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"Oil Expropriation in Mexico: Market Change, Labor Unions, and Tax Questions"

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Aside perhaps from gun-running, the petroleum industry was the only sector of the Mexican economy that boomed during the Mexican Revolution from 1910 to 1920. The explanation has to do with location. Revolutionary armies of Pancho Villa, Alvaro Obregón, and a host of lesser caudillos crossed and recrossed the country's central plateau. They tore up railway tracks, attacked haciendas, and disrupted internal commerce. While not a target of the revolutionaries, the mining industry in the central plateau succumbed temporarily to insecure transport conditions. Historians now know that industrial plant was not destroyed during the fighting but neither did industrial product grow.[1] In contrast, the oil industry formed a isolated economic enclave. Located in Northern Veracruz, most of the prolific oil fields lay within 50 miles of the Gulf coast. All the major pipelines to Tuxpan and Tampico had been built before any revolutionary armies occupied the oil zone. Thereafter, the generals who fought over the Huasteca Veracruzana did not dare to shut down oil production, because each revolutionary faction

[1] John Womack, Jr., "The Mexican Economy during the Revolution, 1910-1920," *Marxist Perspectives,* vol. 1 (1978): 80-123.

depended on the industry for revenues. The forces of the government taxed the export trade at Tampico, while the anti-government forces in the oil fields levied forced loans directly on the oil camps. Few pitched battles occurred in the oil enclave.

In this fashion, the foreign companies which developed Mexico's oil industry in the first decade of the twentieth century were able to respond to international demand during the second decade. Oil prices remained depressed at first. Therefore, the take-off of Mexican production in 1910 nearly brought the first pioneers like Lord Cowdray and Edward L. Doheny to despair. Awash in production, they had difficulty finding buyers. The British engineer Cowdray quickly developed his own marketing organization to sell Mexican petroleum in Latin American ports and in England. Doheny was momentarily saved in 1911 by a long-term sales contract with Standard Oil New Jersey, although his organization too began to build their own refineries and sales outlets for the U.S. market. When war broke out in Europe, oil prices rose dramatically, and Mexico began to attract foreign entrepreneurs and wildcatters. By 1919, some 155 different oil interests were operating in Mexico — most of them engaged in buying and selling leases. Shell entered Mexico in 1912, but its late start in buying leases kept its production quite modest. Standard Oil arrived later, in 1917. Its superior capital and foreign marketing resources permitted the Standard Oil Company, New Jersey a rapid expansion, although its production did not challenge pioneer producers like Cowdray and Doheny.[2]

This was the state of the oil industry in 1920 when the rebellion of Agua Prieta elevated the Sonoran Dynasty to power and brought the violent phase of the Mexican Revolution to an uneasy end. At this time, petroleum was the leading export of Mexico, accounting for more than ten percent of GNP. Approximately 50,000 comparatively well-paid Mexicans worked directly for the oil companies. As oil production in revolutionary Russia collapsed, Mexico became the world's second leading exporter of petroleum,

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[2] For the early development of the Mexican petroleum industry, see Lorenzo Meyer and Isidro Morales, *Petróleo y nación (1900-1987): La política petrolera de México* (Mexico City, 1990), chapter 1; Jonathan C. Brown, *Oil and Revolution in Mexico* (Berkeley, 1993), chapter 2.

ranking behind the United States.[3] Few Mexican or North American pundits in 1920 could have predicted that, within 18 years, this foreign-owned, capitalist-oriented, free-market, private contract industry would be completely and dramatically nationalized. ¿Qué pasó?

What happened after 1920 is that the other sectors of the Mexican economy recovered at the same time that both oil production and oil prices tumbled. What happened is that the Mexican government's fiscal designs on the oil industry were transformed into nationalistic symbolism. What happened after 1920 is that Mexican oil workers reacted forcefully to their growing insecurity within the industry. What happened is that, gradually losing interest in Mexico, the foreign companies only wished to hold back Mexican nationalism and labor militancy so as not to jeopardize its more valuable holdings in Venezuela and elsewhere. ¿Qué pasó? In 1920, the foreign companies, the Mexican state, and the oil workers were about to enter a collision course.

This course of collision involved three separate but occasionally intersecting avenues, each of which we will analyze separately. The first avenue concerns the changing place of the oil industry within the Mexican economy. As the second avenue, we will explore the evolution of government-company relations. Finally, the third avenue has to do with the rising militancy among Mexican oil workers. It does an injustice to the complexity of our story by disaggregating the three components in this fashion, because the denouement of the oil companies in Mexico is more a seamless progression than a chance intersection of three separate trajectories on March 18, 1938. To a certain degree, the Mexican oil nationalization was not expected. It had not been planned — neither in the Constitution of 1917, nor in the Plan Sexenal of 1934, nor by Cárdenas beforehand. However, disaggregation of the oil industry into its economic, governmental relations, and

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[3] Enrique Cárdenas, *La industrialización mexicana durante la Gran Depresión* (Mexico City, 1987), 196; Harold F. Williamson, et al, *The American Petroleum Industry*, 2 vols. (Evanston, 1959-63), 2: 262.

labor relations components will contribute to a sounder understanding of what the Mexican oil nationalization was about.

THE MEXICAN OIL BUST

Mexican oil production, having increased nearly five-fold between 1916 and 1920, began a decline, gradually at first, then more precipitately. Oilmen first noticed a geological problem in 1918. Some of the largest producing wells the world has ever known started flowing to salt water. In 1921 and 1922, whole fields within the famed Faja de Oro — Naranjos, Amatlán, Alazán, Alamo, and Chinampa — declined in production.[4] Production in the Faja de Oro peaked in 1921, when 158 million barrels were produced there, then declined to a yearly rate of barely one-fifth that total by 1925. Some companies such as the Transcontinental, owned by Standard Oil, recovered losses by expanding production in the northern oil fields astride the Pánuco River. This region's production rose to more than 100 million barrels of heavier crude in 1925, before the northern fields too began a decline.[5] By the end of the decade, total Mexican production amounted to less than 40 million barrels, just 20 percent of what it had been in the peak year of 1920.

Mexico's adversity was compounded by an even steeper downturn in the international prices of crude petroleum as new fields in the United States and Latin America came on line. Nineteen-twenty's high prices dropped by 45 percent to $1.73 during the succeeding year and to $1.17 by 1928.[6] (See Graph 1.) Shell and Jersey

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[4] Claude I. Dawson, "Development in Tampico Oil Fields, " Tampico, 7 December 1921, NADS 812.6363/1054.

[5] Charles A. Bay, "Review of the Petroleum Industry in Tampico, 1924," "Review of the Petroleum Industry in Tampico, 1925," NADS 812.6363/1558, /1760.

[6] Williamson, *The American Petroleum Industry*, 2: 539; American Petroleum Institute, *Petroleum Facts and Figures* (9th edn., New York, 1950), 170; Jonathan C. Brown, "Why Foreign Oil Companies Shifted Their Production from Mexico to Venezuela in the 1920s,"*The American Historical Review*, 90:2 (1985): 362-385.

Standard were investing heavily in infrastructure and exploration in the Maracaibo region of Venezuela. Jersey Standard abruptly moved men and matériel from its faltering Mexican fields to its subsidiaries in Peru and Colombia. As Mexican production declined, that of its competitors rose. In 1929, Venezuela had become the third largest producer of raw petroleum in the world, and Mexico dropped to seventh.[7]

The structure of ownership responded in a manner designed to minimize Mexico's weakness in an increasingly competitive international marketplace. It consolidated. Lord Cowdray began the process as early as 1919, selling management control of El Aguila, Mexico's largest oil firm, to the Royal Dutch Shell. Cowdray and his associates desired particularly to combine El Aguila's production with Shell's refineries and retail outlets throughout Europe.[8] In 1927, the Shell group joined its oldest operating company in Mexico, La Corona, to El Aguila. It proved a fortuitous marriage, for La Corona brought some valuable producing wells in the Northern Fields, where El Aguila was weakest.[9]

Actually, the rapid exhaustion of the Mexican oil fields affected all the North American companies as well, and several abandoned Mexico. Doheny's considerable assets in Mexico also went on the sales block. In 1925, the Midwestern marketing giant, Standard Oil Company of Indiana acquired the Pan American Petroleum Corporation, including Doheny's refining and marketing properties on the East Coast of the United States, his Mexican assets, and the Lago concession in Venezuela.[10] Smaller companies now sold out or abandoned their Mexican properties. By the end of the decade, Sinclair bought out the Pierce refining and marketing group. Standard Oil of New Jersey shut

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[7] American Petroleum Institute, *Petroleum Facts and Figures* , 444-45.

[8] "Scheme for the Amalgamation of the UK Organization of the Shell Marketing Co. and the Anglo-Mexican Petroleum Co.," 16 April 1920, Science Museum Library, London, S. Pearson and Son, Ltd., and Associated Companies, Historical Records [hereafter cited as Pearson Papers], C44, file 9.

[9] Peter H. A. Flood, "Review of the Petroleum Industry in the Tampico District During the Year 1927," 30 March 1928, National Archives, Washington, D. C., Record Group 59, General Records of the Department of State, Records Relating to the Internal Affairs of Mexico [hereafter, NADS], 812.6363/2592.

[10] Paul H. Giddens, *Standard Oil Company (Indiana): Oil Pioneer in the Middle West* (New York, 1955), 240-42.

down its Transcontinental terminal at Puerto Lobos and its topping plant at La Barra and turned its remaining oil fields over to the reorganized Huasteca. By 1930, when oil prices slipped once again, Jersey Standard seemed to have withdrawn from Mexico.[11] Not even Standard Indiana could withstand the falling prices. Toward the end of 1932, the beleaguered marketing giant reconstituted itself by selling off its Venezuelan and Mexican assets to Jersey Standard.[12] Now Huasteca passed under the control of the world's biggest oil company, which thereby reentered Mexico.

The salt-water invasion of the Mexican oil fields struck El Aguila harder than its American competitors. The secret to the British company's phenomenal success of the 1910s related to its dominate position in the prolific oil fields of the Faja de Oro. On the other hand, North American companies dominated the so-called Northern Fields west of Tampico, where the heavier oils were found. But salt water affected the flow of the wells in the Golden Lane almost exclusively. One after another, the original wells at San Diego and Potrero del Llano began to go to salt water. Increased well drillings on its Golden Lane properties slowed but did not arrest El Aguila's declining production.[13] Very soon, El Aguila found itself in the paradoxical position of not having enough crude oil to run through its expanded refineries and to meet export contracts. By 1925, it began to buy crude oil from other producing companies and even to import American and Venezuelan oil.[14]

To a certain extent, El Aguila's vulnerability in Mexican oil production in the 1920s eroded its dominance in the domestic and export markets. British oilmen retained approximately one-half of Mexico's domestic markets for the lighter gasoline and

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[11] Robert Herndan, "Changes in Administration of the Petroleum Companies," 25 July 1929, NADS 812.6363/2655; "World Petroleum in Review," *Oil Weekly,* 58:11 (29 August 1930), 64.

[12] [12]Giddens, *Standard Oil Company (Indiana)*, 489-93; Mira Wilkins, *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970* (Cambridge, Mass., 1974), 210.

[13] Jack D. Hickerson to sec. of state, Tampico, 15 May 1922, NADS 812.6363/1120; J. A. Assheton to Body, 27 Oct 1924, Shell International Petroleum Company, London, Group History, Country Series, Mexico Management [hereafter, Shell GHC/MEX), file D29/1/1.

[14] M. C. Wilson to Royal Dutch Shell, 13 Dec 1923, Pearson Papers, box C47, file 11; Assheton to Body, 3 Aug 1925, Shell GHC/MEX, file D29/1/2.

kerosene. But two American firms were encroaching on these markets. Doheny's Huasteca refinery at Tampico turned out asphalt, wax and lubricating oils. It also captured one-third of domestic gasoline sales, partly at the expense of smaller companies. Moreover, Standard Oil Company of California began to import refined oil products along the west coast of Mexico. The high cost of transport across the Western Sierras prevented El Aguila from competing on the growing Mexican market stretching from Sonora to Guerrero. A more severe blow to the British firm came in the sale of fuel oils to Mexican railways and ocean shipping. Here El Aguila had been reduced to 35 percent of the market, while Transcontinental and Huasteca commanded the rest.[15] In exports, El Aguila ultimately relinquished its former leadership to the chief North American competitor, Huasteca. In 1924, the production and export of Mexican petroleum was shared among the companies in the following manner:[16]

	production	export
Transcontinental (SONJ)	20.4 mill. bls.	30.5 mill. bls
Mexican Gulf	10.8	9.9
Huasteca (Doheny)	8.6	28.3
El Imperio	7.8	2.9
El Aguila (Shell)	5.8	12.3
Mexican Sinclair	5.1	12.5

The figures reflect the amount of crude the bigger companies were buying from smaller companies just to meet their export contracts. Moreover, the production leader, Transcontinental, would soon go out of business.

These realignments within Mexico's oil industry, natural enough given the production and price trends of the 1920s, accompanied a readjustment in the final destination of Mexico's oil production. Still predominantly an net oil exporter, Mexico

15 "Revisions to Report and Programme dated 28th August 1922," Pearson Papers, box C44, file 10.
16 Merrill Rippy, *Oil and the Mexican Revolution* (Leiden, 1972), 167.

experienced an economic resurgence following the 1920 crisis. El Aguila and Huasteca expanded their domestic marketing, diverting increasing proportions of their production to meet growing domestic demands. Indeed, by 1928, a narrow majority of El Aguila's gross sales receipts came from domestic as opposed to foreign sales.[17] Such an attractive sales opportunity invited competition. Erosion of Mexico's production, combined with the railway bottlenecks across the Sierra Occidental, induced the import of California oil products along the West Coast. California Standard built bulk stations at the major ports of Guaymas, Mazatlán, and Acapulco and penetrated inland as far as Guadalajara.[18] As in the United States, gasoline for cars and trucks proved to be the growth market. By 1933, the oil firms had parceled out the domestic market for gasoline in the following fashion:[19]

El Aguila (Shell)	-	33.7 percent
Huasteca (Standard Oil)	-	24.3
Sinclair-Pierce	-	21.6
California Standard	-	20.4

In other words, Mexico was importing one-third of its gasoline supplies.

By the 1930s, the foreign oil companies in Mexico had become increasingly marginalized on the international market. Venezuela continued its growth (See Graph 2.) at the same time that international oil interests established their first Middle Eastern oil assets. International oil markets began to recover from a long period of declining prices in 1933, and world prices rose gradually into the war years. Those international oil companies that retained their Mexican assets, like Jersey Standard and Shell, were expanding their production and refining capacity in other countries.[20] The spread of

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[17] Assheton, "Results for Year 1932 and Comparison with Prior Years," Pearson Papers, Box C43, file 7.

[18] Dudley G. Dwyre, "Refined Products (Gasoline)," Guadalajara, 7 November 1924, NADS 812.6363/1539.

[19] Jesús Silva Herzog, *El petróleo de México* (Mexico City, 1940), 46; George Philip, *Oil and Politics in Latin America: Nationalist Movements and State Oil Companies* (Cambridge, Eng. 1982), 80.

[20] Willis C. Cook, "Petroleum Industry in Venezuela, 1921," National Archives, General Correspondence of the Department of State, Record Group 59, Internal Affairs of Venezuela, 1910-1929, 831.6363/105; Jonathan C. Brown, "Jersey Standard and the Politics of Latin American Oil Production, 1911-30," *Latin American Oil Companies and the Politics of Energy*, edited by John D. Wirth (Lincoln, 1985), 35-39.

refining technology to "crack" crude petroleum under heat and pressure, yielding higher proportions of gasoline, valorized the heavier crude oils of California and Eastern Venezuela that competed with Mexican oil. The upshot of these developments was that Mexico now produced just two percent of the world's total supplies of petroleum. Oil in the mid-1930s contributed a mere three percent to Mexico's GNP.[21]

Slippage of its world ranking , however, did not mean the continued decline of Mexican production. Most importantly, Shell introduced the latest technological innovations to exploration and extraction. It added gas recovery apparata at the well heads so as to convert escaping gas vapors into gasoline. Diamond core drilling began in 1922. Shell geologists introduced seismographic survey equipment to chart the substrata and select sites for wildcat drilling.[22] Such innovations enabled El Aguila ultimately to discover a new producing field in Mexico. El Aguila began exploring Poza Rica in 1929. Several wells were showing promise even as the international price of petroleum plummeted below $1 per barrel in 1931. Eventually, Poza Rica would contribute one-third of the nation's total production.[23] Like other oil companies, El Aguila cut back on its operations temporarily during the Great Depression.

However, Mexico recovered relatively early from the worldwide depression. The nation's industrial production and exports by 1934 had recovered to their 1929 levels, and the numbers of cars and trucks multiplied. An expensive road building program — from 695 kilometers in 1928 to 9,929 kilometers at the end of the 1930s — expanded the domestic usage of gasoline. Import-substitution industrialization and renewed foreign investment in Mexico also contributed to the strong domestic demand for energy. By

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[21] Huasteca Petroleum Company and Standard Oil Company of California, *Expropriation* (New York, 1938), 3; Williamson, *The American Petroleum Industry,* 2: 728; Cárdenas, *La industrialización mexicana,* 196.

[22] AJ to B, 20 Sep 1921, JAA to JB, 27 Aug 1924, Shell GHC/MEX, files D29/1/1, D29/1/2; B. W. Smith, "The Story of Royal Dutch/Shell up to 1945" (unpublished MS, Shell International Petroleum Company, London, 1961), 161-62; Cárdenas, *La industrialización mexicana* , 159, 164.

[23] American Petroleum Institute, *Petroleum Facts and Figures* , 170; Alberto J. Olvera, "Origen social, condiciones de vida y organización sindical de los trabajadores petroleros de Poza Rica, 1932-1935," *Anuario IV* (Xalapa: Centro de Investigaciones Históricas, Universidad Veracruzana, 1986).

1937, domestic consumers were using 70 percent of total Mexican oil production.[24] These developments tended to secure for El Aguila, historically the more flexible of the foreign companies, nearly two-thirds of Mexico's total oil industry. El Aguila pushed ahead with plans for laying a pipeline from Poza Rica to Mexico City, where the British company constructed a new refinery.

What elements of these economic trends presaged the expropriation? None of them in and of themselves. But it is quite clear that the international marginalization of the Mexican oil industry and also the rising importance of the domestic market gave the government extra leverage over the oil companies. Moreover, the peculiar outcome of the trends in production and consolidation placed the British-Dutch concern of El Aguila in the top position within the industry and the American interests, led by Standard Oil New Jersey, into a combined second position. The above economic characteristics laid the basis for concurrent developments in the governmental and labor relations of the foreign companies.

FROM FISCAL NECESSITY TO NATIONAL SOVEREIGNTY

In 1920, the order of the day for the new government was national reconstruction. Mexican politicians who consolidated the Revolution sought to extract larger tax revenues from one of the only industries that had boomed during the fighting. Furthermore, Mexicans believed that the foreigners' domination of the economy had contributed to the revolutionary violence. They thought that uncontrolled capitalist development during the Porfiriato had badly disrupted social relationships and pressed the popular classes to

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[24] E. V. F. Fitzgerald, "Restructuring through the Depression: The State and Capital Accumulation in Mexico, 1925-40," in *Latin America in the 1930s: The Role of the Periphery in World Crisis*, edited by Rosemary Thorp (New York, 1984), 253-254; Alan Knight, "Mexico, c. 1930-1946," *The Cambridge History of Latin America*, edited by Leslie Bethell, 9 vols. (Cambridge, 1982-1989), vol. 7: 246-247; Stephan H. Haber, *Industry and Underdevelopment: The Industrialization of Mexico, 1890-1940* (Stanford, 1989), 171-175.

rebel.[25] Article 27 of the 1917 Constitution embodied the nationalist program, mandating state ownership of all subsoil wealth. The foreign companies operated on pre-constitutional contracts. Their oil leases and fee simple land ownership were based on private property rights. Foreign oilmen believed that government infringement of these pre-constitutional rights was illegal.[26] The stage was set for confrontation.

No matter what the *constituyentes* had intended when they adopted Article 27 in 1917, the Mexican government desired to utilize it for fiscal purposes. Foreign oilmen had already responded to Carranza's tax demands by forming a united front, the Association of Producers of Petroleum in Mexico. Funded and directed by American interests in New York City, the Association attempted to mobilize public opinion and engage foreign diplomats in protesting the Mexican actions. In 1919, it had orchestrated a boycott of well registration. El Aguila, already experiencing well exhaustion in the Faja de Oro, resigned from the Association in order to obtain drilling concessions and to prevent the government from giving its land to competitors.[27] The British oilmen broke the united front.

El Aguila's accommodating attitude became more obvious when the American companies, in 1921, boycotted the export of Mexican oil as a protest to Obregón's taxation of petroleum exports. The American companies stopped all oil operations for two months, throwing thousands of Mexican workers out of work. Yet, El Aguila continued to fill its tankers — paying the higher taxes, albeit under protest.[28] Ultimately,

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[25] Pastor Rouaix, *Génesis de los artículos 27 y 123 de la Constitución Política de 1917* (Mexico City, 1959, 47; Cándido Aguilar to Venustiano Carranza, 2 July 1919, Archivo Histórico "Genaro Estrada" de la Secretaría de Relaciones Exteriores, L-E-533.

[26] Rippy, *Oil and the Mexican Revolution,* chaps. 1-4; José Colomo, *The Mexican Petroleum Law: Its Basis and Its Aims* (Mexico City, 1927), 8-10.

[27] H. Walker, "Mexico Memorandum: Action of Principal English Companies," Washington, 10 Dec 1920, NADS 812.6363/756; R. C. Craig to R. Seymour, 16 Dec 1920, I.G. Clark to Foreign Office, 11 Jan 1921, Public Record Office, London, Foreign Office Records [hereafter cited as FO] 371-4499/A9015, -5580/A278.

[28] Tagle, "Informe sobre emigración obrera," Tampico, 23 July 1921, Archivo General de la Nación, Mexico City, Department of Trabajo [hereafter, AGN DT], caja 329, expediente 30; Andrés Barrientos to Obregón, Tampico, 27 September 1921, Archivo General de la Nación, Mexico City, Papeles Presidentiales, Fondo Obregón-Calles [hereafter, AGN FOC], 104-H-10, legajo 1.

the American companies relented and entered into their own negotiations with Obregón. The so-called Big Five — the presidents of Standard Oil, Huasteca, Sinclair, The Texas Company, and Gulf — came to Mexico on two occasions to meet Obregón. They were all North American companies. Now, the Englishmen had cause to worry that they would be excluded from government concessions.[29] The Mexican politicians were playing the old game of dividing the foreign interests.

The North American companies, led by Standard Oil of New jersey, however, were more intransigent. At the moment that the southern fields were being exhausted of light crude, President Alvaro Obregón decreed an increase in the oil export tax. Jersey Standard responded that the new tax was confiscatory. Since the tax would raise the cost of the poor-grade crude upon which the companies had to rely now that the light crude was running down, North American oilmen also claimed that products refined from heavy Mexican oil could be undersold by lighter US crude.[30] Jersey officials argued that the Mexican crude needed to remain inexpensive or lose its world markets.

The proposed petroleum legislation of 1922 further threatened the foreign investors in Mexico. What troubled Jersey most was whether Article 27 would be interpreted to give the government the subsoil rights on lands privatedly-owned before 1917, because the Jersey Standard company of Transcontinental had acquired more leases since 1917 than its competitors.[31] Therefore, Jersey was more vulnerable than the other foreign oil companies for having entered late. Compromise failed to assure the Jersey company. At the Bucareli Conference of 1924, the Obregón government conceded that it would not nationalize oil resources on lands that had been developed <u>before</u> 1917.[32] The

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[29] Cowdray and Deterding to Obregón, 16, 17, 23, 24 December 1921, AGN FOC, 104-P1-P-15.
[30] E. J. Sadler to P. E. Pierce, 23 July 1921, Teagle to Sadler, 18 Aug 1921, New York, Records of Standard Oil Company of New Jersey [hereafter cited as SONJ], SONJ, Sadler's Mexican files, "Personnel, Finances, Legal." I am indebted to the late Henrietta S. Larson, who took notes on these records before they were destroyed.
[31] Sadler to Teagle, 18 Aug 1921, SONJ, Sadler's Mexican files, "Personnel, Finances, Legal."
[32] On the Bucareli Agreement, see Lorenzo Meyer, *Mexico and the United States in the Oil Controversy, 1917-1942* (Austin, 1977), 100-106; John W. F. Dulles, *Yesterday in Mexico* (Austin, 1961), 163-71;

problem for Jersey was that its pre-1917 fields were nearing exhaustion, and Transcontinental had wanted to expand into lands acquired since 1917. Those plans remained on the shelves.

By the time that Calles had become president in 1924, the US Department of State had taken over from the companies the responsibility of negotiating petroleum issues. By then, the mutual suspicion between the Mexican government and the foreign companies was absolute. Just the same, Calles was able to split what remained of the oilmen's united front when he proposed new petroleum legislation that would have struck Transcontinental very hard. The Calles oil proposals would have nationalized the subsoil rights of lands owned privately before 1917 but leased afterward.[33] Jersey's competitors, Huasteca and El Aguila, had reason to be satisfied; both had an abundance of pre-1917 leases, and their perfunctory protests concerned only the tax increases. At this juncture, Dwight Morrow arrived in Mexico as the new United States ambassador.

Internal debates over the Mexican oil problem were occurring both at the State Department and at Jersey headquarters. Diplomatic analysts decided that they were unwilling to support the legal arguments of the oil companies. In view of colonial Spanish mining laws, they said, the companies acquiring property before 1917 must have been aware that the original theory of sovereign ownership of mineral deposits might be placed back into force at any moment.[34] Meanwhile, Jersey officials in New York rejected a compromise position that might have preserved some of its assets in Mexico, albeit with higher taxes on its post-1917 leases. Instead, they opted for a continental perspective. "Taking a long look ahead . . . and considering our growing interest abroad," concluded a Jersey legal counselor, "it seems to me that it is vital to us to stand for the sanctity of

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Wendell C. Gordon, *The Expropriation of Foreign-Owned Property in Mexico* (Washington, D. C., 1941), 64-67.

33 Lieb to Pierce, 1 Apr 1927, and Lieb to Pratt, 28 Dec 1927, SONJ, Production Depart. file 651.

34 "The petroleum controversy in Mexico, 1928," n.d., NADS 812.6363/2289.

property and property rights."[35] However, the negotiations were undertaken by the State Department — not Jersey Standard's lawyers.

The resultant Calles-Morrow agreement of 1928 arrived at two compromises, both of which severely damaged Jersey's legal status in Mexico. First, land acquired before 1917 was to be exempt from nationalization. Second, Morrow conceded that further questions effecting the operations of the foreign oil companies in Mexico were to be settled in the local courts.[36] When the contents of the Calles-Morrow agreement became known, Jersey Standard representatives wrote a lengthy letter of protest to the State Department. They stated clearly that the new policy did not sufficiently protect American business interests in Mexico.[37]

Jersey interpreted the Calles-Morrow agreement as a defeat. One Jersey man concluded, "I believe in [the] principle that oil cannot be produced profitably from [the post-1917 leaseholds in the Pánuco district under the present tax, royalty and other obligations that the Mexican Government imposes; therefore, I would not send good money after bad."[38] The Transcontinental subsidiary was closed down in 1929. [The only reason why Jersey Standard subsequently acquired Huasteca in 1932 was to also get the parent company's more valuable holdings in Venezuela.] On the other hand, El Aguila reluctantly accepted the Calles-Morrow agreement and continued operating into the 1930s. Once it brought in Poza Rica, the Shell interests eclipsed those of Standard Oil and all other North American concerns. In a way, the accommodation of El Aguila once again weakened the position of the North American companies.

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[35] Memo of C. O. Swain, 4 Apr 1927, SONJ, Production Dept., Sadler's Mexican files, "Personnel, Finances, Legal."; "Free Lands, National Lands," R. Pratt to G. H. Lieb, 20 Jul 1927, SONJ, Transcontinental files.

[36] Enrique Krauze, et al, *Historia de la Revolución Mexicana: Período 1924-1928: La reconstrucción económica* (Mexico City, 1977), 239-253; Samuel Flagg Bemis, *The Latin American Policy of the United States* (New York, 1943), 217-18; Meyer, *Mexico and the United States,* 135.

[37] Standard Oil Company (New Jersey) to Sec'y of State, 27 Apr 1928, NADS 812.6363/2558.

[38] R. Pratt, memorandum on Mr. Lieb's letter of 21 Jun 1928, about land policy in Mexic, 9 Jul 1928, SONJ, Production Dept., "Transcontinental Land Dept."

However, a renewal of government efforts to force the companies to conform to Article 27 began even before Cárdenas had taken office. Foreign oilmen experienced delays in obtaining drilling permits and complained that the government was violating the Calles-Morrow agreement. Even as El Aguila was completing its pipeline and refinery at Mexico City, the government delayed the issuance of drilling permits and even granted the small state company, Petromex, production rights at Poza Rica. The Plan Sexenal forced the companies to promote more Mexican technicians and supervisors. However, they made the mistake in 1935 of sending an oil executive to pay a "courtesy call" on ex-President Calles, who had just begun a political showdown with President Cárdenas.[39] Furthermore, their diplomatic support, always questionable, dissipated even more in the 1930s. Great Britain concerned itself with the ominous events in Europe, while the American Ambassador, Josephus Daniels, upheld the Good Neighbor policy and personally loathed the North American oil executives.[40]

The state's power as a taxing and pricing agent also grew with the domestic market. In an effort to stabilize the cost-of-living of workers who depended upon urban transportation, the government was moved to regulate the price of fuel. A public furor had met El Aguila's gasoline price increases to 20 centavos per liter in 1934. The taxi drivers of the capital went on strike in protest. Thereafter, the state established the gasoline price at 18 centavos per liter, of which it took 8 centavos as tax.[41] Such federal powers tended to place a ceiling on the earnings of the oil companies.

Why did some foreign oilmen object so much to governmental taxes and regulations when the hemispheric interests of the international companies were shifting

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[39] R. C. Tanis, "Memorandum," Washington, D. C., 21 September 1934, A. Madrazo to H. N. Branch, Mexico City, 23 May 1935; R. Henry Norweb to sec. of state, 11 June 1935, NADS. 812.6363/2791, /2847, /2851; Mr. Farquhar to Broad, 31 Jan 1935, Murray to Foreign Office, 28 Nov, 5 Dec 1935, FO 371-18709/A1790, A10582, A10793; Lorenzo Meyer, *Su majestad británica contra la Revolución Mexicana, 1900-1950: El fin de un imperio informal* (Mexico City, 1991), 424.

[40] Edward L. Reed, "Memo of Conversation with Mr. Vanderwoude, " Washington, D.C., 4 March 1935, NADS 812. 6363/2823; Josephus Daniels, *Shirt-Sleeve Diplomat* (Chapel Hill, 1947).

[41] Edward P. Bordon, "Automobile Touring in Mexico," 9 Mar 1932; Daniels to sec. of state, 17 July 1934, 18 Mar 1938, NADS 812.111/347, 812.3/2785, 812.45/704.

from Mexico to Venezuela? Because Mexico was becoming so marginal as a profit center in the international petroleum industry, it could only serve as an object lesson. American oil companies especially feared the spread of nationalism to Venezuela. Granted, the Venezuelans had never gotten around to changing the legal codes to permit private property contracts in mining and petroleum, like the Mexicans had done in 1884 and 1892. Granted, Venezuelan legal codes stipulated that the nation owned all subsoil wealth, just like Mexico's 1917 Constitution. Granted, Shell and Standard Oil worked under concessions in Venezuela, just as Obregón and Calles had wanted for Mexico.[42] But the oil companies had favorable terms in Venezuela; above all, they did not want General Juan Vicente Gómez unilaterally to change those terms, as the Mexicans were doing, just to increase tax rates.

In actuality, what the Mexican politicians may have viewed as fiscal necessity was interpreted by the oil companies as nationalism. Soon, Mexican government officials too began to see these issues in nationalistic terms. They were converted to this view by the oilmen's constant complaining about the host government's attempted confiscation of their properties, by the oil executives' incessant carping about the sanctity of contracts, and by the foreign companies' rejection of every compromise and every new tax. North American oilmen in particular did these things, of course, because Mexico was no longer important to them — except as an example.

Only one company, El Aguila, showed any willingness to compromise with the government's fiscal exaction. Even though Shell had assumed managerial control of El Aguila, this company remained very much a British concern. A majority of its capital was British. The British managers had stayed on in Mexico, reporting to a parent company in London and not to the Shell group headquarters at The Hague. Moreover, like the U.S. State Department, the British Foreign Office was urging negotiation and compromise with

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[42] See especially Philip, *Oil and Politics in Latin America*; B. S. McBeth, *Juan Vicente Gómez and the Oil Companies in Venezuela, 1908-1935* (Cambridge, Eng., 1982); Marcos Kaplan, et. al., *Petróleo y desarrollo en México y Venezuela* (México, 1981).

the Mexican government.[43] Since it had few assets outside the country, unlike the North American companies, El Aguila was eager to invest in the expanding Mexican energy market.

The Mexican government easily isolated El Aguila from its North American counterparts and exacted concessions from this British concern. The British company always was the first to pay government tax increases, breaking the united front with the North American oil companies. This British company remained flexible enough to work out a concessionary agreement with the government in 1937. It agreed to pay royalties of 25 to 35 percent on its Poza Rica production. In effect, it accepted the very government interpretation of Article 27 that the North American companies considered retroactive and confiscatory. What did El Aguila care? It had no properties in Venezuela. Mexico was its sole operating area, and the compromise enabled its operations here to grow. President Cárdenas let it be known that he would desire to conclude an identical agreement covering Huasteca's properties.[44] Such a scenario was not to be, for the workers were making their own demands.

LABOR AND EXPROPRIATION

The final conjunctural element to be examined is the remarkable process by which the oil workers placed their demands before the companies and the government. In 1920, the oil companies and their workers had just emerged from a turbulent period marked by strikes and by the formation of the first unions in the industry. This initial period of labor activism, at first glance, might appear an outgrowth of labor's involvement in the Mexican Revolution. But in fact, oil workers had not figured in the few military conflicts in and

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[43] For the best analysis of the economic and diplomatic position of the company at the time, see Meyer, *Su majestad británica*.
[44] Owen St. Clair O'Malley to Foreign Office, Mexico City, 18 Nov 1937, FO 371-20636/A8692/132/26; Daniels to sec. of state, 6 Jan 1938, NADS 812.6363/3064.

around Tampico. The workers did not strike because Article 123 lent legality to union formation and collective bargaining. Actually, this first labor militancy preceded the Constitution by several years and ended but a year following its promulgation. Oil workers became militant for other reasons. As early as 1914, oil workers organized in Tampico and Minatitlán in response to a rise in the cost-of-living and the consequential wage deterioration. The outbreak of war in Europe had raised the cost of Mexican industrial imports. The revolutionary strife in the countryside, at the same time, produced a prolonged rise in food prices within Mexico. However, foreign executives were unwilling to pass along their soaring profits to the laborers. If they raised workers' salaries, the oilmen reasoned, it would be difficult later to lower them. No. The oil companies would have to be forced into increasing the compensation to the workers.

To that end, the workers themselves began to organize labor unions. The first unions were formed to represent the skilled workers at the refineries of Tampico and Minatitlán. The strikes of these trade unions intensified in 1916 and 1917. By the conclusion of this initial phase of labor militancy in the oil industry in 1918, the workers' actions had forced the companies to increase compensation, reduce the hours of work, and improve the benefits. Labor strife in the oil industry during the Revolution responded more to economic stimuli than to political or revolutionary stimuli. But the decline of the oil industry beginning in 1921 would cause other problems for the workers.[45]

The exhaustion of the oil fields and the post-war decline in world oil prices, both of them beginning simultaneously in 1921, had rendered work in the foreign-controlled industry to become quite insecure. From 1920 to 1922, Mexican workers suffered untold hardships in the massive layoffs with which the companies responded to falling prices and

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[45] For oil workers during the revolution see S. Lief Adleson G., "Historia social de los obreros industriales de Tampico, 1906-1919," doctoral thesis, El Colegio de México, 1982; Adleson, "The Cultural Roots of the Oil Workers' Unions in Tampico, 1910-1925," in *The Mexican Petroleum Industry in the Twentieth Century*, edited by Jonathan C. Brown and Alan Knight (Austin, 1993): 36-62; Meyer and Morales, *Petróleo y nación*, 49-51; Brown, *Oil and Revolution in Mexico*, chapter 5.

production. The owners' boycott of 1921 further dislocated the work force, throwing an additional 7,000 laborers out of their jobs.[46]

As prices stabilized and the layoffs ceased, the workers organized to recoup lost income and to gain a measure of security in the industry. The old trade unions of skilled workers in the refineries and oil terminals resumed organizing the less skilled workers at the plant and company level. The first strikes broke out at refineries in Tampico and Minatitlán in 1922, and the Obregón government, which counted on the support of organized labor, showed sympathy. The government expanded its labor bureaucracy in Tampico and Minatitlán and established numerous Federal Boards of Conciliation and Arbitration. Thereafter, union leaders appealed directly to federal bureaucrats, to local and state officials, to fraternal unions to governors, and inevitably to the President of Mexico. But labor militancy often divided laborers amongst themselves. As a government inspector wrote, "Most [of the workers] do not agree with the movement and on several occasions told us that if most of them did not go to work [during a strike], it was because they feared being victims of the violence of some of the other workers."[47]

By 1925, nevertheless, the unions had made important gains in the refineries and oil fields of the larger companies. In these efforts, unions were asking the companies to comply with the basic guarantees outlined in Article 123 of the 1917 Constitution. As the leading employer in Tampico, the El Aguila refinery could not prevent union militancy. A strike broke out in 1923 among its 1,200 workers, who seized control of the refinery. As the strike dragged on, Huasteca and Transcontinental pressured El Aguila "to hold out to the limit," so that labor unrest would not spread to the other companies. Beset with a number of other problems, El Aguila instead gave in to the workers. It signed a contract

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[46] F. Sanchez Tagle to chief, 21 July 1921, AGN DT, caja 329, expediente 30, folio 26; and JAA to JB, 24 Aug 1924, Shell GHC/MEX, file D29/1/1.

[47] "La mayor parte de [los trabajadores] no están conformes con el movimiento y en varias ocasiones nos manifestaron que si no vuelve la mayor parte de ellos al trabajo es por temor a ser víctimas de las violencias cometidas en las personas de algunos trabajadores." H. R. Márquez, "Memorandum al C. Presidente," 27 October 1924, AGN FOC, 407-T-13, anexo II.

recognizing the refinery union, granting the 8-hour day, and providing for wage increases and severance pay.[48] Soon refinery and terminal unions of Huasteca, Pierce, La Corona, and El Aguila Minatitlán and Puerto México won pacts that were carbon copies of the 1923 contract. Labor organizers gained union recognition at the plant level, increases in pay, a wide range of benefits, an eight-hour day, and compensations for layoffs.[49] The private contract had become a thing of the past — except on those occasions when a union lost a strike and disintegrated.

The role of the strike in the dynamic of organization is best illustrated by the case of the Huasteca union. Led by the refinery group at Tampico, the Huasteca union in 1925 had succeeded in incorporating most of the company's oil fields around Tuxpan into one company-wide organization. Concluding the strike, the Huasteca union signed a collective contract with the company that began the process of equalizing the pay, benefits, and material conditions at all the company's installations. The union did not consolidate its power without using strong-arm methods on its rivals. When competing workers killed a member of the majority union, the latter declared a second strike, demanding that the company fire fourteen members of the rival group. Many workers did not support the second strike, and the government was unsympathetic. Both the strike and the union disintegrated after several months. The Huasteca company took advantage of the situation in order to economize, offering to rehire only one-third of the strikers.[50] While strikes were essential to the consolidation of a union's control over workers and to the maintenance of political alliances, a broken strike spelled doom to a new union.

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[48] Dawson to sec. of state, 20 Apr 1924, National Archives, Washington, D. C. Record Group 84, The Post Records of the United States Consulate at Tampico, Mexico [hereafter, Tampico Post Records], 850.4.; S. Lief Adleson, "Coyuntura y conciencia: factores convergentes en la fundación de los sindicatos petroleros de Tampico durante la década de 1920," *El trabajo y los trabajadores en la historia de México,* edited by Elsa Cecilia Frost, et. al. (Mexico City and Tucson, 1979), 632-60.

[49] S. Lief Adleson, "Coyuntura y conciencia: factores convergentes en la fundación de los sindicatos petroleros de Tampico durante la década de 1920," in *El trabajo y los trabajadores en la historia de México,* edited by Elsa Cecilia Frost, et. al. (Mexico City y Tucson, 1979): 632-60.

[50] Araujo to chief, Tampico, 13 May 1925, 30 July 1925, AGN DT, C. 725, E. 2; Bay to sec. of state, Tampico, 26 May 1925, NADS, Tampico Post Records, 850.4.

Moreover, strikes were as much a result of political and union rivalries as of genuine grievances against the companies. The Confederación Regional Obrera Mexicana (CROM) reached a national hegemony in the mid -1920s under the leadership of Luis Morones, political ally and cabinet secretary of President Calles. Its rise was attended by a plethora of strikes in the oil and other industries as CROM unions struggled for workers loyalty and for political patronage.[51] CROM assisted in the organization of the Huasteca and El Aguila refineries, but many oil workers soon became alienated by CROM's tactics and broke with the national leadership. Labor organization, in the meanwhile, became involved in national politics. Only La Corona in Pánuco and several El Aguila unions on the Isthmus willingly cooperated with CROM leadership.[52] But the appointment of CROM leader, Luis Morones, to the Calles cabinet tended to mute his inclination to support new labor demands. In the 1925 refinery strike of CROM's own Minatitlán affiliate, the national leadership intervened directly with management in Mexico City. El Aguila paid CROM 250,000 pesos that was supposed to have been distributed — but may not have been — among the Minatitlán affiliates.[53] There followed a period of squabbling among disillusioned labor leaders, compounded in 1926 by another break in oil prices.

Despite the politicization of the union movement — or perhaps because of it — the oil workers did gain some concessions from the foreign companies in the 1920s. The Obregón and Calles governments increased the number of Federal Boards of Conciliation and Arbitration. Therefore, when the companies laid-off workers from 1926 through 1932, the *despedidos* turned to the Federal Boards with their claims for severance pay. Company after company now had to pay two and three-months' wages to workers who

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[51] Dulles, *Yesterday in Mexico*, 293, 631; M. R. Clark, *Organized Labor in Mexico* (Chapel Hill, 1934); Jean Meyer, "Revolutionary Reconstruction in the 1920s," in *The Cambridge History of Latin America*, edited by Leslie Bethell, 9 vols. (Cambridge, Eng., 1982-1989), vol. 7: 230.

[52] Luis Morones to sec. of industry, Tampico, 15 June 1924, AGN DT, C. 772, E. 5; H. K. V. Tompkins to Peter Flood, 29 January 1925, NADS Tampico Correspondence, 850.4.

[53] See correspondence in "Conflicto: la Cía. de Petróleo 'El Aguila' y sus empleados," 1925-1926," AGN DT, C. 977, E. 1; Dulles, *Yesterday in Mexico*, 393; Barry Carr, *El movimiento obrero y la política en México*, 2 vols. (Mexico City, 1976).

were let go. In the hearings before the Federal Boards, the companies lost so many individual claims that they gave up contesting most of them.[54] They still downsized, but those workers laid off in the late 1920s had benefits not enjoyed by those let go so unceremoniously in the early 1920s.

Nevertheless, the international depression and the slide in world prices once again weakened the oil unions. Companies responded to sagging prices by laying off workers and cutting wages. At first, workers were disoriented by further decline in the industry, and labor leaders found little support for strikes and work actions. During this long period of declining demand for labor — accompanied by layoffs, pay cuts, and extended hours — the unions disintegrated. Serapio Venegas, the triumphant leader of the 1923 El Aguila refinery strike in Tampico, lost control of his union in 1928. Venegas was portrayed as a company stooge by breakaway factions of his refinery workers. During the following year, he was assassinated.[55] By demoralizing the labor movement, the Great Depression worked to eliminate a generation of labor leaders who had gained some measure of success in the early 1920s. In 1932, the number of oil workers had reached its lowest point. Perhaps a mere 13,000 laborers remained from the more than 50,000 who had been employed in the industry in 1921.

The modest resurgence in the oil industry beginning in 1933 strengthened the unions, as did the presidential campaign of the following year. The oil companies began to rehire and even replaced some foreign workers with Mexicans as an economy measure. A strike in the Minatitlán refinery of El Aguila, uniting six different trade unions, was a crucial test of labor's resolve. President Rodríguez mediated the dispute in 1934 and granted the refinery union a number of critical benefits. The settlement also equalized pay on the Isthmus between refinery and oil fields, workers in the latter always having

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[54] Marcos Tonatiuh Aguila M., "Labor and the Great Depression in Mexico," unp. ms., 1994.
[54]C. E. Macy to sec. of state, 2 Sep 1931, NADS 812.00-Tamaulipas/44; Julio Valdivieso Castillo, *Historia del movimiento sindical petrolero en Minatitlán* (Mexico City, 1963), 59-60.
[55] Fabio Barbosa Cano, "La lucha de 'Los Rojos' contra el 'Sindicalismo Blanco,'" unp. ms., 1993.

received fewer benefits. More importantly, the *laudo* granted the unions a closed shop. Under the so-called 'exclusionary clause,' labor leaders had the right to nominate workers for all new openings. They could cause veteran workers to lose their jobs in the oil industry simply by expelling them from the union.[56] Union after union soon struck in order to win the same concessions.

When the national labor leadership supported President Cárdenas in his political dispute with ex-President Calles, the oil unions finally acquired the power to organize the entire industry. In 1936, El Aguila's refinery union at Tampico brought together some 20 other oil unions to form the Sindicato de Trabajadores Petroleros de la República Mexicana. It affiliated with the powerful Confederación de Trabajadores de México (CTM), organized in the same year.[57] In order to consolidate their power with a new collective contract, STPRM sections launched several strikes within the next two years, seeking to equalize pay and benefits throughout the industry. A problem arose. STPRM had to gain an industry-wide pact superior to any existing contract, meaning that smaller companies would have had to concede pay increases and fringe benefits in excess of those earned by the most privileged workers of Huasteca and El Aguila. These demands represented a financial burden that few of the smaller companies could afford.

The Petroleum Workers Union desired to sign a single nation-wide collective contract with all the companies. Labor officials emphasized grievances likely to win popular support against the foreign companies. They demanded parity between Mexican and foreign workers, security for oil workers, union control of most personnel matters, and large pay rises. President Cárdenas averted an oil workers' walk-out by sponsoring

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[56] J. Rennow to Luis I. Rodríguez, 15 Dec 1934, Archivo General de la Nación, Mexico City, Papeles Presidenciales, Fondo Lázaro Cárdenas [hereafter cited as AGN FC], caja 432.2/8, expediente 1; Nora Hamilton, *The Limits of State Autonomy: Post-Revolutionary Mexico* (Princeton, 1982), 95; Lorenzo Meyer, *Historia de la Revolución Mexicana, período 1928-1934: El conflicto social y el gobierno* (Mexico City, 1978), 166-171;

[57] "Extractos," 14 Aug to 3 Sep 1935, AGN FC, caja 437.1/37; Joe C. Ashby, *Organized Labor and the Mexican Revolution Under Lázaro Cárdenas* (Chapel Hill, 1963), 72-75; Alicia Hernández Chávez, *Historia de la Revolución Mexicana, período 1934-1940: La mecánica cardenista* (Mexico City, 1979), 148-153.

negotiations between the companies and the oil union. The minutes of the labor talks reveal that these veterans of labor organization, having learned the cost of failure, were moved to reject a number of company concessions as insufficient — an act that threw the conflict into the political arena.[58] Mexican politicians were understandably hesitant to support the foreign companies. Most importantly, the companies would lose a large number of its management and supervisory positions to union control. For example, the national collective contract would have allowed El Aguila only one confidential employee in its Azcapotzalco refinery, instead of the thirteen who then worked there.[59] For this reason, the companies too were intransigent.

These negotiations broke down in the spring of 1937. The national union then struck the industry for two-weeks. Once again, President Cárdenas cajoled the workers back to work, acceding to a union request that a government commission investigate the companies' finances to determine if they could afford the new contract. While the commission investigated, there was still much agitation within the oil workers union. The Poza Rica workers went out on a 57-day wildcat strike. That action caused much disruption in Mexico City, as Mexicans suddenly became aware of how dependent upon oil supplies their public transportation, power and light, and industry had become. Pressure increased upon the government to settle the labor dispute. By this time, the workers too had became quite adamant about the wage package: the cost of living in 1937 was increasing.[60] In December, the investigative commission decided that the companies could afford the union's administrative demands as well as a 26 million peso wage increase to the workers. The administrative impositions rankled the oil executives more than did the wage demands. They decided to compromise on neither. El Aguila management did

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[58] Documentos, 6 de julio y 1866-163, fols. 1-6, 7 de junio 1939, AGN, Archivo Histórico de Hacienda [hereafter cited as AHH] caja 1843-1.
[59] "Contrato," 1 Jul 1937, AHH, caja 1844-3, folio 25.
[60] James B. Steward to sec. of state, 17 Aug 1937, NADS, 812.00-Tamaulipas/307; Gallop to Troutbeck, 2 Oct 1937, FO 371-20636, A7243; Alberto J. Olvera, "The Rise and Fall of Union Democracy at Poza Rica, 1932-1940," in *The Mexican Petroleum Industry*, 63-89. On the 1937-1938 recession, see Enrique Cárdenas, *La hacienda pública y la política económica, 1929-1958* (Mexico City, 1994), 76-77.

not believe it could afford the higher wages if it also lost management prerogatives, observing that "the industry is already suffering the consequences of lack of control and discipline."[61] The companies subsequently appealed to the Mexican Supreme Court, which on March 1, 1938, decided against them.

Still the oil companies resisted. El Aguila's general manager, B. T. W. Van Hassalt, who had just negotiated the Poza Rica concession, met with President Cárdenas and other oil executives on March 7, 1938. The president offered the oil companies a compromise that would have permitted them to observe the Supreme Court decision. Among the companies, only El Aguila's managers wanted to accept the eleventh hour compromise, but they could not persuade the Standard Oil directors of Huasteca. Jersey Standard did not want the labor militancy to spread from Mexico to Venezuela.[62]

While Cárdenas waited for the companies to respond, the unions pressed for expropriation. In the days before President Cárdenas announced the expropriation, in fact, the workers moved to seize the oil fields, loading docks, and pump stations. They were preparing to shut down the industry if the companies did not give in to the Supreme Court decision. The workers' actions seemed to be forcing their president to have to choose between expropriation and anarchy in the oil industry. Given the constituency that permitted him three years earlier to remove the *callistas*, Cárdenas was unable to take the side of the companies and expect to survive politically. On March 18, 1938, President Cárdenas nationalized the oil industry, a decision which commanded considerable support among both organized labor and economic nationalists.[63]

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[61] *The Mexican Oil Strike of 1937: The Economic Issue*, vol. 2 (Mexico City, n.d.), 25

[62] NG to Godber, 7 Mar 1938, FO 371-21463/A1864; Philip, *Oil and Politics in Latin America*, chap. 10.

[62]Lázaro Cárdenas, *Obras*, 3 vols. (Mexico 1972), 1:389; Godber to the Foreign Office, March 17, FO 371-20634/A2119.

[63] For recent workers on the expropriation, see Meyer, *Mexico and the United States*' Philip, *Oil and Politics in Latin America;* G. W. Grayson, *Politics of Mexican Oil* (Pittsburgh, 1980); Jonathan C. Brown, "La crisis petrolera hace 50 años," *Excélsior* (México), 13 Mar to 27 Mar 1988; Meyer and Morales, *Petróleo y nación*, chapter 3; Meyer, *Su majestad británica*; Alan Knight, "The Politics of the Expropriation," in *The Mexican Petroleum Industry*, 90-128; Luis González, *Historia de la Revolución Mexicana, período 1934-1940: Los días del Presidente Cárdenas* (Mexico City, 1981), 178-183.

CONCLUSION

To explain how the oil expropriation came about, one has to consider this salient event in its proper structural and conjunctural contexts. The transformation of the industry within the domestic and international economies provided the structural background. The all-important conjunctural factors are explained by the peculiar differences in how the foreign companies conducted their relations with the state and by the extraordinary reaction of the Mexican oil workers to changing conditions in the work place. Viewing the expropriation in these institutional contexts corrects the historical perception that one person, President Cárdenas, nationalized the oil industry. It was really a larger and more complex process, of which Cárdenas was but the agent.

What structural events contributed to the ultimate fate of the foreign oil companies? The abrupt decline in oil production and the steep fall in oil prices beginning in 1921 combined to transform the Mexican oil industry. Ownership within the industry was consolidated to the point that, in the 1930s, only two big international companies — Shell and Jersey Standard — had any significant presence here. Second, Mexico progressed from a world player in petroleum (c. 1920) to an oil zone of insignificance in the 1930s. But the growth of the domestic economy also contributed to structural change. As most production became destined for domestic consumption instead of export, the government gained considerable leverage in regulating the operations of the industry. Growth of the domestic market also unbalanced the corporate power within the industry. El Aguila, only loosely affiliated to Shell, dominated Mexican operations with its three refineries, pipeline to Mexico City, and new oil discovery at Poza Rica. Huasteca, the wholly-owned subsidiary of Jersey Standard, held only one-quarter of total production and market.

How did these economic changes contribute to the manner in which the privately-owned industry related to the Mexican state? The two largest companies actually had contrasting policies, which derived from their different forms of ownership. Shell, owning less than half of El Aguila, allowed its affiliate to operate independently, without regard to Shell's interests elsewhere in Latin America. Therefore, Mexico remained El Aguila's sole source of production and became its largest marketing area. In addition, the British government diplomatically supported negotiations rather than confrontation, a policy it would reverse only after the expropriation. El Aguila's inclination to compromise with the Mexican government does not imply that the British company was satisfied with all aspects of the political environment and to the last, it was plagued by labor militancy. Compromise with the unions did not bring it lasting labor peace. But El Aguila had managed to expand its operations in Mexico even during the Sexenio Cardenista, which other foreign companies viewed as inhospitable. It accomplished this growth precisely because El Aguila adjusted to the political climate — not because it resisted intractably.

But the North American companies were not playing the same game. To the American executives of Jersey Standard, for example, Mexico was expendable as a source of oil profits. The country merely became a battleground against nationalism. In defense of its private property contracts, the North American companies converted the fiscal issue into one of nationalism. If Mexico fell, so the argument went, the tumbling dominoes would take Venezuela with it. However, the intransigent Jersey Standard could not hold out alone against the government. In Mexico, its Huasteca subsidiary shared too little of the market, and its hard-line positions were repeatedly undermined by the compromises of the more flexible El Aguila company and by State Department diplomats. In the end, Huasteca and El Aguila did agree on one thing: neither company desired to hand over control of the work place to the workers.

Why, then, did the workers demand just that — union control of employment in the foreign-owned oil industry? The long decline of the oil industry from 1921 to 1933 accounts for the responses of the oil workers. Because employment declined by two-thirds, the oil workers seized those opportunities of slight economic recovery (from 1923 to 1925 and from 1933 to 1936) to organize unions and press the companies for security and benefits. The workers fought the companies — and other each other — for contracts guaranteeing pay increases and severance pay. By 1935, most unions succeeded in imposing the closed shop upon the companies. But oil workers could never be certain that the companies might use its remaining power over employment to make future layoffs. Therefore, they amalgamated into a national union in 1936 in order to gain the final guarantee of union control of the workplace. Even at El Aguila, the managers considered labor's demands to be unreasonable. When the companies would not give in, a president who depended on labor support had little choice but to nationalize the industry. Ever since then, as Adolfo Gilly says, the petroleum nationalization "fue como una restitución y una reconstitución de la Nación y el sentimiento nacional."[64]

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[64] *Reforma* (Mexico City), 14 Aug 1994.