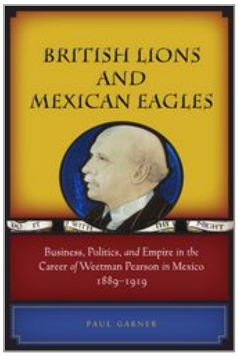


## British Lions and Mexican Eagles: Business, Politics, and Empire in the Career of Weetman Pearson in Mexico, 1889–1919

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# The Birth of El Aguila and the Apotheosis of Empire, 1901–10

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## Abstract and Keywords

This chapter examines Weetman Pearson's oil business in Mexico during the period from 1091 to 1019. It discusses his formation of El Aguila and describes the early difficulties he encountered in establishing his operations on a profitable footing. This chapter also argues that the assistance and encouragement given by the Mexican government was crucial not only in establishing Pearson's oil business but also in sustaining it during its difficult early years.

*Keywords:* Weetman Pearson, oil business, Mexico, El Aguila, Mexican government

> "El aceite sustituirá dentro de poco al carbón de piedra y a la leña, y será el único combustible que llegue a usarse. Esta nueva fuente de inmensa riqueza descubierta en el país, ha hecho pensar a los especuladores de mayor espíritu de empresa que en Mexico debe haber veneros más ricos que los de Pennsylvania, cuya teoría parece sostenerse por la configuración geológica de la República."
>
> —Matías Romero, 1865.[1]

The predictions made in 1865 by Matías Romero, one of the most influential and visionary strategists of Mexico's nineteenth-century national development, proved to be remarkably prescient given that oil was destined to become Mexico's most important industry in the following century.[2] Although there had been attempts by lone Mexican entrepreneurs between the 1860s and the 1880s to replicate the discoveries in Pennsylvania which had inspired Romero, they had all ended in failure or disappointment, and it would take another generation after the publication of his predictions before there were any serious attempts to develop an oil industry in Mexico.[3] Its fate had been the same as that of all of the many frustrated efforts made in the nineteenth century to develop Mexico's mineral resources for commercial exploitation and to create a basis for future industrial development—the absence of integrated national markets or a skilled labour force, the need to import expensive technology and equipment, inadequate transportation, a weak state apparatus, a lack of codification or regulation of commerce or industry, and a serious shortage of capital investment.[4]

One of the central themes of this book is that the pursuit of the developmentalist strategy adopted by the Mexican government after 1884 **(p.139)** required these obstacles to national progress and development to be systematically addressed and gradually dismantled. The problem was particularly acute in the case of energy and power, since the goal of industrial development cherished by the *científicos* required the provision of inexpensive and accessible sources of energy. Although it was common knowledge, and had been so for many centuries, that Mexico possessed natural resources of oil and bitumen in the Gulf Coast region, the extent, quality, and exploitability of those resources was uncertain. At the same time, the high cost of the technology required for oil exploration, coupled with the restrictions on Mexico's access to international capital markets, constituted a double disincentive for both the Mexican government and domestic entrepreneurs to risk direct involvement in such an uncertain enterprise.

As in the case of other areas of industrial development promoted by the Porfirian elite (such as railways, mining, and manufacturing), the Díaz government turned to overseas businessmen and investors to develop the necessary infrastructure for the exploration and development of the oil industry, providing them with legislative protection of property rights and tax incentives on exploration and production.[5] At the same time, the government was anxious to break the monopoly of oil-based imports (kerosene, gasoline, paraffin, and lubricating oils) from the United States which had been enjoyed by the Waters-Pierce Oil Company (WPOC—an affiliate of Standard Oil) since the end of the 1880s.[6] It was an opportunity which a number of individual overseas pioneers, mostly British and American, found too attractive to resist, and despite the numerous and persistent logistical difficulties they faced in pursuit of their oil interests, their perseverance would ultimately pay them a handsome dividend.[7]

British entrepreneurs were amongst the first to take advantage of the opportunities to exploit Mexico's rich deposits of oil. The self-confessed opportunist Percy Norman Furber, an ex–merchant seaman and former jockey from London, claimed to have drilled the first oil well in Mexico at Chijol, near Tampico, in 1894.[8] In his subsequent autobiography, Furber reflected on the mutual advantages of the partnership between overseas entrepreneurs and national governments in countries such as Mexico on the periphery of capitalist development:

> The economic prosperity and industrial advancement during Díaz' administration was due primarily, I think, to his courageous and far-sighted policies in welcoming foreign trade, foreign capital, foreigners like me, bent on developing the natural wealth of the country. From the day I went to see President Díaz to tell him what I hoped to do at El Cuguas, he never wavered in his loyalty, not so much to me personally, but to my purpose. Díaz understood that the development of oil would mean the creation of wealth, not only for those directly responsible for that development, but for Mexico itself.

**(p.140)** Nevertheless, Furber clearly understood the tensions between the different interests at play:

> It would be absurd to say that we were working primarily for Mexico. We were working for ourselves, and with faith that success would be rewarded with larger financial gain. Without the promise of gain, none of us would have persisted in the back-breaking, heart-breaking struggle, even though there was invariably one force, completely apart from gain, which drove us on, namely the pure joy of discovery and accomplishment. Díaz knew, however, that our success would be reflected in prosperity for Mexico and Díaz *was* working for Mexico, not for himself.[9]

Pearson, who became Furber's partner in the oil business in 1907, was less prone to reflection, and a man of many fewer, and less eloquent, words. In his private correspondence, however, he also commented on the practical difficulties which the early prospectors had to face, but also alluded to the fact that his involvement in oil, like his involvement in his other Mexican enterprises, had not been achieved with his effort and agency alone. He wrote to his son Clive in March 1908:

> The oil business is not all beer and skittles.… I entered into it lightly, not realising its many problems.… Now I know that it would have been wise to surround myself with proven oil men, and not to rely, as I did, on commercial knowledge and hard work, coupled with a superficial knowledge of the trade.[10]

This chapter argues that the assistance and encouragement received from the Díaz government, not only through legislation and tariffs but also through the direct personal support of President Díaz, Finance Minister Limantour, and other prominent members of the Porfirian political elite, would prove crucial not only in establishing Pearson's oil business but also in sustaining it during its difficult early years. By the middle of 1909, after nearly a decade of significant investment of his time, energy, and capital, the oil business had become his passion and his personal obsession. But it had also become his principal source of frustration, despite his public displays of optimism in the future of the business. In February 1909 he confided to his wife:

> I cannot help but think what a craven adventurer I am compared to the men of old.… I am slothful and horribly afraid of two things—first that my pride in my judgement and administration should be scattered to the winds; and, secondly, that I should have to begin life again. These fears make me a coward at times.[11]

For such a confident and successful businessman, with a wealth of experience in managing large and complex infrastructural and engineering projects across the globe, these personal doubts clearly reflect the extent of the difficulties the oil business had presented him by the early months **(p.141)** of 1909. In his hour of greatest need, Pearson therefore turned for support and reassurance to his Mexican mentor, Finance Minister Limantour, the individual who had had such a key influence on the fate of the former's Mexican business empire since his arrival in Mexico in 1889. Pearson bluntly told Limantour that he could no longer sustain the losses he was incurring. Adopting a simultaneously plaintive but indignant tone—quite characteristic of his exchanges with Limantour over a period of more than twenty years—he explained that “my actual cash outlay by the end of June [1909] will reach £1,500,000 sterling.” He finished the letter with a scarcely veiled threat:

> This enterprise, to handle the oil from the well to the lamp, is unique; if I had to lose the Government's sympathy and support I shall not be justified in personally continuing to bear its responsibility.[12]

Pearson was reminding Limantour that he was, as he had always been, prepared to support and implement the Mexican government's developmentalist strategy—which in the case of oil meant challenging the existing monopoly on the sale of oil-based products in Mexico hitherto enjoyed by WPOC—but that that support was predicated on the receipt of a profitable return. That was certainly not the experience of Pearson's oil business by 1909. Ultimately, however, his patience and resolve would be (amply) rewarded. Less than two years after his ultimatum to Limantour, following the discovery of major deposits in his northern Veracruz oil fields, Pearson's Compañía Mexicana de Petróleo El Aguila (Mexican Eagle) had begun to show signs of becoming his most profitable enterprise. By 1919, when he sold the controlling interest in El Aguila to the Shell Group, Pearson's oil business had not only fulfilled but also vastly exceeded his original ambitions.

Two basic statistics indicate the phenomenal growth of the Mexican oil industry between 1910 and 1919, and El Aguila's share of its output. Annual production of Mexican crude rose from 3,634,000 barrels in 1910 to 87,073,000 in 1919, making Mexico the second-largest producer in the world next to the United States. Although many other oil companies had by then entered the Mexican market, 61 percent of production was in the hands of just two companies: Pearson's El Aguila and Edward Doheny's Mexican Petroleum Company.[13]

The ultimate irony of the eventual commercial success of El Aguila lay in the fact that the domestic and international environment in which his oil business would flourish was vastly different from that which had prevailed prior to 1911. How Pearson and El Aguila coped with these seismic shifts in the domestic political environment which accompanied the Mexican Revolution, and in the international environment as a result of **(p.142)** the repercussions of WWI, is the subject of the following two chapters. This chapter will concentrate on the context in which Pearson's oil interests became established between 1901 and 1910.

## The First Steps

The story of "How We Went into Oil" (the title of a short account written in 1928 by Pearson's Mexican proconsul, John Body) has been told (and retold) many times before.[14] Notable from Body's account is that Pearson's initial interest in the commercial possibilities of oil stemmed directly from his firm's management of the Tehuantepec National Railway (TNR). In 1899, while searching for suitable construction materials with which to build the training walls of the river bar at Coatzacoalcos (the Atlantic terminal of the TNR), John Body had discovered nodules of oil in the rock and had been led by some local inhabitants on the Isthmus of Tehuantepec to a *chapopote* (a natural oil spring). He wrote a report on his findings to Pearson, who recalled Body's account when, in April 1901, Pearson found himself temporarily stranded because of a delayed train in Laredo, Texas, amidst the fevered speculation which followed the recent discovery of the famous oil gusher at Spindletop in Texas in January 1901. Body later explained that the initial motivation for seeking to exploit oil was to find an alternative fuel for the "locomotives and other plant," as a consequence of the fact that the timber which was the current source of locomotive fuel not only was expensive—since it required the use of a scarce labour force to cut down local forests when that same labour force was needed for other contracts—but had also resulted in protests from the owners of estates that ran adjacent to the TNR line, whose crops had been damaged by hot cinders from passing trains.

Although Body's explanation indicates that the company's initial interest in oil stemmed from the specific domestic needs of the TNR, Pearson himself, from the very start of his oil adventure, clearly harboured wider ambitions, commenting to Body in the same letter from Texas in 1901 that he was "strongly of the opinion a splendid business may be done."[15] He would have been fully aware, from his own experience, and his always acute entrepreneurial antenna, of the rapid expansion of the oil industry in the United States and Russia in the latter half of the nineteenth century, and of the business opportunities this represented. US production of crude had risen from 274 tons in 1859 to 9 million tons in 1900, and would increase again by a factor of 10 by 1930. This rise in production, combined with the increasing sophistication and professionalization of geological analysis and refining technology, and above all the diversification **(p.143)** of petroleum-based products—first kerosene, then fuel oil, then petrol (or gasoline)—would transform the industry during the first three decades of the twentieth century.[16]

In 1900, on the eve of Pearson's foray into oil, kerosene for heating and lighting was by far the most valuable petroleum product, and it was the prospect of supplying illuminating oils to the domestic Mexican and British markets (where, in the latter case, it was estimated in 1902 that there were over eleven million kerosene lamps in daily use) which most excited Pearson in the early years. At the same time, it was also clear that fuel oil was being rapidly adopted as the principal source of power in transportation (for railways and merchant shipping) and industry, especially in those countries, such as Mexico, where coal was in relatively short supply. Although Britain remained a coal-based industrial economy until well into the twentieth century, fuel oil was adopted in certain key sectors at an early stage. When First Lord of the Admiralty Winston Churchill took the "fateful plunge" and commissioned five oil-fired battleships for the Royal Navy in 1912, he was, as Geoffrey Jones has pointed out, effectively committing British naval power to a dependence on a fuel source which not only was located overseas, but whose production was in the hands of large and increasingly oligopolistic oil corporations. These fundamental transformations in the character and structure of the global oil business would radically alter the nature of Pearson's Mexican oil business, especially after 1913.[17]

This chapter highlights, first, the very high degree of personal interest shown by Pearson in the minutiae of the organisation and management of his oil business,[18] and second, the many and constant difficulties the business faced throughout the early years of its existence. These difficulties were, in fact, far more problematic than most general accounts have acknowledged. Many of these subsequent accounts, if they were not commissioned by Pearson himself or by his employees, were heavily influenced by the optimism which he projected for public consumption. Placing emphasis on the extent of the difficulties which had to be overcome does not, of course, undermine the evidence of Pearson's considerable tenacity in keeping his oil business alive. If anything they serve to highlight them. By the same token, these profound obstacles also indicate how vital the political support offered by the Porfirian elite was in sustaining Pearson's involvement in a business which tested his patience and abilities to the limit.

As has been indicated in previous chapters, the importance of individual agency—Pearson's tenacity in the pursuit of a business opportunity, and his careful and consistent courtship of the Mexican political elite—was crucial to the survival of his oil business before 1910. Pearson was acutely aware that success would require pandering not only to the **(p.144)** national (and nationalist) aspirations of the Porfirian elite, but also to their personal self-interest. In short, in his pursuit of the oil business Pearson demonstrated again that he was as adept at the application of nationalist and developmentalist rhetoric as he was at the organisation of industrial espionage and at the distribution of “gifts,” commissions, and retainers to those at the apex of the Mexican political elite, in return for political favours which would benefit his interests.

Although it has been highlighted above, it is important to emphasise the difference between Pearson's oil business and the public works projects he had carried out in Mexico since 1889. As explained in previous chapters, those projects had been funded by Mexican public debt and entrusted to Pearson in the role of contractor and project manager—and, uniquely, in the case of the TNR, that of a business partner with the Mexican government. The risks and the responsibilities of bringing these projects to fruition lay almost entirely with the Mexican government (and Finance Minister Limantour in particular). The fundamental differences between the oil business and his other activities lay first in the investment of his own capital and second in the assumption of the main burden of risk and responsibility. As will become apparent, the risks—and also the rewards—were significantly higher.

Quite how much of Pearson's private capital was invested in his oil business is, however, difficult to gauge. Even though it was certainly true that the costs of oil exploration exceeded income prior to 1910 and that Pearson consistently lost money on his Mexican oil operations until 1911, it is also clear that income from his other business activities, including his public works contracts, was used to subsidise the costs of acquisition and exploration, and to avoid recourse to extensive borrowing.[19] It is also possible that Pearson at times may well have exaggerated, and at others underestimated, the amount of his own capital he claimed was being used to fund oil exploration. At the same time, contemporary accounting conventions made it entirely legitimate to ascribe different values to monies already spent and those committed to be spent in the future as “expenses” or “investments,” or to charge maintenance and upkeep as company profits to make the company's balance sheet look healthy—or more healthy than it actually was. As a result, it would be unfair to accuse Pearson of a willingness to dissemble in this case.

There are, nevertheless, discrepancies in the presentation of the figures. According to the versions written subsequently for public consumption, estimates of expenditure over income before 1911 range between £ 1.5 million and £3.5 million. A short history of El Aguila written for external publication by an employee of S. Pearson and Son, Mr. C. Reed, in 1928 claimed that “the cash invested by Lord Cowdray in this enterprise at **(p.145)** June 1910 amounted to £2,500,000; by December 1914 it had increased to £3,750,000, and at the time he sold the control in April 1919 the total had reached £5,000,000.”[20] These figures are, however, contradicted by evidence from the company's internal correspondence. Having told Limantour in March 1909 that his expenditure would have reached £1.5 million by June 1909, he included a copy of an internal memo which stated that the firm's acquisitions to that point had cost “some $6,000,000 [*pesos*], more or less with another $1,500,000 allocated for the cost of buildings, pipe lines, and exploratory work in 1909.”[21]

At the same time, in a revealing letter to the British chancellor of the exchequer, Lloyd George, in December 1913, when Pearson was attempting to persuade the British government to enter into a partnership arrangement with El Aguila, Pearson claimed that the total invested in El Aguila was £8 million, with a further £4 million invested in his two other oil companies (Eagle Oil Transport and Anglo-Mexican Petroleum). No doubt trying to impress Lloyd George with the scale of his oil business, he claimed that the value of the publically owned preference shares was £5 million, which suggests a market valuation of his oil business of around £17 million, which would have made it the seventh-largest company in Britain, and one of the thirty largest companies in the world.[22]

Whatever the correct figures are, there can be little doubt that expenditure consistently exceeded income before 1910 and that the problem was incremental. In March 1906 Pearson told the manager of his Mexican oil interests, and the future managing director of El Aguila, Thomas Ryder, that “I find to the end of last year [1905] we have spent over £200,000 on our Oil Department from the beginning.”[23] In a confidential memo of December 1908 Pearson informed the director of the firm's Mexican operations, John Body, that due to “extremely heavy expenditure … our operations in Mexico for 1908 have cost £286,000 more than income.”[24]

While this correspondence makes it clear that because of his close personal interest in oil, Pearson was prepared to relax his normal insistence that all of the firm's multiple international contracts and the bespoke companies set up to administer them must always, without exception and at all times, pay their way, he nevertheless established clear guidelines which he would adopt to cope with the particular problems presented by the oil business. His basic business philosophy was very simple: “plow every possible penny of income back into the ground in exploration and new drillings; drill up the profits, thus pyramid them in the ground.”[25] He therefore urged Body not only to keep expenditure under tight control but also to divert revenue from other contracts (both public and private) to crosssubsidise the considerable capital outlay on contracts, rents, construction, **(p.146)** and the ever-rising costs of exploration. He therefore imposed strict limits on the sums which could be drawn from the London office, reminding Body, for example, that the costs of the refinery at Minatitlán should be covered by income from the contract with the Mexican Railway for supply of fuel oil. In February 1910, Pearson reduced still further the capital Body could draw on from the firm's headquarters in London.[26] Using the income from existing contracts to cross-subsidise the very high costs of oil exploration was no doubt sound business practice and, indeed, the only pragmatic way in which such heavy outgoings could be sustained.[27]

## The Acquisition of Oil Lands and Leases

In Pearson's original letter from San Antonio, Texas, at the height of the Spindletop boom of 1901 (cited above), he had given Body urgent instructions “to secure option on oil land with all land for miles around.”[28] Body responded swiftly to his “Chief's” instructions. Land was acquired, either through direct purchase or, most commonly, through rental agreements or royalty leases which provided landowners who held legal titles (either on an individual or a communal basis) with either cash payments or royalty agreements on oil production. Most important, S. Pearson and Son secured exclusive rights to conduct surveys and to exploit any oils or minerals which might be found. The nature of the contracts varied considerably and depended upon a range of variables—where the land was, whether it had been surveyed, whether the title was held by individuals or communities,[29] whether there were rival bids from other oil companies, who the owners were, what their status and influence within local community was, and what their political connections were.

As El Aguila's secretary, R. D. Huchison, explained, royalties paid on leased land were usually based either upon a one-off payment of Mex$300 for every 1,000-barrel well brought in, a payment of between 2 and 5 *centavos* per barrel, or, alternatively, a percentage (between 2 percent and 10 percent) on total production. However, it is clear from the company's internal correspondence that El Aguila's lawyers and representatives exercised considerable freedom of manoeuvre in their negotiations with landowners and communal owners, and that these general guidelines were not always strictly adhered to in practice. The outcome of these negotiations was invariably favourable to El Aguila. “We pay annual rents per acre varying from nothing to 50 cents Mex,” Huchison reported, “but the rent usually merges into the Royalty when there is production, so most rent charges are recovered in that way.” He concluded, with an obvious degree of satisfaction, that rents paid on leases on 679,919 acres of land in the **(p.147)** Isthmus of Tehuantepec, Tabasco, and Chiapas in 1911 amounted to Mex$37,711, or, in other words, “less than 6 cents Mex. per acre.”[30]

Some landowners faired very well in their negotiations with the company. It was clearly part of the company's strategy to excite the interest of Mexico's political and social elite by the wealth-generating potential of oil, and to appeal to instincts which were perhaps less noble than those of national development. For example, one of the most notorious of contracts for the leasing of land and exploration rights from private landowners was that signed in 1902 with Doña Agustina C. vuida de Manuel Romero Rubio, the president's mother-in-law, for 77,000 hectares in Minatitlán in southern Veracruz, where Pearson's first refinery would later be constructed. The first royalty payments of 2 cents per barrel were not made until 1908, by which time Carmen Romero Rubio, the president's wife, popularly known as Carmelita, had inherited the property from her mother.[31]

One of the most significant relationships which developed between foreign oil companies and local elites in northern Veracruz during the scramble for oil leases after 1906 was the case of the Peláez-Gorrochótegui family, owners of some of the most sought-after oil properties in the region. Ignacio Peláez, a lawyer who, despite the fact that he had also acted on behalf of S. Pearson and Son nevertheless drove a hard bargain in his negotiations with the company's lawyers on behalf of his own family, and in representation of other local landowners. In March 1909, for example, he signed a contract with El Aguila which provided generous terms to his own family: an annual rent of Mex$5 per hectare, a royalty payment of 5 cents per 150 litres of crude extracted, a down payment of Mex$30,000, and a guaranteed income of not less than Mex$100,000 over the next ten years, irrespective of whether oil was discovered. The nature of these contracts not only made the Peláez family wealthy but also enabled Ignacio's brother Manuel to play a highly influential role as regional *cacique* by acting as intermediary between the oil companies, local landowners (*hacendados, rancheros*, and members of *condueñazgos*), workers in the oil camps, and the various revolutionary factions which sought to control the region between 1911 and 1920.[32]

Nowhere was the favouritism shown to influential landowners more clearly demonstrated than in the case of Finance Minister Limantour. Body informed Pearson, following a private meeting with Limantour in October 1905, that “I thought it policy to tell him generally our intentions for refineries, pipe lines, steamers etc., all of which he was most interested in. I also took up with him the matter of making a contract for his lands as the Oil Department believes the oil strike goes right through them. I have arranged with Mr L to take him a project next week. He assures me **(p.148)** he is entirely in our hands, and is willing to make a fair deal.”[33] The matter was not raised again until August 1910, when oil and gas deposits were discovered at El Aguila's oil field at Tecuanapa, some 400 miles from Limantour's properties on the isthmus. Pearson immediately offered Limantour “a royalty of 20% on oil actually produced, or 10 cents Mexican per barrel on oil produced and sold”—in other words, double the normal rates offered to other landowners. So concerned was Pearson to curry favour with the finance minister that he threw his normal caution (and his tough bargaining instincts) to the wind. “In fact,” he wrote, “it is really for you to determine what terms you would like.”[34]

As a result of this overt, covert, and, above all, intense activity in the fevered exchange and negotiation of contracts after 1901, Pearson was able to claim by as early as March 1906 that “we own about 600,000 acres of land in the oil country, in the states of Vera Cruz Tabasco, and Campeche, and have royalty leases for 200,000 or 300,000 acres which we have been 4 or 5 years in securing.”[35] The frenetic pace of acquisition continued until 1911, with the last major acquisition (Furber's Oil Fields of Mexico properties) made in 1914, but the constant negotiation and renegotiation of contracts, sales, and leases over a ten-year period, as well as apparent inconsistencies in the company's own figures, make it difficult to provide an accurate assessment of the total holdings. An internal memorandum prepared by El Aguila's secretary in September 1911 gave a total figure of 1,678,011 acres (across the Isthmus of Tehuantepec, and the states of Tabasco, Chiapas, and Veracruz). Of this total, under half (730,592 acres) was directly owned by El Aguila, while the company held subsoil leases on the remaining 947,419 acres. The vast bulk of owned (712,797 acres) and leased (563,530 acres) land was located in the Isthmus of Tehuantepec.[36]

What emerges clearly from the internal correspondence is that the purpose of acquiring title or drilling rights to such extensive lands had many potential advantages: first, to secure potential oil-producing lands, because, as Pearson explained to Body in his original letter,

> oil deposits frequently extend over big areas, so the oil rights must extend over a large district to be really valuable. Ten, twenty or forty thousand acres appears to be no uncommon size—so in getting the option, get it over as big a country as possible.[37]

Second, the acquisition of leases on extensive lands would secure monopoly control—“the great thing,” Pearson told Ryder in 1906, “is to prevent others coming in, and if it is necessary to pay $10,000 or even $30,000 for the next 2 or 3 years as dead rent on leases, we should be justified in entering into the obligation to do so if thereby we can control **(p.149)** the oil territory and keep it practically to ourselves."[38] Third, the acquisition and trading of leases represented potential business opportunities in themselves. In an atmosphere of fevered speculation characteristic of the oil industry in its early phase, land and leases frequently changed hands between speculators and investors lured by the prospect of making an instant fortune in oil.[39]

## The Domestic Politics of Oil

What emerges strongly from the evidence, as had been the case in all of Pearson's other business interests in Mexico, is the centrality of the relationship with the Porfirian political elite. This has been explored already in the preceding chapters, but the extension and strengthening of Pearson's clientalist network provided the essential mechanisms through which his oil business became established. Once again, as has already been explored in the cases of the Gran Canal and the TNR, the most significant relationship would be with Finance Minister Limantour.

From the very early stages of Pearson's interest in oil, when he gave instructions to begin the search for oil lands and concessions in 1901, he explained to Body that "it is essential to keep Mr. Limantour satisfied … and let him be convinced that we are absolutely straight in all our actions."[40] It is also of note that, when Pearson was planning his most audacious strategy of competing with WPOC in the domestic market for oil-based products (see below), he was very keen to seek Limantour's advice and approval for his negotiations with Henry Clay Pierce, and to provide Limantour with a blow-by-blow account of his manoeuvres.[41] He confided to his wife in March 1909: "Waters Pierce has today had to drop their already largely reduced price by a quarter … of course they dropped in the morning papers, and we did so in the evening papers. *Limantour is helping us*" (my italics).[42] In a letter three days later, Pearson explained the advantages which resulted from Limantour's support: "The fight continues. It has become vigorous … they have never had a really tough fight before where their opponents have had all the cards—*as we have had here*—to fight" (my italics).[43]

There is also evidence that Pearson's principal rivals in the oil business, the US oilmen Henry Clay Pierce and Edward Doheny, did not receive the same treatment from Limantour as that afforded to Pearson—quite the opposite, in fact. Limantour's increasing fear of, and hostility to, US encroachment on Mexico's economic and political sovereignty has already been referred to in previous chapters, and it appears to have been reflected in his biased treatment of American oil interests.[44] Doheny was **(p.150)** certainly aware of Limantour's hostility, complaining that the finance minister "tried to create an atmosphere of dislike, almost contempt, for our efforts."[45] And Limantour made his disdain for Clay Pierce clear, commenting to Pearson on the failure of his negotiations over a potential merger between S. Pearson and Son and WPOC in 1909, "I have not yet been able to make up my mind as to whether you should regret or welcome this result."[46]

In fact, Limantour's private assurances of the political support of the government in furthering Pearson's oil interests were arguably the most crucial guarantor of Pearson's success. During the course of another extended private interview in January 1906, Body expressed to Limantour his fears about competition from WPOC and received Limantour's explicit assurance, that "when that time comes we shall certainly have assistance from the Government to withstand such rivalry." This meant in practice that duties on imported crude (on which Clay Pierce depended for his business, since WPOC was not involved in exploration or production) would be raised "whenever we were able to supply the market, and when it was necessary to do so to ensure the success of our business."[47] At the same time, it is important to emphasise that Limantour's support for Pearson was never unconditional. As has been consistently argued throughout this book, Limantour's primary concern was not the protection of the business interests of overseas entrepreneurs but the construction of an economic infrastructure in pursuit of Mexico's material progress, national development, and industrialisation. And although he clearly favoured European business interests over those of their US counterparts, he was always necessarily sensitive to accusations from Washington and US businessmen that the Mexican government was openly favouring European interests. He was aware that the Díaz government could not afford to be perceived as anti-American, whatever his personal or private views.

Although he had given repeated assurances to Pearson that he had the government's support, Limantour also knew that a prolonged oil price war was not in the long-term interests of stability. In April 1909 he therefore urged Pearson to end the conflict and draw up instead a contract of cooperation. Pearson replied that it was impossible to negotiate a voluntary arrangement with Clay Pierce and that the only solution would be an amalgamation of El Aguila and WPOC with equal shares, and guaranteed by the Mexican government. Pearson explained that this would be acceptable to him because it would provide security for all the capital so far invested in oil, and that “the refinery and the Isthmus land will represent our profit.” Pearson was very pleased that “Limantour agreed and volunteered to be the messenger.”[48] But the personal animosity between **(p.151)** Pearson and Clay Pierce had become so acute that a deal was no longer possible.

The continuation of the oil war throughout 1909 and into 1910 became an additional source of tension between Washington and the Díaz regime. The reimbursement of tax on imported crude granted to El Aguila, for example, unsurprisingly prompted complaints from Clay Pierce that the British firm had actually taken the products derived from that crude for the domestic trade, which was, in effect, against the law. Limantour therefore informed Pearson in a private interview in July 1910 that the Mexican government had been privately requested by the American ambassador to see that “no partiality was shown to the English over the American firm,” that he considered these complaints as “not without reason,” and that, therefore, he could not openly intervene to stem the losses which El Aguila continued to sustain on its refining operations.[49] As Pearson fully understood, Limantour's support had to be conditional, and never publicly acknowledged. “Limantour is with us, but he cannot go further than say the government must assist us so far as it properly can a Mexican Company.”[50] This again demonstrates that Limantour's support was vital.

Equally important to the establishment of the infrastructure of Pearson's oil business was the approval of President Díaz. Although it is clear that the president relied heavily on Limantour's advice for nearly two decades from the latter appointment as minister of finance in 1893 until the collapse of the regime in 1911, there was never any suggestion that Limantour acted as an *eminence grise* to Díaz, who was always far too skilled a politician to succumb to the will of any of his close advisers. In a revealing (and, significantly, private) interview between Body and Díaz in November 1905, Body reported to Pearson that he began by passing on “very kind messages from Lady P & yourself,” and then:

> I told him of our oil venture … what oil we had found … and what were our hopes. He was most interested, and said *if we wished a higher duty to protect ourselves he would attend to the matter, when we could assure him we could supply the needs of the Republic*. [my italics] I thanked him, and replied I thought we had hardly any need to trouble him to impose a higher duty. He referred to his visit to San Cristobal, and to having seen the oil pumped out, and entered thoroughly into the spirit of our investigations and hopes.[51]

Pearson also subsequently reminded Limantour in 1909 that President Díaz had on several occasions offered “the full sympathy of the Government” in support of his oil venture.[52] A clear example of this was the legislation passed by the Mexican Congress in October 1909 which approved the reimbursement of taxes paid on imported oil which was then **(p.152)** refined in

Mexico and then re-exported. Because of Pearson's investment in the refinery at Minatitlán, this was a significant advantage to his enterprise—and, at the same time, a significant disadvantage to his most powerful rival, the Waters-Pierce Oil Company, which had no refining capacity in Mexico.[53]

Pearson's connections with the inner circle of Porfirian Mexico had always been far more extensive than just his relationship with Limantour and Porfirio Díaz. As analysed in Chapter Three, he had been cultivating a broad spectrum of relationships for more than two decades, and, having turned his full attention to oil, he was able to recruit influential individuals to his cause as intermediaries with state agencies or local authorities to help secure property or leases. For example, in 1904 the services of Captain Porfirio ("Porfirito") Díaz, the president's son, were "requisitioned," as the company secretary in London, R. McDonald Bird, described it, to lobby for the registration of titles to lands at Jaltipan, Veracruz as national lands, which would thereby reduce the company's expenditure on subterranean rights. "With his influence," he wrote, "I trust that the Department of Fomento will grant us our appeal."[54]

Other "agents" or advisers (euphemistically called *consejeros*) were employed in a more clandestine role. Ingeniero Ignacio Muñoz, the president's nephew, was employed in 1908 "in utmost secrecy," for a fee of Mex$5,000, a monthly salary of Mex$25, and a bonus of Mex$10,000 on securing the contract, to act as an intermediary between S. Pearson and Son and the state government of Veracruz to obtain a favourable judgement over exploration rights on 17,5000 acres belonging to the Hacienda Cerro Viejo (in the oil-rich *Faja de Oro*, or Golden Lane) which were also claimed by Doheny's Mexican Petroleum Company, the most serious rival to the Pearson interests as oil producers in the region.[55]

And if other forms of subterfuge were necessary in order to secure potential oil lands, the firm was certainly not squeamish in their adoption. In April 1910 Ryder urged Pearson to approve the acquisition of additional properties in the much sought-after Tampico-Tuxpan District, but recommended that the negotiations be conducted by a third party who would deny any connection to El Aguila or the Pearson interests.[56] As a further example of the adoption of tactics which were less than transparent, El Aguila retained a paid informer to report on the activities of Doheny's Mexican Petroleum Company, and general oil-related activities in Tampico and the Huasteca. Ryder therefore received not only detailed reports but also copies of Doheny's maps of geological soundings and pipeline installations.[57] These were clearly neither isolated nor uncommon practices, or ones of which Pearson was exclusively guilty. In fact, as has been argued above, they were integral to the conduct of business in **(p.153)** Mexico. However, it makes the claim that the firm was always "absolutely straight in all our actions" more difficult to defend.

## Legislative Support

As indicated above, Pearson's acquisition of concessions, property, and exploration rights would not have been possible without the series of legislative initiatives introduced by the Díaz regime in its strategy of constructing an environment more amenable to entrepreneurial activity and providing overseas investors with protection of property rights as well as tax incentives on exploration and production. The reform of mining legislation contained in the *Código de Minería* (1884) and the *Ley Minera* (1892) removed the restrictions of colonial origin on the exploitation of subsoil deposits, including oil, and granted the owners exclusive rights of ownership and exploitation. The first *Ley de Petróleo* of December 1901 authorised the executive to grant individuals exclusive rights over exploration and exploitation of oil deposits on federal (i.e., national) territories, which effectively gave Pearson the opportunity he required to obtain extensive land contracts after 1901.

The legislation most directly favourable to Pearson was the Petroleum Law of 1906, which granted S. Pearson and Son an exclusive concession to exploit the subsoil of lakes, lagoons, rivers, and national and "vacant" (*baldíos*) federal and state lands in Campeche, Tabasco, Veracruz, San Luis Potosí, and Tamaulipas (a total of more than one million acres). In addition, the firm was granted free importation of all materials and machinery necessary for the exploration of lands and refining of products, and even the right to expropriate private lands for the purposes of the concession (such as the need to lay pipelines). The concessions were to last fifty years—significantly, longer than the ten years granted to Doheny's Mexican Petroleum, but, also significantly, the same term as that granted to Pearson in the TNR contract in 1898. They also included an exemption from municipal, state, and federal taxes—with the exception of the federal stamp tax, and state licence tax (*Derechos de Patente*) in Veracruz—on the capital invested in exploration and exploitation. The only obligations imposed upon S. Pearson and Son were a tax on royalties on extraction of crude from federal concessions (of 7 percent to the federal treasury, and 3 percent to the state treasury), to be paid on production of 10,000 barrels per day or more, and a commitment to spend an agreed sum within an agreed time on exploration and exploitation.[58]

The generosity of the terms awarded to Pearson and to Doheny by the Petroleum Laws of 1901 and 1906 has subsequently incurred the wrath **(p.154)** of nationalist historians in Mexico, who have interpreted them as squandering precious national resources and a willful abrogation of Mexico's economic sovereignty.[59] It is important to remember, however, that at the time, neither Díaz, Limantour, nor other members of the Porfirian elite had concrete evidence of the true extent or potential of Mexico's oil reserves.[60] In 1902, Limantour had commissioned a survey of oil deposits in the Huasteca on lands owned by Doheny in Veracruz, the site where major deposits would eventually be located after 1910. The survey had provided evidence of significant reserves, but its findings had been subsequently discredited because the surveyors were discovered to be close associates of Doheny, and therefore likely to have embellished the findings.[61] In fact, the Porfirian state lacked the institutional means or infrastructure to carry out a systematic analysis of land and resources.[62] The Petroleum Laws of 1901 and 1906 were, therefore, based on the assumption that Mexico had only limited oil reserves and that the development of infrastructure which would result from investments made by overseas entrepreneurs would be more beneficial to the nation than the profits those same investors expected to extract from Mexico.[63] Once the existence and profitability of oil had been proven, it was clear that the Mexican government had every intention of reviewing these early concessions and of increasing government revenue by raising taxes (as had happened in the case of mining and colonisation companies). The legislation granted the Mexican authorities the right to review the activities of foreign oil companies, which were always regarded as being subject to Mexican law. It was the Díaz government, in fact, which first imposed taxes on oil exports.[64] Only with hindsight, therefore, do the Porfirian oil concessions appear excessively generous.

Pearson was almost certainly better informed about the scale of potential oil deposits than either Limantour or the Mexican government. He had commissioned a number of geological surveys, inviting the American oilman Anthony F. Lucas, who had drilled the Spindletop well in Texas, to assess his holdings on the Isthmus of Tehuantepec. These early surveys produced mixed results, but they were sufficiently encouraging for Pearson, who was never inclined to take unnecessary risks in his business affairs, to be personally convinced of the existence of substantial deposits.[65] As a result, Pearson's representatives in Mexico were under clear and persistent instruction to lobby the government as hard as possible to secure the necessary legislation. During the months preceding the enactment of the 1906 law, Ryder, perhaps cynically, but certainly effectively, played on the absence of proven reserves, arguing repeatedly that the company required “fair terms” (in other words, favourable terms), given the degree of the “uncertainty of the business.”[66]

**(p.155)** As in the case of the acquisition of oil lands, the most effective means of lobbying was to enlist the support of prominent members of the Porfirian elite as lawyers or agents to exercise influence, lobby, and negotiate on behalf of the company. This was particularly important, given the debates in Congress and the press in 1905 regarding the future of the domestic oil industry as the latest discoveries became more widely known. Article 10 of the Mining Code of 1884 had conceded that mines and oil wells belonged to the owners of the surface land, and the debate centered on a proposed amendment to allow for nationalisation of subsoil deposits in the national interest.[67]

In these circumstances, the need for active lobbying on behalf of Pearson's oil interests was crucial. The lawyer Lorenzo Elizaga (a cousin of President Díaz's by marriage) was employed to act on behalf of the firm in pursuit of federal and state oil concessions.[68] How significant Elizaga's intervention was can only be a matter of speculation, but he was able to report to Body in November 1905, some months before the legislation had been passed by Congress, that “notwithstanding the adverse decision of the Academy of Jurisprudence, he [President Díaz] has given instructions to the Minister of Fomento that the new Petroleum Law should go into effect.” This was a highly significant development in the evolution of Pearson's oil interests. Body immediately wrote to Pearson and commented that “there now seems some reasonable hope that our expectations will be fulfilled … so as to allow the oil department to devote a lot more time to the direct work of the fields, instead of spending so much time and worry on legal matters and titles to protect ourselves in and around the fields of exploitation.” Pearson was delighted with the outcome, and his reaction demonstrates with the utmost clarity the significance of the level of political and legislative support he enjoyed: “I can hardly say how pleased I was to get the news: If we can get the draft Petroleum Law made effective, we shall have put our position upon a rock foundation.”[69]

## Exploration, Production, and Infrastructure

While significant progress had been made in the acquisition of oil lands and the implementation of enabling legislation, the most urgent priority remained exploration and production. It was here that Pearson encountered the greatest logistical obstacles. The discovery of the first productive well at San Cristóbal on the Isthmus of Tehuantepec had taken place **(p.156)** in 1904, and it was this discovery, coupled with the legislation of 1906, which inspired him to proceed with his next major investment: the construction of a refinery at Minatitlán in Veracruz.[70] The site was carefully chosen on the Riberas Coloradas lands, only twenty miles from Puerto México, the terminal port of the Tehuantepec Railway on the Atlantic coast, in order to link production from San Cristóbal to domestic markets via tank steamer on the Coatzacoalcos River and the internal railway network. A small experimental refinery was erected, with a capacity of 2,000 barrels per day. At the same time, a pipeline from San Cristóbal to the refinery was laid, adequate tankage constructed, a 3,000-ton tank steamer commissioned, and a standard-gauge railway built to transport products from the refinery—the gasoline, kerosene, gas oils, diesel oils, fuel oils, paraffin waxes, and asphalts which el Aguila would eventually launch on to the domestic market—the eight miles to the rail connection with the TNR.[71]

So confident was Pearson in the assured prosperity of the illuminating oil business that he predicted in 1906 that “by the end of the year we expect to have 6,000 tons a week of napthas and illuminating oils to sell. As the total consumption in Mexico is under 50,000 tons a year, this means that we should have minimum of 250,000 tons of such oils to dispose of outside of Mexico.”[72] He instructed Body and Ryder to begin the search for domestic clients in Mexico. During 1906 Body entered into negotiations with the major railway companies (for example, the Veracruz and Pacific Railway and Mexican Railway), despite the fact that these companies had existing contracts with WPOC.[73] At the same time, a Commercial Department was established in the firm's London office to secure contracts to supply the growing British market for oil products, and signed a contract with the firm of C. T. Bowring in London (which would later be acquired by S. Pearson and Son) to supply kerosene and asphalt to the British market.[74]

The optimism of 1906 soon turned, however, to frustration.[75] The refinery at Minatitlán did not become operational until March 1908 and was constantly dogged by lack of crude from the San Cristóbal field. In fact, the failure to find adequate supplies of exploitable crude was to be the source of greatest frustration to Pearson before 1910. Pearson sent monthly requests to Ryder for up-to-date reports on the current state of surveys and drillings, along with exhortations to extend the explorations to as many of the potential sites under contract as possible. Ryder's reports—which occasionally showed exasperation with Pearson's unrealistic expectations—argued that only so much could be done with limited resources, that it was futile to overextend the resources that existed, and that a more pragmatic approach should be adopted. For example, **(p.157)** he wrote to London in March 1906 opposing the idea of extending explorations beyond the firm's current operations:

> I dislike the idea, on account of it being so remote from our field of operations. I think what we ought to do for some time to come is to develop producing oil fields to the extent of ensuring an ample supply of crude for our requirements, and not take in new fields remote from our present fields until we have sufficient production…. To locate wells at remote places is not as easy an undertaking as you might imagine. In the first place, we do not have transportation facilities; in the second place, under the most favourable conditions it is a very difficult job; and in the third place it is extremely expensive. I think you will admit these are obstacles sufficient to support the stand we take that we should concentrate our operations … on those fields which will give us product with the least expenditure.[76]

Without regular supplies from his own wells, Pearson had to resort to buying Mexican crude from local competitors, and importing (and reexporting) refined oils from Oklahoma to supply Bowring's in London. He was also forced to import crude from Texas to supply the six oil-burning locomotives he had ordered for the Tehuantepec Railway in 1904. In order to remedy the lack of domestic crude, Pearson turned to other domestic producers. The deal signed in 1907 to supply crude from the Furbero well south of Tuxpan (the property of Percy Furber's Oil Fields of Mexico Company, subsequently acquired by El Aguila in 1914) involved further expenditure to Pearson, since he was obliged to advance the funds for the construction of a fifty-mile pipeline to Tuxpan and a narrow-gauge railway in order to guarantee regular supplies.[77] Even then, the first cargo of oil from the Furbero field was not received until May 1910, and its volume (600 barrels per day) was less than the contract had stipulated (between 2,000 and 6,000 barrels per day)—and much less than Pearson needed to maintain a profitable operation.

These multiple difficulties led to growing frustration and to an intensification of activities during the course of 1908. First, the pace of, and expenditure on, surveying and exploration were increased, in the hope of discovering major new deposits which would solve the problems of supply. Second, Pearson hatched his plan to establish an independent company which would take charge of domestic sales and marketing in order to compete more effectively with the existing commercial monopoly enjoyed by WPOC.

## The Formation of El Aguila

In July 1908 came news of a major strike at Dos Bocas in Pearson's San Diego field, south of Tampico in the *Faja de Oro* in northern Veracruz.

**(p.158)** The well ignited and burned for fifty-seven days, consuming over one million tons of crude until salt water terminated the life of the well.[78] Despite the unmitigated disaster of Dos Bocas, the discovery of substantial deposits gave Pearson renewed impetus to enter the domestic market. In order to do so, Pearson chose to set up an in de pen dent distribution company to market the oil-based products from the refinery at Minatitlán within Mexico. Pearson explained his business strategy in a private letter to his wife in February 1908:

> The company will trade only in Mexico, and I want Mexican capital to be invested. The oil interests on the Isthmus and the refinery would remain ours, and be devoted to the export business. This would mean that my interest in the Mexican company would in time pay for all our properties and expenditure, say in 3 or 4 years' hence, and therefore the Isthmus property and the refinery, etc., would be the profit on the transaction. In other words I should get my money back in 3 to 4 years, and have the export trade as my profit. This will be a splendid way out for me. So naturally I am going to devote my best efforts to it—it being by far the most important business that needs settling. I admit it is an ambitious scheme but care and patience, etc, should bring it to fruit.[79]

As a result, the *Compañía de Petróleo el Aguila* was formerly constituted on 31 August 1908. As already indicated, its initial remit was limited to domestic sales and distribution, with exploration, production, refining, and the export trade left in the hands of the parent company. Those limitations were reflected in its initial share capitalization (Mex$100,000) and the composition of its board of directors, who were all existing employees of S. Pearson and Son.[80] The new company immediately set about the task of acquiring sites for oil depots, and of establishing sales agencies throughout the length and breadth of the country. As in the case of the acquisition of land and drilling rights, this operation was carried out with remarkable speed. Already by the end of 1908, 77 agencies had been established. Just over one year later, in January 1910, the number of agencies had more than doubled to 162, 24 of which were staffed by salaried agents, 125 of which were agencies paid on the basis of commission on sales, with the remaining 13 “mixed” agencies recruited on the basis of a combination of salary and commission.[81]

As already suggested, one of the principal reasons for establishing a more effective weapon with which to penetrate the Mexican market for oil-based products was precisely the failure of the negotiations over a possible accommodation between S. Pearson and Son's oil interests and WPOC which Pearson had initiated with Henry Clay Pierce, WPOC's chief executive, in November 1907.[82] Pearson had proposed that for a period of two years, in return for one-third of WPOC's profits, the firm **(p.159)** would supply WPOC with refined or partially refined oil-based products. He argued that this represented a favourable deal for WPOC, since the payment which would have to be made under the agreement to S. Pearson and Son would represent no more than 10 percent of WPOC's annual profits. Here, as Jonathan Brown has pointed out, Pearson was effectively proposing a cartel between his firm and WPOC over oil production and the supply of the Mexican domestic market.[83]

The negotiations dragged on for an additional eighteen months but eventually floundered on the question of the market for fuel oil, which Pearson, as an oil producer, wanted to keep to himself, but of which Clay Pierce also wanted a share.[84] They were further complicated by Clay Pierce's simultaneous, but ultimately unsuccessful, attempt to negotiate a similar deal with Doheny's Mexican Petroleum Company, and by a decision by the federal Circuit Court in St. Louis, Missouri, that Standard Oil was in violation of US antitrust laws (according to the Sherman Anti-Trust Act) and was therefore required to divest itself of over thirty affiliates, one of which was the Waters-Pierce Oil Company.[85] The stand-off between Clay Pierce and Pearson led to further attempts by the latter to broker a deal with Doheny. In return for an agreement to cede to Doheny the disputed territories of Cerro Viejo (which, as indicated above, had been in dispute since 1908), El Aguila would receive a supply of crude from the Huasteca Petroleum's Juan Casiano field and access to the Huasteca's pipeline to transport El Aguila's crude to Tampico.[86] As an indication of the rancour which this "oil war" generated amongst its participants, Body explained that El Aguila's main interest in this arrangement would be "my earnest desire to exclude Pierce from any chance to get crude or distillate from Doheny."[87]

The failure of these protracted negotiations not only frustrated and angered Pearson, but also strengthened his resolve to boost the effectiveness of the weapon he had created to conduct his war with Clay Pierce—El Aguila. To do so, he now proposed to restructure the company and to give it exclusive control of exploration and production in Mexico's most oilrich territories, and to reconstitute it as a Mexican company, the majority of whose board of directors would be Mexican citizens.[88] He explained the strategy to his closest confidant—his wife—in March 1909:

> I am sure a Mexican business should be partly owned by Mexicans … a Mexican company would be assured of financial support much more than a foreign company, and I should feel our investment consequently would be on a safer basis than if entirely owned by us.… I should like what further money is needed to be found in this country and not by us.

**(p.160)** "This strategy," he concluded with characteristic bluntness, was "wise, quite apart from it being convenient."[89]

The "mexicanisation" of El Aguila in 1909 drew together a number of the strands of Pearson's modus operandi and business strategy in Mexico. First, it represented a further opportunity to involve prominent members of the Porfirian elite and, thereby, to employ their ser vices to lobby the Díaz government on behalf of Pearson's oil interests. Elite lobbying would not only guarantee political support in the struggle with WPOC to dominate domestic sales, but also increase the likelihood that future sources of capital for a rapidly expanding and capital-hungry business would be found in Mexico.[90] Second, mexicanisation pandered to the nationalist aspirations of the Porfirian elite and served to mitigate the growing fear that foreign (particularly US) corporations were taking over Mexico's most important economic resources.[91] Third, Pearson would retain control over what he considered to be the most lucrative aspect of the oil business—the export trade. Although this might have been considered something of a risk in 1909, given his frustrating experiences since 1901, there were now clear indications that his investment had every chance of paying off. In April 1909 Pearson had obtained a "secret" report to the US government written by C. W. Hayes, chief geologist of the Geological Survey Office in the Department of the Interior in Washington, on the extent, importance, and potential of oil concessions currently being explored by S. Pearson and Son. The report was very positive about the prospects, and Pearson commented to his wife that "when I heard his opinion—which is one to be valued—I nearly cried. But as I cannot shout until I am quite out of the wood I had to refrain from doing so."[92] A final, and equally significant advantage of registering his oil company overseas and not in the UK was that it would now escape the glare of a full listing on the London Stock Exchange, and would therefore be exempt from audit scrutiny and tax liabilities.[93]

The final step to mexicanise El Aguila necessitated an important modification in its title and constitution. In April 1909 it became the *Compañía Mexicana de Petróleo el Aguila*, whose board of directors now contained the *flor y nata* of the Porfirian political elite. Pearson's longtime ally, Guillermo de Landa y Escandón, now governor of the Federal District, and Enrique Tron, owner of Mexico City's first (and still most famous) department store, El Palacio de Hierro, and a member of the board of the Banco Nacional de Mexico, were entrusted with domestic sales. Enrique Creel, banker, former governor of Chihuahua, and Mexican ambassador to the United States; the lawyer Pablo Macedo, president of the recently mexicanised *Ferrocarriles Nacionales de México*; and Fernando Pimentel y Fagoaga, president of the Banco Central Mexicano, were entrusted **(p.161)** with finance and investment. The lawyers Luis Elguero and Luis Riba (the latter El Aguila's chief legal representative, who also acted for a number of other railway and tramway companies) were put in charge of land acquisitions and leasing contracts; and last, but far from least, Colonel Porfirio ("Porfirito") Díaz, the president's son, was allocated a position in the fuel oil sales team. El Aguila's Mexican directors were to be generously paid for their services—either 2.5 percent of total earnings, or an allocation of bonds to the value of Mex$500,000 with a similar allocation of preference shares as a bonus.[94]

The strategy behind persuading so many prominent *científico* politicians, lawyers, and financiers to serve as either directors or "advisers," and of rewarding them generously for doing so, was explained to Chairman de Landa y Escandón by Thomas Ryder, who became the general manager (*gerente general*) of El Aguila's operations:

> Our principal objective, since the establishment of our business, has been to obtain those contracts whose importance would bring us, if not decent profits, given the current level of prices in this country, then prestige in the eyes of Mexican consumers, as a result of which we have constantly sustained an energetic campaign to obtain important contracts, calling frequently upon the assistance of our Advisers, as well as that of our friends…. Given the importance of this task, and the natural difficulties of persuading important companies who have for so many years been consuming the products of our competitors to change to us, I urge you to enlist the support of all of the members of the Board of Directors in order to expedite this task.[95]

The strategy was highly and immediately effective. De Landa y Escandón explained to Pearson in March 1910 the results which it had produced:

> You have no idea how many factories and mining companies have applied to us to supply them with fuel oil, and if we can make contracts with these large industries we can have a sure outcome for our production…. By selling this fuel oil, we shall always be in a better position to secure contracts for lubricating and refined oil.[96]

At the same time, however, the minutes of the board meetings of El Aguila reveal that a number of serious difficulties arose in fulfilling the terms of these new contracts, principally because of delays and deficiencies in production at the Minatitlán refinery. In August 1908, for example, the board was informed that sales would have to be strictly rationed to existing contracts. More serious, the failure to supply fuel oil to one of El Aguila's most important clients, the Mexican Railway (*Ferrocarril Mexicano*), according to the terms of a contract signed in November 1908, led to claims for compensation in October 1910 by the railway company for **(p.162)** the costs associated with reconverting locomotives back to running on coal, and the difference between the cost of the coal which they were obliged to purchase and that of the fuel oil they had already bought. There was little for the board to do but to accept the claim and pay compensation, and to provide a guarantee that the supply of fuel oil to the railway would resume from March 1911; otherwise El Aguila would again be liable to pay further compensation. The central problem remained the absence of adequate supplies of crude.[97]

Despite these serious setbacks, El Aguila's penetration of the domestic market during 1909 continued apace. The response of Clay Pierce and WPOC was to reduce the price of their oil-based products, by as much as a third in some cases, and almost half in the case of kerosene, in order to retain their existing buyers and to hold off El Aguila's attempts to undermine their market share. El Aguila's management monitored the movement of prices very closely and adjusted their prices accordingly in order to compete. An open and aggressive price war ensued, backed up by a propaganda campaign spearheaded by a new post of head of the Department of Propaganda, and the publication of a company newspaper, which was distributed nationally.[98]

Pearson was convinced that the strategy was working, and that Clay Pierce was suffering commercially as well as personally as a result of the competition. He also claimed that sales had increased overall by a third and that, by the middle of 1909, El Aguila controlled 50 percent of the domestic market for illuminating oil, and 25 percent of the lubricating trade.[99] The board of directors was informed in December 1909 that El Aguila was also now supplying 40 percent of the gasoline consumed within the republic. Despite fluctuations caused by the irregular shifts in prices generated by the intense competition, income from the sales of all Aguila products (illuminating oil, gasoline, lubricating oils and greases, paraffin wax, fuel oil, asphalt) between December 1908 and December 1909 rose from Mex$83,106 to Mex$303,446.[100] The positive trends in sales continued throughout 1910, and at the end of the year the chairman was able to report that the first public issue shares on the London Stock Exchange had been a resounding success.[101]

These developments gave Pearson good grounds for optimism. On his first trip to Mexico since his elevation to the House of Lords in June 1910 as Baron Cowdray of Midhurst, Pearson, who now signed himself “Cowdray” in all of his correspondence, gave a very upbeat address to the board of directors of El Aguila at their meeting in October 1910—the first meeting of the board which Pearson had attended. He singled out the efforts of El Aguila's managing director, Thomas Ryder, for particular **(p.163)** praise, commending his energy and determination in establishing a successful business, especially in the face of tough competition from “such a well-known competitor” (referring to Clay Pierce). And he spoke of his optimism for the future of the oil business, both in terms of finding adequate supplies of crude, and in more general terms of overall commercial success.[102]

The final event in the birth narrative of El Aguila, and the most vital piece in the mosaic of oil interests which Pearson had assiduously assembled since 1901, occurred in December 1910, when what would become El Aguila's most productive well, and the second-largest well anywhere in the world at the time (Potrero del Llano No. 4, near Tuxpan, Veracruz), was brought in.[103] Although it took several weeks before it was brought under control, Potrero del Llano did not simply solve El Aguila's persistent problem of adequate supplies of crude, but also proceeded to flow at the rate of 100,000 barrels per day for the next nine years, producing a total of well over 100 million barrels.[104] In the short term, the supplies from the Potrero field increased El Aguila's annual production from 210,000 barrels in 1910 to 3.8 million barrels in 1911.

The repercussions for the Mexican oil industry were even more profound. With the almost simultaneous discovery in July 1910 by Doheny's Huasteca Petroleum Company (HPC) of an equally productive well in the “Golden Lane” (Casiano No. 7, only twenty-five miles north of Potrero), the industry entered a dramatic new phase of development and expansion. National production (which effectively meant the combined production of El Aguila and HPC) rose from 3.6 million barrels in 1910 to 12.5 million barrels in 1911, and within a very short space of time Mexico would enter the ranks of the top three oil producers in the world.[105] Pearson was now able not only to satisfy his original plans for self-sufficiency in production, refining, and transportation in order to dominate the Mexican domestic market, but also to construct new and more ambitious plans to compete in the export market with Standard Oil in the Americas and Royal Dutch Shell in Europe.[106]

The supreme irony of the dramatic transformation of El Aguila's fortunes at the end of 1910 was that it occurred at precisely the same time as the equally dramatic political implosion of the government which had so carefully nurtured them. The outbreak of the Madero Revolution in November 1910 would be the catalyst for the rapid and unforeseen demise of the Porfirio Díaz regime six months later, following more than three de cades in power. A further irony is that the subsequent decade of revolution and civil war certainly did not mean the end of Pearson's interests in Mexico—far from it, since the production of and demand **(p.164)** for oil-based products increased exponentially throughout the decade. Nevertheless, it marked a significant watershed in Pearson's relationship with Mexico, which over the course of the next decade would not only transform the nature and scope of his business empire but also ultimately seal the fate of his Mexican enterprises.

Notes:

(1.) “Oil will soon replace coal and wood, and will become the only source of fuel. This new source of immense wealth discovered in this country has made those most entrepreneurial of speculators, based upon their understanding of the Republic's geological structures, think that there must be richer veins in Mexico than those of Pennsylvania.” Matías Romero to Sebastían Lerdo de Tejada 05/04/1865 in J. Tamayo (comp.) *Benito Juárez: Documentos, discursos y correspondencia* Mexico, 1974, Vol IX, p. 791.

(2.) For details of Romero's career, see Bernstein *Matías Romero*.

(3.) J. Álvarez de la Borda *Los orígines de la industria petrolera en México 1900–1925* México: Archivo Histórico de Petróleos Mexicanos, 2005, pp. 17–28.

(4.) J. Coatsworth “Obstacles to Economic Growth in Nineteenth-Century Mexico” *American Historical Review* Vol 83, 1978, pp. 80–100.

(5.) S. Haber, A. Razo, and N. Maurer *The Politics of Property Rights: Political Instability, Credible Commitments, and Economic Growth in Mexico, 1876–1929* Cambridge: Cambridge University Press, 2003, pp. 190–235.

(6.) J. Brown *Oil and Revolution in Mexico* Berkeley: University of California Press, 1993, pp. 16–25.

(7.) See, for example, the case of California oilman Edward Doheny, who would become one of Pearson's greatest rivals; M. R. Ansell *Oil Baron of the Southwest: Edward L. Doheny and the Development of the Petroleum Industry in California and Mexico* Columbus: Ohio State University Press, 1998.

(8.) Furber *I Took Chances*, p. 91. Furber later used his connections as a Mason to secure the intervention of President Díaz (himself a prominent Mason) in 1897 in pursuit of a disputed claim to oil lands at El Cuguas in Veracruz which would form the base for his Oil Fields of Mexico Company (registered first in London in January 1898 and five years later, in 1903, in Delaware); see pp. 91–101; for the connections between Díaz and Freemasonry, see Garner *Porfirio Díaz*, pp. 28–29.

(9.) Furber *I Took Chances*, pp. 157–58.

(10.) Letter quoted in Young *Member for Mexico*, p. 119.

(11.) SMA:PEA Box A9 Pearson to Lady Pearson 24/02/1909; Pearson's reference to his timidity in comparison with the “men of old” was a reflection, he admitted in the same letter, of his recent reading of the romantic fiction of Walter Scott.

(12.) AJYL 2a serie Pearson to Limantour 08/03/1909.

(13.) Haber, Razo, and Maurer *The Politics of Property Rights*, p. 198.

(14.) SMA:PEA Box A1 J. Body “How We Went into Oil,” 1928. The most comprehensive account of the development of the Mexican oil industry in these years can be found in Brown *Oil and Revolution*, pp. 7–100; J. Brown “Domestic Politics and Foreign Investment: British Development of Mexican Petroleum 1889–1911” *Business History Review* 61:3, 1987, pp. 387–416; see also L. Meyer *Su Majestad Británica contra la Revolución Mexicana: El fin de un imperio informal 1900–1950* México: El Colegio de México, 1991; and Alvarez de la Borda “El inicio de la industrialización petrolera.”

(15.) SMA:PEA Box A1 Body to Pearson 19/04/1901.

(16.) G. Jones *The State and the Emergence of the British Oil Industry* London: MacMillan, 1981, pp. 1–8. It is also highly likely that both Pearson and Body would have been aware—although I have found no specific reference to it—of the speculative exploration in the Tampico region in early 1901 of the American oilman Edward Doheny, who already had a successful track record in the California oil business. Doheny registered the Mexican Petroleum Company of California in December 1900 and struck oil five months later at El Ebano near Tampico in May 1901. Ansell *Oil Baron*, p. 56.

(17.) As we shall see in the next chapter, El Aguila was by this time on a much surer footing, and Pearson signed a contract with the Admiralty in January 1913 for an annual supply of 200,000 tons of fuel oil. Due to the increase in war time demand, by the end of WWI, El Aguila had supplied more than three million tons of oil products to the British war effort. However, Pearson's business relationship with the British government was adversely affected by the diplomatic difficulties which arose following the overthrow and murder of President Francisco Madero in 1913 in a counterrevolutionary coup led by General Victoriano Huerta. The Wilson administration was convinced that Britain's subsequent recognition of Huerta, to which Wilson was strongly opposed, had been orchestrated by Pearson. This hostility, coupled with London's increasing deference to Washington over policy toward Mexico, meant that Pearson's oil interests were neither protected nor supported by the British government. This was one of the reasons why the Admiralty continued to buy its fuel oil from Texas, and signed a long-term contract with the Anglo-Persian Oil Company in May 1914 for six million tons over twenty years, rather than signing a more substantial contract with El Aguila; Jones *The State*, p. 155.

(18.) The degree of personal attention which Pearson paid to the oil business can be seen, for example, in the diary of his personal programme for 1912. This included a three-month stay in Mexico and the United States, with a three-week stay in New York, a three-week trip to the “Northern Fields and Tampico,” ten days at the “Refinery and Isthmus,” and ten days in Mexico City; SMA:PEA Box A2 “Chief's Notebooks.”

(19.) Despite the huge outgoings El Aguila was having to undertake between 1908 and 1911, it is significant that only two bank loans were approved by its board of directors; the first was $700,000 from the Bank of London and Mexico, and the second $800,000 from the Canadian Bank of Commerce, both taken out in January 1911 to meet the urgent costs of building a pipeline between the gusher at Potrero del Llano and the port of Tuxpan; Archivo Histórico de Petróleos Mexicanos (hereafter AHPM) Caja (hereafter C)39 Expediente (hereafter Exp.) 1024 f. 153 25/01/1911. This clearly suggests that funds for exploration were available from other sources.

(20.) SMA:PEA Box 1 C Reed *History: The Mexican Eagle Oil Company*, August 1928, p. 6. Spender *Weetman Pearson* (p. 151) reproduces Pearson's own figures of between £1.5 million and £3.5 million of expenditure over income before 1910, and even speculates that the real figure was as much as £4.5million.

(21.) Pearson to Limantour AJYL 2nd series Roll 53 13/04/1909; the contemporary rate of exchange was approximately 10 pesos to the pound sterling; the total expenditure was therefore closer to £750,000.

(22.) J. Wale, L. B. Freeman, and A. Godley “Weetman Pearson in Mexico and the Emergence of a British Oil Major 1901–1919” *Business History Review* Vol 84, Summer 2010, pp. 275–300.

(23.) AHPM C3033 Exp.78547 Pearson to Ryder 06/03/1906.

(24.) SMA:PEA Box A4 Pearson to Body 3/12/1908.

(25.) This was the advice he gave to his protégé Everette Lee DeGolyer, when the latter was setting up his own oil company in the United States. DeGolyer was a young American geologist who was credited with the discovery of El Aguila's most productive well, Potrero del Llano IV, in 1910. He subsequently became the chief geologist of El Aguila and later a business partner with

Pearson during his entry into the oil business in the United States via the Amerada Corporation in 1919; L. Tinkle *Mr. De: A Biography of Everette Lee DeGolyer* Boston: Little, Brown, 1970, p. 155.

(26.) "The total maximum sum this office (London) must find for all Mexican purposes of every kind is £15,000 per month: as you receive £5,000 per month from the earnings of the Electric Companies, your net drafts will not exceed £10,000." SMA:PEA Box A4 cable Chief–JBB 10/02/1910.

(27.) If we add Pearson's figure of £286,000 for expenditure over income in 1908 to the sum of £200,000 committed by 1906, and assume that the bud get imposed by Pearson was adhered to in 1909 and 1910, then the total of expenditure over income to 1910 would have been closer to £870,000. Given that to find a contemporary equivalent it is necessary to multiply these figures by a factor of at least fifty, this is still, by any account, a considerable sum.

(28.) SMA:PEA Box A1 Body to Pearson 19/04/1901.

(29.) In 1916, in the context of rumours that the Constitutionalist government of Venustiano Carranza was going to pledge to restore communal rights over any oil lands which had previously formed part of the communal lands of indigenous communities, the firm revealed that "we have several leases that we obtained by contract from communal bodies," but went on to suggest that their loss would not constitute a significant blow to their interests, since these lands were "not highly valuable." The firm was much more concerned about the fact that the decree might retrospectively cover land which formerly belonged to communities but had been recently divided up "within the memory of man" (i.e., according to the legislation passed by successive Liberal governments in Mexico since 1855), since it had many leases of this kind. AJYL 3a serie S. Pearson and Sonto the Foreign Office 18/02/1916.

(30.) AHPM C2806 Exp. 73464 Memo Huchison to Ryder 19/09/1911.

(31.) SMA:PEA Box A4 Memo from Body 28/04/1908.

(32.) The relationship between the Peláez clan and El Aguila will be explored in more detail in Chapter Seven. A *condueñazgo* was a joint-stock corporation which had evolved over the course of the nineteenth century in Veracruz in which land was co-owned by individuals who held one or several shares equivalent to plots of land; A. M. Serna *Oil, Revolution and Agrarian Society in Northern Veracruz: Manuel Peláez and Rural Life in the "Golden Lane," 1910–28* Doctoral thesis, University of Chicago, 2004, pp. 107–19. It is interesting to note that local landowners sometimes preferred outright sale to leasing; in the case of Peláez, Pearson's preference was for leasing, whereas Peláez himself favoured outright purchase.

(33.) SMA:PEA Box A4 Body to Pearson 26/10/1905.

(34.) AJYL 3a serie Cowdray to Limantour 18/08/1910 and 24/08/1910; unfortunately for Limantour, when drilling eventually took place on his isthmus lands, no oil was discovered. As Pearson explained, "The pool near your boundary did not pass into your land, nor could the geologists find any indications on your land that justified time being spent upon making a geological survey." Aware of the financial difficulties Limantour was experiencing in his Parisian exile after 1911, and as a way of compensating for the disappointment, Pearson invited the former finance minister “to call upon me for financial assistance whenever you need a friend to help you”; Limantour replied, with more than a hint of irony, if not disdain: “I am touched by your generous offer to be my banker. Fortunately I am still in position for some time more [*sic*] to pay my taxes”; AJYL Cowdray to Limantour 11/05/1916, reply Limantour Cowdray 15/05/1916.

(35.) SMA:PEA Box A1 Memo from Pearson to S. Pearson and Son Oil Fields Department 01/03/1906.

(36.) AHPM C2806 Exp. 73464 Memo Huchison to Ryder 15/09/1911. By 1918 there appears to have been a dramatic shift in the pattern of tenure of El Aguila's oil lands, with the vast majority of holdings now leased rather than owned. El Aguila's total holdings now amounted to 642,138 hectares (or 1,586,080 acres), 455,520 hectares of which (over 70 percent) were leased from individual owners or *condueñazgos*, with a further 139,707 hectares (over 20 percent) leased from other oil companies. The remaining 49,911 hectares (123,277 acres) were owned by El Aguila, but the vast majority of these lands (31,255 hectares, over 60 percent of the total) were leased to other oil companies. AHPM C2824 Exp. 73657 ff. 11–15, 1918. Part of the reduction in the amount of land owned directly by El Aguila between 1911 and 1918 is perhaps explained by the transfer in 1912 of properties owned by the firm to the Mexican Estates Company (*Compañía Mexicana de Bienes Inmuebles, SA*), which controlled over 500,000 acres/182,347 hectares (including the Romero Rubio lands, 134,702 hectares in Veracruz and the isthmus acquired for £50,000 in 1901; the Veracruz Land and Cattle Company, established in 1907; the *Cia Agrícola y Colonizadora del Gavilán* in Minatitlán, Veracruz, formerly owned by Emilio Rabasa; the Uspanapa Land Co.,18,588 hectares of *baldíos* in Chiapas formerly owned by former British Consul Sir Lionel Carden). The total value of the properties was estimated at £102,000 (approximately Mex$1 million). Ninety-five percent of the shares in the Mexican Estates Company were directly controlled by members of the Pearson family; SMA:PEA Box E3 Mexican Estates Company Ltd.

(37.) Spender *Weetman Pearson*, pp. 149–50.

(38.) AHPM C3033 E78597 1906. This explains the fact that, when placed under pressure by the successive increases in taxation on rentals and royalties introduced by the Constitutionalist government after 1915, Body was able to propose a dramatic reduction in the number of “dead” or unproductive leases by almost two-thirds, thus reducing the potential tax liability, without affecting levels of oil production; see AHPM c2824 Exp. 73657 1918 ff. 11–15 Body to Ryder 29/10/1918. It is also important to point out that, if the strategy was designed primarily to keep rivals out, then it was unsuccessful. By the end of 1901, Doheny's Mexican Petroleum already claimed to have acquired as much as 600,000 acres in the Tampico area; Ansell *Oil Baron*, p. 58.

(39.) The strategy was explained by Everette Lee DeGolyer, El Aguila's chief geologist: “The controlling theory of operation would be the leasing of apparently desirable lands directly from the owner and the sale, as soon as possible, of a block of leases large enough to return the working capital to the treasury of the company and yield a cash profit on the transaction”; Tinkle *Mr. De*, p. 139.

(40.) SMA:PEA Pearson to Body 28/10/1901.

(41.) AJYL 2a serie R53 Pearson to Limantour 16/03/1909. Limantour's primary concern, according to Pearson, was that Mexican consumers should not be penalized by any deal agreed.

(42.) SMA:PEA Box A9 Pearson to Lady Pearson 24/03/1909.

(43.) Ibid. 27/03/1909.

(44.) When Doheny received concessions to search for oil in Mexico in 1901, President Díaz made him promise never to sell his holdings to Standard Oil without giving the Mexican government the first option to buy him out; Ansell *Oil Baron*, p. 59.

(45.) Interview with Doheny quoted in Ansell *Oil Baron*, p. 67

(46.) AJYL 2a serie Limantour to Pearson 14/08/1908.

(47.) SMA:PEA Box A4 JBB-WP 08/01/1906.

(48.) SMA:PEA Box A9 Pearson to Lady Pearson 04/04/1909.

(49.) SMA:PEA BoxA4 Memo Pearson to Body 28/07/1910. Keeping Limantour satisfied also meant showering him with gifts, luxury goods, and objets d'art of European manufacture, as well as the generous terms offered for oil exploration rights on the estates owned by Limantour and his brother Julio on the Isthmus of Tehuantepec, referred to earlier. Pearson even acted as an intermediary in procuring a succession of English governesses to educate the children of the Limantour family; Box A3 Pearson to John Body 13/1/1913.

(50.) SMA:PEA Box A9 Pearson to Lady Pearson 04/04/1909.

(51.) SMA:PEA Box A4 JBB–WP 04/11/1905.

(52.) Ibid. Body to Pearson 08/01/1906; AJYL Condumex 2a serie Rollo 53 Pearson to Limantour 16/3/1909.

(53.) Pearson's representatives in Mexico had been lobbying for this legislation for some time: Consejo de Administración (Board of Directors) CMPEA 26/10/1909; AHPM c39, Exp. 1024ff. 35–39.

(54.) AHPM C3031 Exp. 78560 1904. As indicated below, “Porfirito” would become one of the Directors of El Aguila in 1908.

(55.) AHPM C2806 Exp. 73464 Muñoz to Ryder 22/08/1911. The case stemmed from the fact that the own ers, the Peláez-Gorrochotegui family, had, apparently under pressure from Doheny, signed two different contracts, one with Pearson, and one with Doheny. Even though the dispute over Cerro Viejo was still unresolved by the summer of 1911, Ryder nevertheless unilaterally cancelled the agreement with Muñoz, much to the latter's consternation. It is possible to speculate that the reason why Muñoz was unceremoniously dumped in the summer of 1911 was the fact that the members of the Díaz family, following the president's exile in May, were no longer of any value to Pearson's interests; for further evidence, in the case of Porfirito Díaz, the president's son, see Chapter Six. Litigation continued over Cerro Viejo throughout the Revolution, even though Doheny continued to extract large quantities of oil from the property (60,000 barrels per day); it was not until 1918, when the two rival companies (Doheny's Huasteca Petroleum and Pearson's El Aguila) agreed to cooperate and share production from Cerro Viejo in the face of increasing Carrancista pressure on foreign oil companies; Brown *Oil* *and Revolution*, pp. 138–39. In September 1922 Doheny was granted exclusive drilling rights, by which time it was increasingly clear that the spectacular levels of production witnessed in the Mexican oil fields since 1911 were in serious decline; Ansell *Oil Baron*, pp. 211–12.

(56.) "I believe we should select some outsider who would incur obligations and make payments that would be acceptable to us, we, however, not to be known in the negotiations, the contracts to be in the name of the person we might select, with the right to turn them over to anyone else"; AHPM C3033 Exp. 78597 ff. 74–76 Ryder to Pearson 07/04/1910.

(57.) AHPM C3013 Exp. 78096 contains the correspondence between Pearson, Ryder, and Courtland Lawrence (the agent) between 1910 and 1912; Lawrence was paid the not-inconsiderable sum of US$150 per month for his ser vices "with the understanding that he will continue getting information about the petroleum industry and render us reports … in view of the considerable information that he has always given us."

(58.) AHPM C2806 Exp. 73464 Government Concessions Owned by El Aguila 1911. El Aguila had fulfilled all of these drilling requirements by 1911, but by then had largely ignored the federal lands, and concentrated its explorations on rented lands in the isthmus and northern Veracruz. As a consequence, it appears that the government received little or no revenue from the federal concessions.

(59.) For one of many examples, see J. Silva Herzog *Historia de la expropriación de las empresas petroleras* México, 1964, pp. 27–33.

(60.) As a result, argues Myrna Santiago, "oil did not feature prominently in the Científico agenda"; M. Santiago *The Ecology of Oil: Environment, Labor, and the Mexican Revolution* Cambridge: Cambridge University Press, 2006, p. 63.

(61.) According to Brown *Oil and Revolution* (p. 29), Doheny was convinced that neither Díaz nor his inner circle thought that his oil venture in Mexico would ever be successful.

(62.) R. Holden *Mexico and the Survey of Public Lands: The Management of Modernisation 1876–1911* DeKalb: Northern Illinois University Press, 1993.

(63.) This is also the view of M. E. Ocasio Meléndez *Capitalism and Development: Tampico, Mexico 1876–1924* New York: Peter Lang, 1998, p. 114.

(64.) Brown *Oil and Revolution*, p. 40. As Brown comments, it is also important to remember that Porfirian legislation regarding mining and oil was notoriously contradictory.

(65.) "The money we have spent and are spending on the fields is not a gamble but a business enterprise, and must be as carefully watched and taken care of as in any ordinary every day business"; AHPM C3033 Exp. 78547 Pearson to Ryder 27/08/1908.

(66.) See the correspondence between Ryder and W. T. Griswold, a geologist for the US Geological Survey, who was employed by the firm in 1906 to carry out a detailed survey of its oil properties; what is most noticeable in the correspondence is (a) the exploitation of political influence, demonstrated by the ease with which Ryder was able to get the minister of *fomento* (development) to write letters of introduction for Griswold to the governor of San Luis Potosí, and (b) further evidence of Ryder's penchant for industrial espionage, instructing Griswold to spy on the Ebano field belonging to Doheny's Mexican Petroleum Company, and to “make no mention of your connection with us”; AHPM C3011 Exp. 78022 1906.

(67.) These debates would resurface with renewed vigour, of course, during the revolution; Ansell *Oil Baron*, pp. 79–80.

(68.) SMA:PEA Box A3 J. Body “Mexican Political Index 1911–17.” The existence of this index itself is a clear indication of the importance of Political contacts in the conduct of business.

(69.) SMA:PEA Box A4 Body to Pearson 09/11/1905; Pearson to Body 30/11/1905.

(70.) The San Cristóbal concession was located on land leased from the Romero Rubio family, who were President Díaz's in-laws. The direct beneficiary was Carmelita Díaz de Romero, the president's wife; SMA:PEA Box 4 Body to Pearson 31/01/06.

(71.) The costs of refinery were estimated at the time to be £500,000. In 1908 an additional pipeline was constructed to connect the refinery directly to Puerto México; SMA:PEA Box 1C Reed *Mexican Eagle*, pp. 2–5.

(72.) SMA:PEA Box 4 Memo from Pearson 1906.

(73.) AHPM C2905 Exp. 75663ff. 5–6 Ryder to Pearson 05/10/1906; the negotiations with the railway companies in 1906 set the tone for the tactics El Aguila would use in the subsequent price war with WPOC. For example, Ryder explained to Thomas Milan, president of the Veracruz and Pacific Railway, that “we are in a position to do equally as good by you as our competitors: in fact, you are likely to get better conditions from us than from them. Kindly treat this as confidential, as we are trying to steal a march on the enemy. I know you will give us preference”; Ryder to Milan 19/12/1908.The contract with the Mexican Railway was signed in November 1908 but soon ran into serious difficulties (see below).

(74.) The first shipment of refined oil to the UK was made in August 1908; SMA:PEA Box 1C Reed *Mexican Eagle*, p. 5.

(75.) Ryder politely but firmly informed the Chief that the predictions he had made were totally unrealistic: “As to our having illuminating oil for sale by the end of March 1907, I regret very much to have to say that in my opinion this is absolutely out of the question. I consider it is necessary to be perfectly frank in this connection, and it is my opinion that we shall not have any oil for sale until the end of June 1907 or perhaps later.” AHPM C3033 Exp. 78547 Ryder to Pearson 13/11/1906.

(76.) AHPM C2902 Exp. 75569ff. 44–47 Ryder to S.P.&S. London 29/03/1906.

(77.) As Furber pointed out in his autobiography, because Standard Oil was also interested in his Oil Fields of Mexico Company, Pearson was obliged to make a more generous offer to secure the deal. Furber was very pleased with the arrangement, since it “not only provided us with a ready-made market, but solved our greatest problem, the transportation of crude to the refineries.” This was a problem which would also affect El Aguila after 1911. Furber *I Took Chances*, p. 142. The pipelines laid between Furbero and Tuxpan were ahead of their time. Given the difficulties of providing access for the tankers in the port itself, the pipelines were laid a mile out in the Gulf of Mexico, attached to buoys to which the tankers tied up to load their cargo directly. The first cargo to be loaded by this method took place in May 1910. SMA:PEA Box 1C Reed *Mexican Eagle*, p. 6.

(78.) This debacle resulted in multiple lawsuits from local residents, and substantial losses to the firm from payments for compensation (estimated at over £1 million); SMA:PEA Box 1C Reed *Mexican Ea gle*, p. 4. J. Portillo y Rosas argued that Pearson's staff failed to use existing technology and failed to isolate boilers (*calderas*); *El aspecto técnico del conflicto petrolero en México* México: Pemex, 1979. As a further demonstration of the Mexican government's support for Pearson's oil business, it is worth noting that 200 Army sappers were sent to Dos Bocas to help control the blaze; Brown *Oil and Revolution*, p. 61; the most detailed and graphic account, which also outlines the devastating ecological impact, is Santiago *The Ecology of Oil*, pp. 134–44.

(79.) SMA:PEA Box A9 Pearson to Lady Pearson 17/02/1908. In 1910 El Aguila acquired the refinery and the isthmus lands.

(80.) The board of directors was made up of Body, Ryder, and W. E. Sayer; the share capital of the company was increased to Mex$1 million in October. Pearson personally held all of the shares in the new company; Álvarez de la Borda "El inicio de la industrialización petrolera," p. 57.

(81.) AHPM C39 Exp. 1024 ff. 54–56 25/01/1910.

(82.) This was not the first time that Pearson had met with representatives of WPOC; an informal approach had been made by Eben Richards, a close associate of Clay Pierce, in September 1906 in order, according to Ryder, to "ascertain the strength of the position of a possible competitor." Ryder, as a former employee of Clay Pierce, knew him well, and recommended that Pearson not make any agreement but instead persist with the strategy which the Oil Fields Department had been pursuing since 1906, namely that "with Mr. Furber's business in our hands, and long contracts made by us with principal consumers throughout the Republic, we would be able to permanently disable the Waters Pierce Oil Company." AHPM C3033 Exp. 78547 Ryder to Pearson 09/09/1906.

(83.) Brown *Oil and Revolution*, pp. 61–63.

(84.) It is interesting to note Pearson's estimate that the combined oil business in Mexico would generate annual profits of Mex$5.8 million; AJYL 2a serie R53 Pearson to Limantour 16/03/1909.

(85.) Knoblauch *Lord Cowdray's Interests in Mexico*, p. 65.

(86.) In the event the proposed agreement with Doheny also failed to materialise. AHPM C3012 Exp. 78068 Body to Pearson 12/05/1910. There was certainly no love lost either between Clay Pierce and Doheny, since the latter blamed the former for denying him the contract to supply fuel oil to the Mexican Central Railway in 1901 when Clay Pierce was chairman of the Mexican Railway. Doheny claimed that he had been promised the contract in 1900, and that had been the reason he had come to Mexico in the first place; Ansell *Oil Baron*, pp. 56–57.

(87.) Clay Pierce was clearly a difficult man to negotiate with. He was described by Ryder, who was a former employee of his, as a man "who is accustomed to driving very hard bargains." Perhaps the truth was that, in Clay Pierce, Pearson had met his match. After the failure of the first round of negotiations Pearson confided to Limantour that he had been “foolish to rely on his adhering to verbal agreements and thus allowing many months of valuable time to be wasted. However, I shall know better next time”; AJYL 2a serie R53 Pearson to Limantour 23/07/1908.

(88.) The new arrangements applied to Pearson's oil interests which lay north of an imaginary line drawn between Puerto Angel on the Pacific coast and Veracruz on the Gulf of Mexico. This meant that all lands in the oil-rich *Faja de Oro* in the Huasteca Veracruzana came under this new jurisdiction, and that all properties in the isthmus (including the refinery at Minatitlán) were retained by S. Pearson and Son. The capital value of the company was initially set at Mex$30 million; it would eventually rise, according to an internal memo from Thomas Ryder written in 1926, to Mex$250 million; SMA:PEA Box 1 Ryder *Brief History of Aguila Company* 1926.

(89.) SMA:PEA Box A9 Pearson to Lady Pearson 06/03/1909.

(90.) Pearson soon recognised that “it may be impossible to get any appreciable amount of Mexican capital” but argued that it was still important to form the Mexican company because “in time the securities will be saleable”; Box A9 Pearson to Lady Pearson 09/03/1909.

(91.) Nevertheless, it was clear where the real power and controlling influence over El Aguila's affairs was to be found. At the board of directors meeting in May 1910, the number of directors was increased from ten to eleven, not simply to accommodate Sir Weetman, but to grant him “full powers of represenation of the Company in all of its business affairs within the Republic and beyond it.” AHPM C39 Exp. 1023 f. 14 07/05/1910.

(92.) SMA:PEA Box A9 20/04/1909. In a characteristic move by Pearson in his capacity to spot not only talent but also potential business advantage, Hayes was subsequently poached by Pearson and became El Aguila's chief geologist and vice president.

(93.) Wale, Freeman, and Godley “Weetman Pearson in Mexico”; before the Companies Act of 1929 companies in the UK were not obliged to publish an annual profit and loss account.

(94.) According to Merril Rippy (*Oil and the Mexican Revolution* Leiden, 1992), members of the board received 200 preference shares, with a par value of US$1,000 each, providing a guaranteed US$16,000 per annum regardless of the per for mance of the company; Álvarez de la Borda “El inicio de la industrialización petrolera,” pp. 45–66; AHPM C39 Exp. 1023 ff. 9–11 Actas del Consejo de Administración, Compa稍a Mexicana de Petróleo El Aguila 18/06/1909. Despite his official designation, Porfirito's highly symbolic but purely decorative function in El Aguila's activities is emphasised by the fact that he attended only two of the monthly meetings of the board held between June 1909 and May 1911 (the month in which he accompanied his father into his Pa ri sian exile); SMA:PEA Box A10 Report to Directors 1909.

(95.) AHPM C2909 Exp. 75781 ff. 62–64 Ryder to Landa 25/01/1910.

(96.) SMA:PEA A4 12/03/1910 Landa to Pearson. Ryder confirmed that El Aguila had already signed sixteen “important” contracts with major mining companies (from the Monterrey, San Vicente, and Cinco Señores Mining Corporations to the Mazapil Copper Company), manufacturing industries (from the Monterrey Iron and Steel Company, *Compañía Fundidora de Fierro y Acero de Monterrey*, to “all the principal textile factories in Puebla”), railways (the Mexican Railway, and other small lines—Montealto to Tlalnepantla, Coahuila to Zacatecas), town councils (Ayuntamiento de Coatzacoalcos), and even to what must have been one of the first taxi companies to operate in Mexico City (*Autotaxímetros Mexicanos*).

(97.) AHPM C39 Exp. 1024 ff. 22–26, 88–94. It is interesting to note that in the first detailed report to El Aguila's board on the details of the major strike at Potero del Llano in January 1911 (see below), the board's first priority was to dispatch 40,000 barrels of fuel oil to Veracruz to the Mexican Railway in fulfilment of the original contract.

(98.) The post was given to Luis Muñiz, with an initial bud get of $23,700 at his disposal. It is not clear whether the Department of Propaganda was responsible for a pamphlet which was distributed by El Aguila's agency in Acámbaro, Michoacán, in 1911 which adopted the slogan “Even the Pope Has Decreed That Only Aguila Oil Be Used” (*Hasta el Papa Ordena Que Se Use Solo Petróleo del Aguila*); AHPM C3089 Exp. 79505.The title of the company paper was *El Vuelo del Aguila* (The Flight of the Ea gle), a title rather ironically (and surely unwittingly) resurrected in 1994 by Televisa in Mexico as the title of a historical soap opera on the life of Porfirio Díaz, which ran to over 100 episodes; AHPM C39 Exp. 1024 ff. 22–26, 35–39.

(99.) “He [Clay Pierce] must be losing his balance and becoming irresponsible for his acts” SMA:PEA Box A4 Pearson to Landa 30/07/1909. The detailed exchanges between Ryder and Pearson in AHPM demonstrate not only that Pearson took a very close interest in the minutiae of the price war, but also that he was personally responsible for its strategy. The following exchange is typical: “I shall be glad to be kept closely posted as to the cost of distribution, and also the places where your sales are showing the best and the worst net results. You will no doubt be most carefully watching the markets that give the best results. Wherever you are working at a disadvantage with your competitors you will of course sell as little as you can so long as you make the competition at those points as keen as it is elsewhere; and where you are on equal terms you will of course see that you get at least half the trade”; AHPM C3033 Exp. 78597 Pearson to Ryder 17/09/1909.

(100.) AHPM C39 Exp.1024 ff. 45–48 28/12/1909.

(101.) AHPM C39 Exp. 1024 ff. 102–109 22/11/1910. The Mex$2,826,978 which El Aguila received from the share issue allowed the board to approve further investment (US$70,000) in the expansion of the productive capacity of Furber's Oil Fields of Mexico Company, still El Aguila's main source of domestic crude. The general improvement in El Aguila's finances also allowed the acquisition of the Mexican properties controlled by other smaller oil companies, which were valuable to El Aguila mainly because of their drilling rights: such as the Pennsylvania Oil Company in December 1909, and the Gulf Oil Company in December 1910.

(102.) AHPM C39 Exp. 1024 f. 94 11/10/1910.

(103.) The strike was first reported to the board of directors in December 1910, but the first detailed report was made by Pearson himself in January 1911, who had travelled with Body to Veracruz as soon as he had received the news. The well was producing 75,000 barrels every day, and, most important, it was composed of 63 percent fuel oil, and 25 percent illuminating oil, both highly marketable, which would allow El Aguila not only to fulfill the terms of existing contracts (which had caused so much anxiety since 1906), but aggressively to seek new clients. The first preoccupation, however, was to construct adequate storage for such large quantities of oil, and adequate means of transportation. Plans were immediately launched to construct a new pipeline from Potrero to Tuxpan to add to the existing line to Tampico at a cost of Mex$700,000.

Pearson also immediately purchased a 5,000-ton tanker, *San Bernardo*, for Mex$230,000 and began the search for a second tanker of the same capacity; AHPM C39 Exp. 1024 ff. 119–25 ff. 126–37.

(104.) The fact that the crude from Potrero was much lighter than that previously found on the isthmus, and contained the components of gasoline and kerosene, was of distinct commercial advantage; Brown *Oil and Revolution*, pp. 67–69.

(105.) E. DeGolyer "The Oil Industry of Mexico" *Petroleum Review*, London, 25/04/1914.

(106.) Álvarez de la Borda "El inicio de la industrialización petrolera," pp. 65–66. The expansion and internationalisation of El Aguila's activities developed at an astonishing pace—as will be discussed in the next chapter.