

6. The Expropriation and Great Britain

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When in March 1938 the government headed by General Lázaro Cárdenas decided to settle its dispute with foreign oil companies in radical fashion by resorting to expropriation, the Anglo-Dutch interests that owned the largest oil company then operating in Mexico, the *Compañía Mexicana de Petróleo "El Aguila,"* were most affected. This enterprise had been founded under Mexican law in 1908, as a relatively minor part of an extensive economic empire controlled by the British firm S. Pearson & Son, headed by Weetman Pearson, later Lord Cowdray. However, within a short time, it had become the center of Pearson's interests in Mexico. In April 1919, Cowdray transferred control of El Aguila to the Anglo-Dutch consortium Royal Dutch-Shell, which ran the company until its expropriation nineteen years later.

After spectacular early success, which coincided with World War I, El Aguila's importance declined in the twenties, but recovered again in the early thirties with the discovery of the Poza Rica deposits. In 1938, the enterprise had a book value of \$137 million, which made it one of the most important companies in Mexico.¹ Under the old regime, relations between El Aguila and Mexican authorities had been overtly friendly, but following the success of the *maderista* revolution in 1911, and especially after the proclamation of the 1917 Constitution, which nationalized oil deposits, the relationship was fraught with continual conflicts. It was not just a clash between the various oil companies and the Mexican authorities; it also involved the governments of the shareholders' countries of origin: the United States and Great Britain.

Following the Poza Rica discoveries, El Aguila decided that in order to recreate a favorable climate for a planned phase of expansion, the time had come to seek a definitive solution to its differences with the Mexican government. With this in mind, El Aguila executives and the Mexican authorities signed an agreement on 11 November 1937, which, in effect, granted the Mexican government a significant share of the value of future production of Poza Rica by way of royalties (35 percent)—an

agreement to which the rest of the international oil community strongly objected.² The potential for collaboration between the big oil firm and the Mexican government that this agreement entailed never had a chance to be realized, because precisely at that point the conflict between labor and management, which had long troubled the oil industry, now intensified. El Aguila, along with the other foreign oil companies—which were essentially American in ownership—refused to accept the finding of the Mexican courts that favored the recently organized oil workers' national union, and openly challenged the authority of the Mexican president and government. The expropriation followed.

Return for Nothing

Since the very beginning of the Mexican Revolution, American and British policies had differed and even clashed in respect to their views of the Mexican situation and the best way to deal with it.³ These differences surfaced once again after the oil expropriation. According to the British minister in Mexico, Owen St. Clair O'Malley, Mexico under the leadership of General Cárdenas had become a country under "advanced evolutionary socialism," whose central objective was to give ownership of land and industry to the masses, and, if this was not feasible, then simply to extract from capital the highest possible bonuses and wages for labor. Unfortunately, His Majesty's minister thought, this type of socialism would bankrupt the Mexican economy and confound its very objective: the betterment of the working classes. In O'Malley's view, given the dishonesty and incompetence of the officials surrounding President Cárdenas, such an outcome was very likely.⁴ In his analysis of the Mexican situation, written on the eve of the oil expropriation, O'Malley voiced his fears that the strong nationalist drives of *cardenismo* would lead to decisions concerning the question of control of natural resources that would be contrary to British—and, in the long run, Mexican—interests. Nevertheless, he was confident that before any such thing happened, pressure from the United States would curb the pursuit of senseless social reformism that the Mexican government had embarked upon.⁵ Clearly, the minister's optimism was proven wrong by the expropriation of 18 March 1938.

From an American perspective, the more important element in the relation between Mexico and the United States in 1938 was not the defense of its petroleum interests—which had already lost the strategic character they had enjoyed twenty years earlier—but rather the consolidation of an inter-American alliance in the face of the impending collapse of the international system that had emerged from the Treaty of Versailles. In order to achieve such an alliance, the United States had

accepted the principle of nonintervention, and it was therefore inconceivable that it would resort to force against Mexico; besides, it feared that the fall of General Cárdenas's government might bring about a government with pro-fascist sympathies.⁶ This accounted for the failure of three Foreign Office missions to Washington, which, in May, July, and August 1938, tried to persuade the State Department and President Franklin D. Roosevelt of the advantages of working toward a joint Anglo-American policy against the oil expropriation. The American refusal to work with the British arose from their different views on the legitimacy of the action taken by Mexico. As far as the United States was concerned, only the method of compensation, not the actual decision to expropriate the oil industry—which was within Mexico's rights as a sovereign nation—was open to discussion. On this question, Mexico proposed payment within ten years, while the United States demanded immediate compensation. His Majesty's government, on the other hand, questioned the very legitimacy of the expropriation and demanded from the Mexican government the immediate return of the seized companies to their legitimate owners.⁷

Three diplomatic notes dated 8 April, 20 April, and 11 May 1938 reveal the official position of His Majesty's government on the oil expropriation.⁸ According to these notes, the Foreign Office accepted the sovereign right of any government to expropriate private property as long as the general interest required it and proper compensation was offered. However, the opinion in London was that, in the particular case of the Mexican oil expropriation, no substantive reason existed, and therefore it was arbitrary and unacceptable. Faced with the Mexican refusal to accept their protest against the expropriation of El Aguila, the British government insisted on its right to defend the interests of shareholders even though the company itself was not registered in Great Britain but in Mexico. In the third note of May 11, the Foreign Office, at Minister O'Malley's insistence, questioned the assurance given by the Mexican government, to the effect that oil company owners would receive adequate compensation. The source of doubt was Mexico's default on its old foreign debt and also on the 1937 annuity for compensation awarded to British claimants for damage to persons and property during the Revolution.

The Mexican response to the imputation of default on their international obligations was quick: O'Malley received the outstanding annuity payment, but, it was pointed out, "even states more powerful and with ample resources have no reason to feel proud of their record to pay every pecuniary obligation promptly." This paragraph contained a clear reference to the unpaid debt of Great Britain to the United States. But Mexico also took the opportunity to announce the withdrawal of its diplomatic

personnel from London; the Foreign Office had to do likewise with O'Malley and his four assistants; and, not for the first time, Mexico and Great Britain broke off diplomatic relations.

The British declared they were surprised at the Mexican reaction but did not express regret. They immediately asked the U.S. government to take charge of its affairs in Mexico, but the State Department declined, alleging that it was inadvisable that Mexico should assume the position of the two powers on the oil question to be one and the same. As a result, the Finnish minister became the political representative of British interests, although in 1940 this role was more appropriately taken over by the Dutch legation—Holland had never broken off relations with Mexico. In London, the Cuban legation represented Mexican interests. However, as on previous occasions, the consular corps was not affected by the diplomatic rupture, and the British and Mexican consuls remained in their respective places. Thus, the consul general—first F. A. Clough, then Thomas Ifor Rees—became the eyes and ears of the Foreign Office in Mexico.

Great Britain welcomed the "hard" line of the Foreign Office. It was clear that from the British point of view the most important factor in the Mexican case was to establish a firm precedent of opposition to actions such as Mexico's being taken elsewhere.⁹ Besides, it was felt in Great Britain that formal rejection of the expropriation, combined with adequate pressure, would soon force Mexico to reverse its decision. "There can be no doubt," announced *The Economist*, "that Mexico will regret the action it has taken."¹⁰

Pressures

At first, the British believed that, although the oil expropriation had wide support in Mexico and it would not be easy to force Cárdenas to back down, economic pressures against the recently nationalized industry would lead to bankruptcy within three months. After all, Great Britain, the United States, and Holland controlled 83 percent of the petroleum fleet, to which Mexico would have no access; on the other hand, countries such as Germany, Italy, Norway, or Japan, which might be tempted to buy Mexican fuel at discount rates, would not be able to resist American pressure not to do so. And if that were not enough, with the U.S. Treasury's suspension of purchases of Mexican silver—the country's leading export—the popularity of the expropriation would dwindle and Mexican public opinion would cry out for a return to the *status quo ante*.¹¹ We know that British expectations were wrong. Mexico found an independent oil entrepreneur in the United States, William Davis, who was prepared to risk the wrath of the big companies

and their governments in return for windfall gains. Davis shipped Mexican crude oil to his refineries in Europe; meanwhile, Germany and Italy, followed later by Japan, ignored threats by Standard Oil (N.J.) and Royal Dutch-Shell, and proceeded to trade manufactured goods and grain for Mexican oil. Davis sent the first shipment of 12 million barrels of Mexican crude to Europe in a chartered tanker sailing under the British flag in July 1939—barely three months after the expropriation and about the time when the collapse of Mexico predicted in Great Britain should have occurred; to make matters worse, the press at the time reported purchases of Mexican oil by British companies.¹² El Aguila then tried to impound one of Davis's shipments as it entered a European port, but the company eventually lost the legal battle and was later faced with a counterclaim from Davis for damages, which dragged on for years.¹³

The loss of the American silver market—which was worth some \$30 million a year—was a very harsh blow for the Mexican economy in 1938. Fortunately, however, the American boycott in this area was not absolute, although it did manage to reduce substantially Mexican silver sales overseas over a period of two years. In fact, the two great losers in the silver affair turned out to be the Mexican treasury and American miners, since the bulk of silver production at the time came from mines managed by Americans. Thus, while the treasury did not purchase the metal directly from the Bank of Mexico as it had done prior to March 1938, within a few months after the expropriation it was buying it again, this time in the free market, where Mexico placed its silver.¹⁴ Economic pressure affected the behavior of some sectors of the Mexican economy, but not enough to force a reversal of the expropriation. Between 1937 and 1940, the Gross National Product rose by some 10 percent.¹⁵ Thus, by the end of Cárdenas's administration there was little hope for those who had counted on economic problems to reverse the process of oil nationalization.

In May 1938, Sir Robert Vansittart—a British official and an old adversary of the Mexican Revolution—counseled that although Great Britain was not in a position to solve the problem created by the expropriation through direct military intervention, nothing could stop it from embarking on a psychological war against Cárdenas, creating the impression that British measures were responsible for whatever internal or external difficulties Mexico experienced.¹⁶

As a result of the expropriation, those in the Foreign Office responsible for Mexican policy looked back to the times when they had nurtured hopes that intervention by reactionaries like Félix Díaz, Victoriano Huerta, and Manuel Peláez would put an end to the governments of the Revolution and somehow restore the comfortable and predictable atmosphere of the old regime. It was precisely because of suspicions that El

Aguila was prepared to support the rebellion of General Saturnino Cedillo—the strongman of San Luis Potosí—that in April 1938 Sumner Welles, the undersecretary of state, warned the British ambassador in Washington against any attempt by the Anglo-Dutch company to encourage the rebellion, since further civil strife in Mexico might offer a great opportunity for “foreign intrigue,” that is, for Falangist, national-socialist, or fascist influences.¹⁷ When the *cedillista* uprising finally took place in May 1938, the federal government was able to isolate it with little difficulty and to finish it off by January 1939. There is no strong evidence to suggest that the oil lobby gave support to Cedillo, even though his political statements condemned Cárdenas's oil expropriation as an “antipolitical, antieconomic and antipatriotic” act.¹⁸ In 1939, hopes that a military coup would bring about a political change in Mexico were revived, at least within the Petroleum Office in London, which tipped off the Foreign Office about an uprising to be led by Joaquín Amaro that would establish a military dictatorship in Mexico, this being “the only way to restore a proper sense of business, discipline and respect for property in this country.”¹⁹ Later, others hoped that General Cárdenas's loss of popularity and the 1939–1940 electoral campaign might achieve what neither Cedillo nor Amaro had achieved.²⁰ Hence the failure of the opposition candidate, Gen. Juan Andrew Almazán, must have been a further disappointment to those who hoped to reverse the expropriation through a change in government in Mexico.

It gradually dawned on those responsible for Mexican policy in London that, in fact, the fate of Anglo-Dutch oil interests in Mexico would depend less on Great Britain's actions than on the eventual settlement between the Americans and the Mexican government; unfortunately, relations between President Roosevelt and his own oil companies were not very good.²¹

By the end of 1938, there was an impasse. General Cárdenas asserted that his government would not oppose the resumption of relations with Great Britain as long as His Majesty's government took the initiative and did so unconditionally. It seemed pointless to the Foreign Office to seek normalization of relations with Mexico as long as the latter did not reconsider its attitude, for otherwise “leaders of other countries in Latin America where the British hold important petroleum concessions—i.e., Venezuela, Colombia and Peru—would be encouraged to think that it might be in their national interest to carry out a policy of theft like Mexico's.” From the point of view of the Foreign Office, since the United States would not adopt a hard line and since a settlement with Mexico that involved government participation in the running of the oil industry was out of the question, the only remaining alternative was a policy of containment, designed to isolate Mexico, and to make its attempt to

consolidate the nationalized oil industry as costly as possible, by adopting measures to cut off its markets and prevent it from importing vital equipment.²² The question of a possible settlement involving the direct participation of the Mexican government in the management of the industry related to the fact that, by that time, the expropriated companies were negotiating with the Mexican authorities through an American attorney, Donald R. Richberg, to explore the possibility of settling their differences and setting up new companies in which both the expropriated firms and the Mexican government would be represented. However, the attempt eventually failed when no agreement could be reached on the question of who would have control over daily operations and how such control would be exercised.²³

It is not possible to assess clearly how successful the British boycott of *Petróleos Mexicanos* (Pemex) was, simply because the American government and the oil companies adopted a similar policy. But it is clear that Pemex's hardships during the years following the expropriation were due to an inextricable combination of the efforts of both powers. In any case, the Foreign Office succeeded in dissuading those countries over which it had some influence from purchasing Mexican oil and from selling oil equipment.²⁴ When World War II broke out in September 1939, Mexico lost its European markets; but, with the United States and, later, Mexico joining the Allied forces, the American boycott of Mexican oil was relaxed.²⁵ However, what was really responsible for Pemex's survival was the fact that it was virtually able to dispense with foreign markets, concentrating instead on the domestic market. While in 1938 local hydrocarbon consumption accounted for 57 percent of production, four years later internal demand absorbed 81 percent of production;²⁶ within a short time, the link between Pemex and the world market was marginal, and British hopes to drown Mexico in its own petroleum became somewhat unreal.²⁷

A Forced Reconciliation

As has already been pointed out, in early 1939 the British position was one of waiting; the intention was not to resume relations with Mexico and to continue the boycott until that country changed its position on the oil nationalization question—as a result either of economic bankruptcy or of a direct settlement between the Mexican government and the expropriated companies, which were then negotiating with Cárdenas. In the long run, it was felt the domestic market could not sustain Pemex.²⁸ The Mexican attitude, too, was one of waiting: waiting for the boycott's failure and for the time when the need to protect and support its other investments in Mexico would force His Majesty's government

to take the initiative and unconditionally to resume diplomatic relations between the two countries. The outbreak of World War II broke the deadlock. At first, Great Britain had a good opportunity to tighten its pressure on Mexico, with the Royal Navy stopping oil shipments to Germany and also refusing to provide safe conduct for materials and machinery—already paid for—that Mexico had stored in German docks.²⁹ Mexico lost that equipment altogether when the Allies subsequently bombed the warehouses.

The beginning of the Second World War also saw a change of government in Mexico. British observers figured that under Manuel Avila Camacho's presidency, the left wing of the ruling party—in particular the loathed CTM (*Confederación de Trabajadores de México*, Confederation of Mexican Workers)—would lose power, and the right—not the extreme right, Falangist and fascist in tendency, which still constituted a threat, but rather a moderate right—would gain strength. The new president—who came to power on 1 December 1940, when the beleaguered British Isles had just won the Battle of Britain—was seen as an honest person, perhaps somewhat lacking in the toughness needed to put an end once and for all to the follies of the left, but definitely more friendly than Cárdenas.³⁰

Mexico's open participation on the Allies' side was not very important from a British standpoint, because at the time the main sources of petroleum for the British war effort were Persia (now Iran) and Venezuela. Hence, despite the pressures of the war, the Foreign Office in 1941 turned down requests several times from the Ministry of War Economy to resume relations with Mexico in order to secure from it oil, minerals, and a few enemy ships trapped in Mexican ports. Furthermore, according to the Foreign Office, the resumption of relations with Mexico at such a time would work against British strategic interests because it would displease Venezuela and Persia, who might fear Mexican fuel would take away some of the British market. Thus, as far as the Foreign Office was concerned, Mexico's political and economic marginalization had to continue in order to force it to negotiate an agreement that would open the way for the return of *El Aguila* to Mexico.³¹

Those outside the Foreign Office who wished to normalize Anglo-Mexican relations because they felt it would benefit Great Britain's military interests soon found support abroad, in the person of Sumner Welles, who wanted to see Mexico better integrated into the antifascist struggle.³² However, what truly changed the Foreign Office's analysis of Anglo-American relations was their realization in August 1941 that, given the lack of success of direct negotiations between the oil companies and the Mexican government (only the Sinclair company had agreed to a settlement that involved compensation, rather than the return of

seized property), the American government had decided that the way forward lay in setting up a binational governmental commission that would determine the amount and method of payment of compensation to the American oil companies. The Foreign Office immediately asked its embassy in Washington to oppose such a settlement since it would put an end to the possibility of foreign oil companies' ever returning to Mexico.³³ Once again, the British plea was ignored by Washington, and in April 1942 a direct agreement with Mexico was reached on the amount and method of payment owed to American oil companies. Standard Oil and the other American companies that had supported its hard line—to negotiate for a return and to refuse compensation—felt abandoned by Roosevelt's government. While at first they rejected the terms of the settlement, eventually, in October 1943, they agreed to end their dispute with Mexico for a compensation of \$30 million to be paid within four years (\$14 million previously agreed on with the Sinclair group should be added to this payment).³⁴

The 1941–1943 settlements constituted a victory for Mexico, for, just as the Foreign Office had feared, it then became virtually impossible to reverse the process of oil expropriation and nationalization. Only the wartime situation, which required close political, military, and economic collaboration between Mexico and the United States—throughout 1941 and 1942, a Japanese attack on the American West Coast via Mexico was feared, and a joint U.S.-Mexico defense commission was set up in January 1942—can account for American acceptance of the Mexican position over the interests of the powerful Standard Oil (N.J.). It then became clear to Great Britain that El Aguila had been abandoned to its fate by the only power capable of protecting Aguila interests.³⁵

Toward the end of his administration, General Cárdenas asserted Mexico's solidarity with Great Britain in its fight against the Nazi and Fascist powers.³⁶ After Avila Camacho's rise to power, his foreign minister, Ezequiel Padilla—one of the strongest supporters of a pro-Allied policy within the cabinet—was more outspoken about Mexican solidarity with the British cause. Padilla even informed the British consul general that perhaps the time had come to resume relations between the two countries; a similar statement—backed by the press—was made by the chargé d'affaires of the Diplomatic Office in the Mexican Chancery, but London responded to neither gesture.³⁷ Nevertheless, when the British War Cabinet was told in August 1941 of the impending signing of an oil agreement between Mexico and the United States, it authorized the Foreign Office—against the latter's own view—to look into the possibilities of resuming diplomatic relations with Mexico, and it advised El Aguila on the expediency of reaching a settlement similar to that accepted by the American companies. The

Foreign Office acceded to the cabinet's request with one qualification: it would not force El Aguila to follow in the steps of the American companies since there was still a chance of something better in the indefinite future.³⁸

Although until January 1941 the Foreign Office had deemed it unacceptable to resume relations with Mexico before the oil properties had been recovered, it soon set in motion the machinery to enforce a different policy.³⁹ The decision was justified within the Foreign Office in terms of the "friendly" behavior shown by Mexico immediately following the world conflagration and, above all, because of the "consultations" held on the matter with Great Britain's principal support in its fight against Germany: the American government.⁴⁰

Beginning in September 1941, both the Mexican and the British press informed their readers that an early resumption of Anglo-Mexican relations was likely. Ezequiel Padilla reiterated the significant role the British nation was playing then as defender of world freedom.⁴¹ On 2 August, Buckingham Palace informed the Foreign Office that the king had given his consent to the reestablishment of relations with Mexico, and eleven days later, London instructed the consul general in Mexico City to inform the Mexican government that His Majesty's Government felt the time had come to resume diplomatic relations, while retaining, nevertheless, its full rights on the oil question; the Mexican Foreign Ministry accepted the British condition and on 22 October 1941, the British and Mexican governments declared that they had formally resumed political relations. Although after a break of three and a half years these relations were back at the starting point, the British press did not criticize the resumption of relations and in fact it did not consider it disastrous that El Aguila should reach a direct agreement with Mexico along the lines proposed by the State Department.⁴²

From Alliance to Final Settlement

The new British minister to Mexico, Charles Harold Bateman, arrived in February 1942, just before Mexico joined the Allied cause. Indeed, as Bateman was beginning to familiarize himself with his new post, Mexico declared war on the Axis countries, precisely because of a series of incidents brought about by the end of the American oil boycott: the sinking in May 1942 by German U-boats of two Mexican tankers that were carrying fuel to American ports. Thus, unintentionally, in mid-1942 Mexico and Great Britain found themselves to be allies fighting against the same enemy.

Before the resumption of Anglo-Mexican diplomatic relations, El Aguila's representative in Mexico, I. D. Davidson, had already contacted

Avila Camacho and his colleagues to raise the possibility of a settlement that would involve not compensation, but rather an association with the government that would enable El Aguila to retain control of its operations for an indeterminate but substantial period of time. At the end of this period, the company would be handed over to the Mexican government. Avila Camacho considered the offer, but in the end rejected it; according to Davidson, the maneuvers of Eduardo Suárez, finance secretary, who represented Cárdenas's influence inside the cabinet, were to blame for the rejection.⁴³

The oil settlement between Mexico and the United States led El Aguila to fear that other countries, in particular Venezuela, would follow the Mexican example. On the other hand, the settlement signaled the end of the Anglo-Dutch giant's "united front" with Standard Oil (N.J.). Through the Foreign Office, El Aguila informed the United States that it was going to try to reach a direct settlement with Mexico, but it wanted Washington not to give Mexico any loans that might enable Pemex to exploit fields in El Aguila's former property. The State Department acknowledged the request but never responded to it.⁴⁴

In 1943, President Avila Camacho put his foreign minister at the head of the negotiations with El Aguila. Ezequiel Padilla proposed that negotiations should be based on the following premises: (1) the oil question was essentially political; (2) El Aguila could not expect a settlement different from that reached by American interests; and (3) no settlement could seek to remove control of the oil industry from the Mexican government. After a series of talks with El Aguila, the Foreign Office decided to accept a Mexican proposal to appoint a committee of evaluators to determine the amount of compensation that should be paid to the Anglo-Dutch company.⁴⁵ When it looked as if negotiations were about to start, Mexico hardened its position and the talks collapsed. Legally, El Aguila was a Mexican company; therefore, only compensation to the company's British shareholders was open to negotiation. Furthermore, negotiations should also take into account pending demands by El Aguila's Mexican workers against their former employer. Bateman rejected these changes to the basis for negotiations, the British press backed him, and once again the Foreign Office blamed *cardenista* influence for sabotaging the settlement proposed by Padilla.⁴⁶ Yet, in his 1944 presidential address, Avila Camacho pronounced himself optimistic on the question of an early oil settlement with British interests, although, on the face of it, such optimism seemed unfounded. For the situation had become more complicated, since El Aguila now demanded payment for fuel delivered to the National Railways before 18 March 1938, as well as compensation for some property not included in the expropriation decree but that had nonetheless been seized by Mexico.

The Mexican government's response was to demand the payment of pensions for workers retired by El Aguila, as well as some taxes that remained unpaid at the time of the expropriation.⁴⁷

Despite new demands and counterdemands, and despite Ezequiel Padilla's departure from the Foreign Ministry, oil talks between the British and the Mexicans continued, this time with the president directly involved. Finally, on 7 February 1946, it was announced that an agreement had been signed to appoint an Anglo-Mexican and Anglo-Dutch commission to evaluate the seized property. The Mexican commissioner was Ingeniero Enrique Ortiz; the British one, I. D. Davidson; it was understood that their joint report would be ready before the end of the presidential term in late November.⁴⁸ It was at this point that the Americans warned both the British and the Mexicans that it would not be advisable either to seek, or to grant, better terms for El Aguila than those reached in the 1942–1943 settlements. Should Mexico allow the return of foreign companies, every expropriated company without exception should be readmitted. The State Department warned that if this was not possible then it would be preferable that things remained the same—and Mexican petroleum deposits remained unexploited, as "reserves."⁴⁹

When it looked as if a final settlement was near, the Mexican government raised further objections. It objected to the fact that the secret terms of the agreement—whereby only British and Dutch shareholders, not those of other nationalities, would be compensated—had been leaked; it was known that 75 percent of shares were in the hands of British and Dutch subjects, the rest belonging to French (20 percent), Swiss, and Danish shareholders.⁵⁰ There was a further complication: the Mexican evaluator argued that the taxes and pensions that El Aguila owed its workers—and that had been taken on by Mexico—amounted to \$6,185,567, not the mere \$100,000 claimed by the company. On 21 May 1946, the public was informed that the agreement of February 7 had been annulled, and the group of experts whom El Aguila was about to send to Mexico never left England. The British ambassador—for by now Anglo-Mexican relations had changed from legation to ambassadorial status—again blamed Suárez for sabotaging the agreement.⁵¹ Avila Camacho left the presidency without having resolved the oil question.

It is clear that by the end of 1946 the British felt a greater need to reach a solution on the El Aguila case than the Mexicans. For Mexico, Great Britain no longer represented a power that might counteract, albeit in part, an American presence. The war effort had weakened it considerably, whereas the Americans had emerged at the undisputed center of the capitalist world economy; thus, the postponement of a final settlement with the Anglo-Dutch petroleum interests did not matter to

Mexico. For the British, on the other hand, the situation was totally different. It was known that the dollar reserves accumulated by Mexico during the war were dwindling fast; it was plain to the British that unless an agreement was reached while Mexico had dollars, the oil question would remain unresolved for a long time.⁵² Hence, even before Miguel Alemán, successor to Avila Camacho, had formally assumed power, the British ambassador began talks with him on this question. Alemán was cautious, but he did not shun discussing the subject with the ambassador.⁵³ The latter, who thought very highly of Alemán, did not hide his optimism: at last, the end seemed near.⁵⁴

With a view to creating an even more favorable climate for the coming talks, El Aguila informed authorities in London that it would no longer object to the purchase of Mexican oil products; in other words, the boycott of Mexican oil by the British, who had sustained it the longest, came to an end.⁵⁵ The government of Miguel Alemán asked the British that the impending negotiations be kept secret, but someone in London could not resist the temptation of informing the press of what was happening, to see whether El Aguila shares went up, which indeed they did. This upset the Mexican government, though not sufficiently for it to postpone the talks.⁵⁶

Ambassador Bateman thought that the new negotiations should be conducted, at least formally, between the oil company—which after all was Mexican—and the government of Miguel Alemán, without conferring on them the status of official bilateral talks. Neither El Aguila nor the Mexican government liked the suggestion, but eventually it was agreed to proceed on these terms, and the Mexican government ended up thinking that a situation that diminished the political consequence of the whole question worked to its advantage.⁵⁷

The British came prepared for the negotiations with an estimate of their 1938 losses: according to their figures, the value of El Aguila's plants was \$76,312,585, but that of its oil and gas deposits was \$310,260,000, which included some 2,100 million barrels in proven reserves and some 690 million in probable reserves.⁵⁸ The commissioners who would debate the final destiny of this prodigious wealth were, on behalf of Mexico, the director of Pemex himself, Antonio J. Bermúdez, and on behalf of El Aguila, Prof. Vincent Charles Illing, an expert on the oil economy, who kept in constant touch with El Aguila's man in Mexico, Davidson. A request by the Dutch government to send a representative to the talks was turned down. Sessions between them began secretly on 15 July 1947 in Bermúdez's residence; it was agreed that only the final outcome would be made public, and then only if an agreement was reached.⁵⁹

Two sums formed the basis for the talks. Illing demanded a payment

of \$257 million on behalf of his clients, while Bermúdez offered only \$43.9 million. Following the precedent set by the negotiations with the Americans, both parties soon settled on a sum of \$87 million, which was later rounded up to \$90 million, though Mexico then proceeded to lower its offer to \$75 million. The latter sum Illing accepted on condition that the possibility of a return to the Mexican fields was left open—a request that Bermúdez neither rejected outright nor conceded, leaving it up to his counterpart to nurse hopes for the future. This being the state of affairs, on 24 July, Bermúdez delivered his final offer: \$81.25 million to be paid within fifteen years at 3 percent interest that would become effective retrospectively to the time of the expropriation, the first payment to be made in 1948 and all secondary claims by one party against the other to be dropped. By the time Mexico finally settled its debt to El Aguila, it would have paid \$130,339,000 for property—hydrocarbon deposits included—with a market value of \$387 million. By 2 August, the documents were drawn; the agreement was to involve simply El Aguila and the Mexican government. The company executives in Europe were not altogether happy with the settlement; given the size of the proven reserves of Poza Rica, they had expected a higher amount, as well as the participation in the deal of HMG, but faced with the alternative of turning down a partial compensation for damages and waiting for an indeterminate future that might never come, they accepted the offer. The agreement was signed on 29 August 1947, the date when the negotiations that had taken place in Bermúdez's residence were made public.⁶⁰

By way of an epilogue, it should be pointed out that Professor Illing left Mexico convinced—at any rate, so he told his clients—that the agreement of August 1947 had not closed the book on the history of British and Anglo-Dutch petroleum interests in Mexico, but merely a chapter. Pemex, Illing said, lacked the resources and competence to achieve the necessary level of production, and in the long run the Mexican company would have to reopen its doors to foreign capital. At that time, Royal Dutch-Shell would be able to come back to Mexico. Ambassador Bateman never entertained any illusions on the subject but the company executives did, and they asked the Foreign Office to watch out so that they might be able to take advantage of any opportunity arising in the future.⁶¹

When the time came in 1948 to make the first compensation payment, Mexican finances were in trouble, and Royal Dutch-Shell took advantage of the conjuncture to communicate to Mexico that the 1947 agreement could be canceled: the company would renounce compensation in exchange for renewed talks with a view to its return to Mexico. The government of Miguel Alemán rejected the offer and instead made

the first payment punctually on 18 September.⁶² Thus, time proved Bateman right: Mexico would not reopen its doors to the big oil companies.

Conclusions

It is not necessary to dwell long on these. The winding-up of large British investments in Latin America became inevitable as Great Britain lost its central position in the world economy and spent a significant part of assets accumulated overseas in its efforts to survive a German offensive in two world wars. Nevertheless, the manner in which this took place was not predetermined, at least not in the case of Mexico.

If El Aguila had not supported the position taken by American companies against General Cárdenas's government and had instead taken advantage of the opportunities offered by the 1937 agreement on cooperation between itself and Petromex, it is highly likely that its presence in Mexico would have lasted a good many years longer, and that the nature of the Mexican oil industry would not be what it is today. Yet things did not turn out that way. El Aguila and the Foreign Office reacted to the creation of the STPRM (Sindicato de Trabajadores Petroleros de la República Mexicana, Union of Oil Workers of the Mexican Republic) and to the revival of Mexican nationalism as represented by *cardenismo*, by adopting traditional policies, hoping for a repetition of the process that had culminated ten years earlier in the agreements between Calles and Morrow.

The history of the relationship between the Mexican revolutionary regime and British interests is one of systematic opposition by the latter to any attempts by the former to reduce the burden of external dependence. There is no doubt that the oil industry was one of the areas where the conflict manifested itself with greater intensity. In 1937 and 1938, British interests attempted to reenact the process of resistance to Mexican nationalism that had worked so well before, without taking into account the fact that the Mexican government—indeed, the regime—had changed; it was now stronger as a result of the mass politics of *cardenismo*; American pressure, too, was greatly reduced as a result of the Good Neighbor Policy set in motion by Franklin D. Roosevelt's government.

Without American support for its rejection of the decree of expropriation of 18 March, there was very little His Majesty's government could do to force Mexico to back down, short of an economic boycott. Here, again, British conjecture was wrong, for Mexican oil found a market in Europe, which enabled the consolidation of the expropriation throughout those critical years, 1938 and 1939. Wrong, too, were Great Britain

and Holland's speculations that it would be impossible for Pemex to survive purely on the strength of the domestic market. Last, the prediction that the Mexican government would not be able to take charge of such an obviously complex business as the oil industry also turned out to be inaccurate.

The way in which El Aguila was compensated meant, among other things, that Mexico did not pay the full value of the oil deposits claimed as its own by the company. In fact, by compensating only a third of total property value—an amount that approximated very closely the book value declared by the company during its final year of operations in Mexico—the last vestiges of the Calles-Morrow agreement were destroyed, and the original spirit of Paragraph 4 of Article 27 of the 1917 Constitution at last came into effect.

Notes

1. Lorenzo Meyer, "Los petroleros británicos, el nacionalismo mexicano y el gobierno de su majestad británica (1901-1947)," in Miguel S. Wionczek (ed.), *Energía en México. Ensayos sobre el pasado y el presente*, (Mexico City: El Colegio de México, 1982), p. 18.
2. The terms of the agreement can be found in: the Public Record Office (hereafter PRO), the Foreign Office (hereafter FO) 371, Volume (hereafter V) 20634, A1451, 1822, 2003 and 2178/132/26; *Times* (London), (20 Nov. 1937), and *The Economist* (20 Nov. 1937).
3. On this, see the classic study by Peter Calvert on the differences between the United States and Great Britain on Mexico: *The Mexican Revolution, 1910-1914. The Diplomacy of Anglo-American Conflict* (Cambridge, Eng.: Cambridge University Press, 1968).
4. PRO, FO 371, V.21482, A 1975/1975/26, O'Malley's annual report to the Foreign Office, 9 Jan. 1938.
5. *Ibid.*
6. For a study of the American position, with particular reference to the implications of the so-called Good Neighbor Policy, see Bryce Wood, *The Making of the Good Neighbor Policy* (New York: Columbia University Press, 1961).
7. PRO, FO 371, Foreign Office to its embassy in Washington, 4 May 1938, V. 21469, A 3403/10/26; memo from Balfour from the Foreign Office on 1 Dec. of that same year, V. 21477, A 8808/10/26; Foreign Office minutes signed by Thomas Hohler, 29 April 1943, V. 34005, A 3981/3981/26.
8. The British notes and the Mexican replies can be found in: British Government, Foreign Office, *White Paper, "Mexico No. 1"* (London: His Majesty's Stationery Office, 1938).
9. *The Economist* (16 and 30 April 1938).
10. *Ibid.*, 2 April 1938.
11. *Ibid.*
12. Lorenzo Meyer, *México y Estados Unidos [en el conflicto petrolero (1917-*

1942). Mexico City: 1968], pp. 411–415; *Times* (London) (27 and 28 July 1938); *The Economist*, (2 July 1938).

13. PRO, FO 371, J. T. V. Miller from El Aguila to the Foreign Office, 25 July 1947 V.60936, AN 2709/72/26.

14. Meyer, *México y Estados Unidos*, p. 416.

15. Nacional Financiera, *La Economía Mexicana en Cifras* (Mexico City: Nacional Financiera, 1965), p. 29.

16. PRO, FO 371, Petroleum Office to Imperial Committee for Defense, 12 May 1938, V. 21469, A 3663/10/26.

17. PRO, FO 371, British embassy in Washington to Foreign Office, 30 April 1938, V. 21469, A 3404/10/26.

18. Meyer, *México y Estados Unidos*, p. 350.

19. PRO, FO 371, Starling, from the Petroleum Office to Balfour, 22 Feb. 1939, V. 22778, A 1453/84/26.

20. *The Economist* (10 July 1939).

21. *Ibid.*, 21 May 1938.

22. *Times* (London) (19 and 21 July and 3 Nov. 1938); PRO, FO 371, "Memorandum on the Oil Question," signed by J. Balfour from the Foreign Office, 1 Dec. 1938, V. 21477, A 8808/10/26.

23. For an analysis of these negotiations, see Meyer, *México y Estados Unidos*, pp. 395–403; *Times* (London) (28 Feb., 15 April and 21 June 1939); *The Economist* (24 June and 19 Aug. 1939).

24. An example of the above is the British request to the Australian government to stop a barter of copper for oil with Mexico, *Times* (London) (25 Sept. 1940).

25. Meyer, *México y Estados Unidos*, pp. 415–428.

26. J. Richard Powell, *The Mexican Petroleum Industry, 1938–1956*, (Berkeley: University of California Press, 1956), p. 79.

27. In a report to his superiors, the British General Consul in Mexico in 1938 pointed out that it was impossible for Pemex to survive while depending solely on the domestic market, PRO, FO 371, V. 22780, A 1678/1685/26.

28. *Times* (London) (9 May 1939).

29. *Ibid.*, 23 Dec. 1939.

30. PRO, FO 371, secret report from the Ministry of Information to the Foreign Office, 23 May 1941, V. 26067, A 3886/281/26.

31. PRO, FO 371, Foreign Office minutes dated 16 Jan. and 30 March 1941; Foreign Office to its embassy in Washington, 1 March 1941; and Foreign Office to the General Consul in Mexico, 30 March 1941; British Embassy in Washington to the Foreign Office, 30 Sept. 1941, Vs. 26061 26062, A 364, 1928, 1009, 7882/47/26.

32. PRO, FO 371, Ministries of War Economy and Information to the Foreign Office, 18 March and 23 May 1941, V. 26067, A 1921/47/26 and A 3886/281/26.

33. PRO, FO 371, Foreign Office minutes and telegram to its embassy in Washington dated 26 and 28 Aug. 1941, V. 26064, A 6580/47/26.

34. An account of the negotiations and final settlement can be found in Meyer, *México y Estados Unidos*, pp. 452–457.

35. PRO, FO 371, Foreign Office minutes dated 4 Sept. 1941, V. 26064, A 6580/47/26.

36. *Times* (London) (20 Sept. 1940).

37. PRO, FO 371, Bateman to the Foreign Office, 31 March 1942, V. 30571, A 3742/133/26; *Times* (London) (4 Aug. 1941); *La Prensa* (8 and 13 Aug. 1941).

38. PRO, FO 371, minutes from the War Cabinet dated 8 Sept. and from the British embassy in Washington to the Foreign Office, 9 Oct. 1941, V. 26064, A 7331 and 8178/46/26.

39. PRO, FO 371, Foreign Office minutes dated 16 Jan. 1941, V. 26061, A 364/47/26.

40. PRO, FO 371, Bateman to the Foreign Office, 31 March 1942, V. 30571, A 3742/133/26.

41. *Times* (London) (29 Aug. and 3 and 4 Sept. 1941); *La Prensa* (6 Sept. 1941).

42. PRO, FO 371, Bateman to the Foreign Office, 31 March 1942, V. 30571, A 3742/133/26; *The Economist* (25 Oct. and 1 and 22 Nov. 1941).

43. PRO, FO 371, British General Consul in Mexico to the Foreign Office, 1 Feb. 1941, and Davidson to El Aguila, 3 March 1941, V. 26062 A 606 and 3149/47/26.

44. PRO, FO 371, Bateman to the Foreign Office, 20 Feb. 1942, and Foreign Office minutes signed by T. Hohler, 29 April 1943, V. 33994 and 34005, A 2328/901/26 and A 3981/3981/26.

45. PRO, FO 371, Bateman to the Foreign Office, 10 Jan. 1944, and Foreign Office minutes signed by T. Hohler, 29 April 1943, V. 38312 and 34005, AN 293/138/26 and A 3981/3981/26.

46. PRO, FO 371, Bateman to the Foreign Office, 10 Jan. and 14 Feb. 1944, V. 38312, AN 293 and 798/138/26; *The Economist* (16 Oct. 1943); *Times* (London) (27 April, 5 and 22 Oct. 1943, and 17 March and 26 Oct. 1944).

47. PRO, FO 371, Bateman to the Foreign Office, 15 Jan. 1946, V. 51592 AN 338/338/26.

48. *Times* (London) (8 and 9 Feb. 1946); *The Economist* (16 Feb. 1946).

49. National Archives of Washington, State Department documents (hereafter NAW), Record Group (hereafter RG) 59, Ambassador Messersmith to the State Department, 21 April and 31 Aug. 1945, 16 Feb. and 28 Oct. 1946, 812.6363/4-2145, 8-2645, 1-2346, 2-2346 and 10-2846, and Broden to Briggs in the State Department, 24 Oct. 1946, 812.6363/10-2146.

50. PRO, FO 371, Foreign Office minutes dated 7 Aug. 1947, V. 60936, AN 2833/72/26.

51. PRO, FO 371, Ministry for Fuel and Energy to the Foreign Office, 14 March 1946, Bateman to the Foreign Office, 25 March 1946 and 16 Jan. 1947, Godber to Davidson, 6 May 1946, V. 51579 and 60940, AN 764/13/26, A 967/13/26, A 397/395/26, AN 1366/13/26; *Times* (London) (21 May 1946).

52. PRO, FO 371, Davidson from El Aguila to G. Leigh-Jones, 27 Feb. 1947, V. 60934, AN 1004/72/26.

53. PRO, FO 371, Foreign Office minutes, 24 Dec. 1946, V. 51581, A 3790/13/26.

54. PRO, FO 371, Bateman to the Foreign Office, 24 Feb. 1947, V. 60940, AN 958/395/26.

55. PRO, FO 371, Foreign Office minutes, 29 March 1947, V. 60934, AN 1223/72/26.

56. PRO, FO 371, Davidson from El Aguila to G. Leigh-Jones, 27 Feb. 1947, V.

60934, AN 1004/72/26; *Financial Times* (1 March 1947).

57. PRO, FO 371, Bateman to the Foreign Office, 12 Dec. 1946 and 23 Jan. 1947; Foreign Office to Bateman, 24 Dec. 1946; and Foreign Office minutes dated 6 Jan. 1947, V.

58. PRO, FO 371, G. Leigh-Jones to E. A. Berthoud, from the Ministry for Fuel and Energy, 17 April 1947, V. 60934, AN 1429/72/26.

59. PRO, FO 371, Bateman to the Foreign Office, 7 July 1947, V. 60936, AN 2348/72/26.

60. PRO, FO 371, Illing's reports to the Foreign Office dated 24 July and 2 Aug. 1947; Foreign Office minutes of 14 Aug. 1947, V. 60936, AN 2761, 2762, and 2821/72/26.

61. PRO, FO 371, two undated memoranda from Illing to the Foreign Office; Bateman to the Foreign Office, 9 July 1947, V. 60936, AN 2764, 2765/72/26, and AN 2521/604/26.

62. *Financial Times* (12 Aug. 1948).

7. The Expropriation in Comparative Perspective

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Too much has been written by historians about the "lessons of history." Whether the various participants in and observers of the Mexican expropriation learned anything valuable from history is debatable; however, they do not seem to have been doomed to repeat it. No significant properties owned by oil companies in Latin America were expropriated between 1938 and 1960. Subsequently, the pace of expropriation quickened. There was a wave of nationalizations, of mineral as well as oil properties, between 1968 and 1976 (in Peru, Bolivia, Chile, Venezuela, and Ecuador), at the end of which period "old style" blocks of foreign capital dominating large areas of Latin American extractive economies had largely disappeared. In the Middle East, the story was fairly similar. After a major battle over expropriation (Persia 1950-1953), Middle Eastern governments lowered their aspirations for control and instead bargained with foreign companies within fairly strict limits until the old order broke down after 1970.

For many interests, the Mexican nationalization was a calamity that should not be allowed to happen again. Obviously, the oil companies and the U.S. government thought so (though for different reasons and with different results), but much of Mexico's postwar political (and, even more obviously, business) elite made it clear that they had serious reservations about certain aspects of the expropriation. Thus, when in 1960 President López Mateos was preparing to nationalize the electric power industry, an article in *Excelsior* summed up the official view about worker's control:

The federal government has not forgotten past experiences, particularly in regard to the two activities which were the headaches of their time, the railroads and the petroleum industry. The government did not purchase the electric companies at a cost of 600 million pesos in order to turn them over to the workers. From the experience gathered over the years the government has recognized