region (with jobs related to banana exports) creating a much larger union which organized one more strike in 1927 which did not succeed at making United Fruit sign contracts with its workers. In 1928, the workers kept insisting on the contract issue and threatened with a new strike. This time, the government also sent a negotiation team who told United Fruit that the workers' demands were legal and did not define them as subversive. Feeling that the government endorsed their petitions, the workers' set up a date for the strike, which started in November 1928.[36]

The strike of 1928 grew at levels neither the company nor the government every imagined. With 25,000 striking workers it became the largest strike ever seen in the country. Although initially the government showed some sympathy towards the workers, which quickly vanished when the government felt that the strike had turned into a dangerous revolutionary movement. United Fruit refused to negotiate and the government brought the Army to control the workers. This tense situation had a tragic end when in December 6 the Army attacked a group of unarmed demonstrators killing an undetermined number of them, an event reproduced by novelist Gabriel García Márquez in his novel *One Hundred Years of Solitude.*[37]

In both United Fruit and Tropical Oil one finds a government more scared about a Communist revolution than interested in improving the living conditions of the workers.

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[35] Bucheli, *Bananas and Business,* 122.
[36] Bucheli, *Bananas and Business,* 124-132.
[37] Bucheli, *Bananas and Business,* 131-133; García Márquez, Gabriel, *One Hundred Years of Solitude* (Buenos Aires, 1967).

With each of the largest strikes (1927 and 1928), the government took the role of the arbiter but quickly decided for the use of force to end the conflict. Only the most radical members of the Liberal Party and the Socialist Party openly denounced the government's actions as a sell-off to American interests. The government justified its actions by arguing that a Communist revolution had been avoided. Among the ones who supported the government's actions were José Antonio Montalvo, the Minister of Industries, who talked about "alarming Bolshevik tracts" being read by the workers, and the Liberal newspaper *El Tiempo,* who said that "the Soviet spirit is as foreign to our people as the Protestant spirit, and the very painful proof has been the Magdalena strike."[38] As I show in the next section, during that same period Montalvo led a nationalist Therefore, regarding labor relations the government had a consistent agenda in both sectors. This explains why while the government was sending troops to the striking areas and claimed that Colombia was in danger of falling in the hands of the Bolsheviks, the same Conservative government followed an aggressive nationalist campaign in the oil sector.

Conservative Nationalism

The period in which the government repressed the large strikes against Tropical (1927) and United Fruit (1928) coincides with a time of strong nationalism from the government in the oil sector. 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

[38] Henderson, *Modernization in Colombia*, 166; Bucheli, *Bananas and Business*, 120.

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.[39]

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.[40]

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.[41]

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 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

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

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.[42]

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.[43]

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.[44] 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

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

jeopardy.[45] 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 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.

Local "New Deal" and Oil Companies in the 1930s

The new economic interests of the Colombian elite defined the political alliances of the post-1930 period. The industrial elite of Medellín 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.[46] 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.

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[45] Colmenares, "Ospina y Abadía," 263-264; De la Pedraja, *Petróleo*, 32-33.
[46] Leal Buitrago, Francisco, *Estado y política en Colombia* (Bogotá: Siglo XXI Cerec, 1989): 160-165.

Olaya, the Great Depression, and the Multinational Corporations

Before running for president, Enrique Olaya lived for eight years in Washington as the Colombian ambassador. He believed that the government needed to show the US that even after the late 1920s strikes, turmoil, and government nationalist policies, Colombia was a good place to invest. The Depression had hit Colombia, and the president believed foreign capital was crucial for the economy.

In his first months as president, the banana unions realized that despite the fact that Olaya was a Liberal, they could not count on him as an ally. Although he did not repress them with the Army, he did not support them in their petitions either. This made the unions abandon their support to Olaya and approach Gaitán. Moreover, in 1929 United Fruit's concession over the railway ended, but Olaya granted the company with thirty more years after the multinational provided his government with a $1,000,000 loan. 1930 was also the year in which the banana exports tax exemption finished. The Magdalena government was disappointed when Olaya decided that the new export taxes would go to the central government and not the regional one. Finally, the local planters who wished the exemption would be extended resented the new tax.[47]

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

[47] Bucheli, *Bananas and Business,* 96-98.

having new loans in the future.[48] 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%.[49] The multinationals and the US government were not completely satisfied with the changes, however.[50] 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.

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.[51] 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.[52] Olaya proposed the nullification of the previous nullification to the Barco Concession and found an initial strong opposition in Congress and the media.[53] 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.

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[48] De la Pedraja, *Petróleo*, 40-46.
[49] Villegas, *Petróleo Colombiano,* 68.
[50] De la Pedraja, *Petróleo*, 46-47.
[51] Rippy, *Capitalists*, 143.
[52] De la Pedraja, *Petróleo*, 51-52.
[53] Estrada, Efraín, *Sucesos Colombianos, 1925-1950* (Medellín: Universidad de Antoquia, 1990): 348-359

The "Roosevelt of the Andes" and the Multinationals

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.

In the first months of his administration, Lopez showed his support to the banana workers by siding with them in their new demands to United Fruit and forcing the multinational to write contracts with its workers. In fact, Lopez even jailed the company's manager for a brief period of time for not complying with the new labor legislation, something that sent a strong message to both the unions and the company.[54]

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.[55] 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.[56]

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

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[54] Bucheli, *Bananas and Business,* 98-99.
[55] Bushnell, David, *The Making of Modern Colombia* (Berkeley: University of California Press, 1993): 189.
[56] 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.[57] Anglo-Persian, however, did not come and Standard remained the most powerful oil company in the country.

Involvement of the industrial elite in the oil industry

Lopez's term was followed by eight more years of Liberal rule. It started with Eduardo Santos (1938-1942) who declared a "pause" in the Lopez's social reforms to avoid civil war and was followed by Lopez who was reelected in 1942. These were also years of reorganization of the Conservative Party under the leadership of Gomez, who coordinated the opposition allied with the industrial elite and the Catholic Church.

In 1938, the Colombian elite was forced to rethink what they considered the way oil should be exploited. In that year, the Mexican revolutionary government expropriated foreign oil properties and created PEMEX, a state-owned enterprise in charge of all the oil operations. 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.[58]

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

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[57] De la Pedraja, *Petróleo,* 55-57; Villegas, *Petróleo Colombiano,* 83-84.
[58] De la Pedraja, *Petróleo,* 70.

for the company settling the end of the concession in 1951.[59] 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.[60]

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 of actively participating in the industry.[61] The Mexican events showed them that a Third World country could manage oil technology successfully.[62]

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.

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[59] International Petroleum Company, *Annual Report* (Toronto: IPC, various years).
[60] De la Pedraja, *Petróleo,* 76.
[61] Sáenz Rovner, Eduardo, *Colombia Anos 50: Industriales, política y diplomacia* (Bogotá: Universidad Nacional de Colombia, 2002): 55-56.
[62] Although ANDI considered PEMEX a success, the studies of Fabio Barbosa have shown that in the beginning PEMEX realized it did not have the technological capabilities to develop the industry and was forced to call some multinationals again. The Mexican government, however, did not call back those companies it expropriated in 1938. See, Barbosa, Fabio, "Technical and Economic Problems in the Newly Nationalized Industry" in Brown, Jonathan and Alan Knight, *The Mexican Petroleum Industry in the Twentieth-Century* (Austin: University of Texas Press, 1992): 189-190, 194-203.

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).[63] 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.[64] 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.[65] 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

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[63] De la Pedraja, *Petróleo,* 81-82.
[64] Sáenz, *Colombia*, 55.
[65] Sáenz, *Colombia,* 57.

the working class (who suffered prosecution and violence from a government that never liked Liberal and Socialist influence in labor unions).[66]

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.[67] 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

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[66] 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)

[67] "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.

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.[68] In 1961, Standard handed over the administration of the Barranca refinery, and only until 2003 ECOPETROL became public.[69]

Involvement of the Industrial Elite in the Banana Industry

The rising power of the Medellín industrial class also affected the relationship between United Fruit and the Colombian government. Due to World War II, the company interrupted its operations in Magdalena between 1942 and 1947. The company returned and found that several Colombian planters had created their own export companies. United Fruit worked parallel to them hiring other local planters. Simultaneously, during the 1950s and especially in the early 1960s, United Fruit gradually sold its own plantations in Magdalena to decrease its obligations with an increasingly demanding and powerful labor movement.[70]

In the early 1960s, United Fruit withdrew from Magdalena completely and started new operations in the region of Urabá in the Antioquia Department. Antioquia, whose capital city is Medellín, was a much wealthier and politically powerful political unit than

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[68] International Petroleum Company, *Annual Report*, 1951, 1952.
[69] International Petroleum Company, *Annual Report,* 1961; ECOPETROL, “Emisiones de Acciones,” in ECOPETROL official website (www.ecopetrol.com.co), last accessed August 5, 2006.
[70] Bucheli, *Bananas and Business,* 137-148, 158-164; Bucheli, “Enforcing Business Contracts,” 200-205.

Magdalena. When United Fruit arrived in Urabá, the company decided not to have any plantation but rather subcontracted all the production activities to local growers. Urabá was a very unpopulated area, so everything had to be started from zero. United Fruit offered cheap loans to anyone willing to develop a banana farm and provide the company with the fruit. The first ones interested in doing business with United Fruit were industrialists from Medellín.[71]

Contrary to the Magdalena planters, the Urabá planters did not belong to the region and had no experience in the agrarian industry. While the Magdalena planters heavily depended on banana exports, the Urabá ones had other investments in the manufacturing industry, which as I describe above had a close relationship with ANDI.

The Urabá banana export industry boomed between 1963 and 1968. Funded with United Fruit's loans, the Urabá planters transformed a territory previously covered with jungle and some small villages, into a land dominated by plantations and ever-growing towns. The relationship between the planters and United Fruit, however, dramatically changed in 1968. In that year, the contracts between United Fruit and the local growers had to be renewed, and the company announced its providers that its purchase price was going to be reduced by half. Although United Fruit was the only marketing fruit in the region, the growers decided to continue on their own creating a Colombia banana company, Uniban, and a lobbying organization, AUGURA, headquartered in Medellín. The Urabá growers' proved to be more powerful than their counterparts in Magdalena who had also requested the government's aid years before. The Urabá growers got government support from the beginning through soft loans, subsidies, and new laws that

[71] Bucheli, *Bananas and Business*, 171-173; Bucheli, "Enforcing Business Contracts," 205-207.

obliged United Fruit to cooperate with the Colombian growers.[72] Even though Uniban was not a serious competitor to United Fruit in the long-term, it showed the multinational that it was dealing with growers with stronger political power with the capability of operating independently.

Conclusion

In this paper I compare nationalist policies from a host government in the Third World towards two multinationals operating in different industries of the primary sector. By using the cases of Standard Oil Company (New Jersey) and United Fruit Company in Colombia, I show that the technological entry barriers each industry posed to the local elite highly determined the relationship between the companies and the government.

The two companies created vertically integrated industries in rural areas. Both of them had been encouraged by the local government to invest, but one of them (oil) generated more nationalistic feelings than the other one (bananas). In the first half of the 20th century, the local elite did not show much opposition to the operation of both multinationals. In the banana sector, where the local participation was larger, the home providers wanted the security the multinational offered together with a maximization of profits subject to the restrictions imposed by the foreign company. The planters, the government, and the multinational had a common agenda regarding the labor force: they want to keep it under control without left-wing influence. Similarly, the planters and the multinational did not want the government to participate in the business. That explains the defense the Conservative government made of the company's interests during the

[72] Bucheli, *Bananas and Business,* 173-175.

labor conflicts of the 1920s: in this case, United Fruit's interests were the same planters' interests.

The relative low technology used in the banana industry made United Fruit chose for a subcontracting system to avoid labor problems. So, not only did United Fruit have more flexibility but also more mobility. The latter was apparent when the company moved to Urabá using only a subcontracting system.

In the case of the oil industry, I find that until the 1940s nobody thought seriously on having the national elite participating. The technological barriers were so high, that the conflicts between the government and the companies were mostly around taxation, concession terms, and royalties. Before Colombia had a serious industrial sector, developing a national oil industry could simply sound ridiculous. It was only until the manufacturing industry matured in the late 1930s and early 1940s, that the idea of having a national company was taken seriously. Not only did the industrial elite accumulate significant wealth, but also it became a group with stronger lobbying power than many of the traditional landowners. Even though the Medellín industrialists decided in the early 1950s that they did not want to risk the enormous amounts of capital they needed to develop their own oil company, they participated from the rents and service business created around it.

The events in the banana industry of the late 1960s, show that even when United Fruit decided to only subcontract its providers, its power could be constrained by the political influence the local planters had (who happened to be, again, the same Medellín industrial elite).

In conclusion, the paper shows that nationalist reactions from local governments vary not only between the extractive, manufacturing, and service sectors, but that one can also find differences between vertically integrated industries operating in the extractive sector due to technological barriers and the role and political influence of a national economic elite.