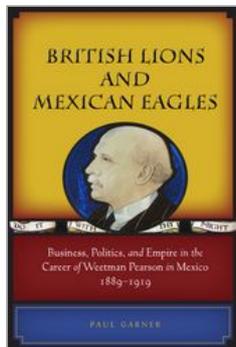


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British Lions and Mexican Eagles: Business, Politics, and Empire in the Career of Weetman Pearson in Mexico, 1889-1919

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The Unravelling of Empire

Civil War and World War, 1914-19

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[–] Abstract and Keywords

This chapter examines the impact of World War 1 on Viscount Cowdray's business interests in Mexico. It describes the events which led Cowdray to withdraw from the direct management of the Tehuantepec Railway and to sell the controlling interest in El Aguila to the Shell Group in May 1919. It also discusses why the oil fields managed to retain an important degree of immunity from the bitter civil war which raged throughout Mexico between 1914 and 1920.

Keywords: Viscount Cowdray, business interests, Mexico, World War 1, Tehuantepec Railway, El Aguila, Shell Group, oil fields, civil war

The escalation of the military conflict at the end of 1913 which followed as a direct consequence of the rapid loss of authority of the Huerta government, exacerbated by the descent into civil war following Huerta's resignation in July 1914, meant that the threat of military occupation of the Veracruz oil fields now became imminent. This chapter seeks to explore the reasons why the oil fields managed to retain an important degree of immunity from the bitter civil war which raged throughout Mexico between 1914 and 1920, and why levels of production were able not only to continue but also to increase. It also seeks to explain the broader context in which Cowdray came to withdraw from the direct management of his major Mexican interests—El Aguila and the Tehuantepec Railway.

There are five main factors which determined the fate of Cowdray's Mexican interests in these turbulent years. The first is the importance to the British war effort of maintaining supplies of Mexican oil after August 1914. Second, as a direct consequence of the first, the increasing deference by the British government toward US policy in Mexico, and, as the manager of Cowdray's Mexican interests, John Body, described it, the decision to “follow the smoke of Washington.”¹ This left Cowdray's Mexican interests increasingly vulnerable and exposed, since they were no longer afforded protection or support by the British government, and, at the same time, they were considered by the US government as inimical to US interests. Third, the competing factions in the civil war which followed Huerta's resignation in July 1914 all recognised the importance of allowing oil production to be maintained. This was because the revenue from the taxes imposed on oil was crucial to the maintenance of revolutionary mobilisation—whether as “booty” to be plundered when it was **(p.202)** necessary to keep rebel mobilisations in the field, or whether as a form of direct or indirect taxation. All factions, in short, recognised that it was vital to avoid injuring, as Cowdray described it in characteristically prosaic fashion, “the goose that laid the golden egg.”² Crucial to the goose's survival and prosperity was the maintenance of a minimum level of stability in the precarious and volatile triangular relationship between the foreign oil companies, the pre-constitutional and Constitutionalist government of Venustiano Carranza, whose troops occupied the port of Tampico—and the local *cacicazgo* of Manuel Peláez in the Huasteca Veracruzana, where the oil camps were located. Fourth, in addition to the increased levels of taxation to which the foreign oil companies were subjected, there was renewed political pressure to extend the scope of taxation from that imposed on exports to new tariffs on licenses, leases, patents, and production, to extend the regulation, monitoring, and control of the industry, and to restructure the basis of the companies' property rights. Finally, the ultimate fate of Cowdray's oil interests depended on the protracted and (yet again) triangular negotiations with two major multinational oil companies, Standard Oil and Royal Dutch Shell, and with the British government. Together these factors provide the key to understanding the fate of Pearson's business interests in Mexico in this period.

The central paradox was that El Aguila's operations not only did not suffer in this intense period of revolution and war, as perhaps might have been expected, but that they prospered in spectacular fashion. Cowdray reported to de Landa y Escandón in November 1914 that the prospects were very positive and that “we have every reason to be thankful that conditions are no worse with us than they are.” This was despite a dramatic drop in domestic sales in Mexico, and the fact that internal communications and the distribution of supplies were badly affected by the frequent interruptions to the railway network, and the regular confiscation by the government of the carriages in which oil was being transported. It was reported to the board of directors of El Aguila in January 1915 that domestic sales of all oil-based products had declined between 48 percent and 75 percent between December 1913 and December 1914.³ The

situation did not improve over the next two years. In October 1916 Ryder reported that the “Sales Department's operations are reduced to about 30% of normal ... [while] other troubles have not diminished in the least.”⁴

The reason for Cowdray's optimism was simple. Although domestic sales declined, exports boomed. His principal field at Potrero del Llano continued to provide 20,000 barrels of crude per day, and export prices continued to rise, especially as a result of war time demand. He explained to British Minister Thomas Hohler in November 1916 that **(p.203)** Potrero alone would yield 600 million barrels, which would, at the current price of 2 shillings per barrel, generate £60 million. But he also predicted that because of the war, prices would rise to 3 shillings a barrel, and therefore were likely to generate no less than £90 million.⁵ As he explained in December 1915 to Teodoro Dehesa, governor of Veracruz during the Díaz era, the Anglo Mexican Petroleum Products Company (a multinational company with its headquarters in London devoted to the marketing and transportation of El Aguila's exports) was generating

some £12,000,000 of actual cash (not goodwill, but money), represented by effective work, which by patience and perseverance through many difficulties finally achieved success after 15 years' effort. It has paid 12% dividend on its ordinary share capital during the whole of the years [*sic*] it has been in existence.⁶

Cowdray confided to Limantour in the same month that “if it were not for the fact that the Admiralty have got half our fleet and consequently we are short of tonnage, we should be doing a very satisfactory business, and that quite apart from war prices.”⁷ So confident in the future of oil was he that he also explained to Limantour that, despite the difficulties he was having with the Carranza government in 1916, he planned to invest between £170,000 and £200,000 in improvements to the refineries at Minatitlán and Tampico.⁸

In spite of these manifestations of Cowdray's serial optimism displayed in his public (and much of his private) correspondence, the threats to the future of El Aguila and that of all foreign oil companies in Mexico after 1914 were nevertheless real enough. First, there was the possibility that the oil fields would be taken over and destroyed, as an act of random revolutionary violence as retaliation for failure to pay “taxes” or ransoms demanded by local revolutionary *caudillos*; as part of a political attack on foreign ownership of a key national resource; or as a consequence of invasion by imperial gunboats, whether to protect existing oil interests (as in the case of Britain and/or the United States) or in pursuit of Germany's imperial ambitions to invade the oil region as part of a broader plan to expand its sphere of influence in the Americas.⁹ Given the occupation of Veracruz by 3,000 US troops in July 1914, and the military expedition of 5,000 US troops into northern Mexico led by General John Pershing in pursuit of Pancho Villa in March 1916, the threat of foreign invasion was anything but idle.¹⁰

At the same time, the outbreak of war between Germany and the Allies in August 1914, and the entry of the United States into the war in April 1917, made military invasion of the oil region by US, British, or German troops not only more likely—as a means of protecting (or, in the case of Germany, of destroying) vital supplies of oil—but also, paradoxically, at **(p.204)** the same time less feasible, given the existing military commitments of all parties in the European theatre.

Second, the polarisation and radicalisation of Mexican politics raised the temperature of the debate over questions of economic sovereignty and the ownership of subsoil rights to a new height. It was apparent that whichever revolutionary faction emerged triumphant from the internecine struggle would be certain to raise new taxes and exercise greater regulatory control

over the activities of the foreign oil companies. Most worrying of all to the foreign oil companies was that vociferous calls for the nationalisation of all subsoil deposits, including oil, were being heard with increasing frequency. In a speech in February 1915 widely reported in all newspapers in Mexico, General Alvaro Obregón, one of the two principal leaders of the Constitutionalist movement, launched a vitriolic attack on the nefarious role of foreign capital in seeking to exploit Mexico and convert it into “the mother of foreigners, and the stepmother of Mexicans,” a phrase which would have a sustained and profound resonance long after the fighting had ceased.¹¹

Steering a path through these volatile and dangerous revolutionary waters would certainly not be easy. Cowdray, nevertheless, summed up his situation to his mentor-in-exile, former Mexican Minister of Finance José Yves Limantour, with characteristic and pragmatic bluntness: “Our interests are great and our troubles in Mexico are big, as outside the oil we have no revenue from our other interests.”¹²

Mexican Oil and World War I

The most important single lifeline for El Aguila and other foreign-owned oil companies in Mexico was the importance of Mexican crude to the Allied war effort. This was not, however, because of the Royal Navy's "fateful plunge" in 1912 to commission oil-fired battleships (referred to in Chapter Five), since these did not enter commission until toward the end of the conflict, but the fact that the principal source of power for the tanks, submarines, and ships which participated in the First World War was oil. As Lord Curzon famously remarked at the end of the war, "The Allies floated to victory on a sea of oil."¹³

Although a number of previous accounts have pointed out that the crude from Pearson's oil fields was deemed unsuitable for the requirements of the British Navy prior to the outbreak of the war, there is evidence to suggest that it was still of crucial importance to the Allied war effort.¹⁴ Given the control by the Central Powers of the Eastern European oil trade (roughly 20 percent of world production), supplies from the United States (**p.205**) and Mexico provided the bulk of oil-based products to support the Allied campaign. Although the statistics show that the United States provided over 90 percent of oil products imported to Britain over the course of the war (and Mexico, correspondingly, an average of just less than 10 percent), the diplomatic correspondence from both Washington and London throughout the war emphasised that Mexican supplies were crucial, not simply as a strategic alternative to US supplies, but also because Mexican oil exports to the United States—which constituted never less than 95 percent of total oil imports to the United States, and which tripled between 1914 and 1918—enabled the United States to maintain sufficient reserves to allow exports to Britain to continue. At times of acute shortage of supplies, Mexican crude became even more vital.¹⁵ As Cowdray himself commented with his trademark directness to the British ambassador in Washington, Lord Reading, in October 1918, "Imagine the effect if US were robbed of Mexican supplies. The allied fleets would be at a standstill."¹⁶

What was far more difficult for Washington and London to agree on was the best way to ensure that supplies of Mexican oil continued to flow, especially given the acute domestic political instability of the Revolutionary decade, and the strong differences of opinion and policy over the merits and demerits of military intervention to protect foreign interests. The key characteristic of this period was the increasing deference shown by London to Washington over Mexican policy, which had already been demonstrated during the final months of the Huerta regime, as we have seen, with the Foreign Office becoming engaged in a damage-limitation exercise by backtracking on its previous support for Huerta. This would have serious consequences for the will and the capacity of the British government to protect British interests in Mexico, especially those, like El Aguila, which were widely perceived in the eyes of the Wilson administration to be detrimental to US interests. Ultimately, British deference translated itself into a tacit agreement that the US government would take responsibility for the defence of the Veracruz oil fields, even if Cowdray (and many of the staff at the Foreign Office, although they were loathe to express their views in public) doubted the capacity of the Wilson administration to provide effective security to the oil companies.¹⁷

Differences of policy did not entirely disappear, nevertheless, and they surfaced again over the question of recognition of Venustiano Carranza's self-styled "pre-constitutional government," which replaced Huerta's in 1915. While the Woodrow Wilson administration, in its desire to encourage the restoration of domestic stability, provided *de facto* recognition to Carranza in October 1915, Britain not only failed to follow the US lead, but also effectively downgraded their diplomatic representation in Mexico (**p.206**) by withdrawing First Secretary Hohler in June

1916. Significantly, Hohler was reassigned to the British Embassy in Washington as chief adviser on Mexican affairs, which perfectly illustrated His Majesty's Government's priorities, and indicated where HMG considered Britain's representative to Mexico ought to be based. His replacement, Consul General E. W. P. Thurstan, was withdrawn in February 1917, leaving Herbert Cummins, a boot salesman and former British consul in the border town of Ciudad Juárez, to serve as acting *chargé d'affaires*. The entry of the United States into WWI prompted Wilson to extend *de jure* recognition to Carranza. The British government again failed to follow suit, in what was less an attempt to challenge US policy than an exercise in vacillation, justified officially on the grounds that Carranza was "an open agent of the German Government."¹⁸

Needless to say, Cowdray was extremely unhappy about what he considered the progressive abandonment of the British government's responsibilities toward its citizens in Mexico in general, and toward his interests in particular. Initially antagonistic toward Venustiano Carranza, he came to advocate British recognition of the Constitutionalist government, because it would increase the level of protection (or, at least, would decrease the level of vulnerability) of those same interests.¹⁹ He was, nevertheless, increasingly unable to exert any influence over British policy, despite his strong political connections to the Liberal administrations of the day, even during his (brief) membership in Lloyd George's coalition cabinet in 1917. His influence over Mexican policy decreased still further after the United States entered the war in April 1917. The stark implications were brought home to Cowdray as a result of a meeting in Washington between Body, Hohler, and British Ambassador Sir Cecil Spring-Rice precisely one week after President Wilson had taken the United States to war. Body reported Spring-Rice's opinion that British Foreign Secretary Arthur Balfour did "not want to be bothered with Mexican affairs ... [and is] ... very much averse to doing anything contrary to the wishes of the State Department." Body then asked "if this meant the abandonment of our British interests in Mexico" and was told "that this was so, as no risk could be incurred under present circumstances of interfering with any of the United States' plans in connection with the European War."²⁰

It is interesting to note that one of the reasons given to Body by Spring-Rice for refusing to support Cowdray's interests was the argument that the military significance of Mexican oil was minimal, and the belief that "the US could supply all of the needs of the Allies without the assistance of the Mexican production." This has led some historians to argue that Mexican crude was less important, and even insignificant, to the Allied war effort.²¹ As already indicated, the evidence appears contradictory. **(p.207)** At a meeting a month after his audience with Spring-Rice and Hohler, Body talked to A. C. Bedford, whose exclusive role in this period was to secure oil supplies for the Allied cause. Bedford was much more positive about the supplies from El Aguila since total dependence upon US supplies "would mean a serious disturbance of the operations of the various refineries." Body reported that Bedford was "naturally hoping, therefore, that our oil supplies from Mexico will not be interfered with."²² The Foreign Office's official denial of the significance of Mexican crude was contradicted again by the signing of a new contract between El Aguila and the Admiralty in the same month for an additional 500,000 tons of crude.²³

The supreme irony, not to say hypocrisy, of the British government's position in relation to Cowdray and El Aguila was highlighted less than a year later, in October 1917, when the British government invoked the Defense of the Realm Act (DORA) to prevent "any British subject from transferring any ownership rights in any oilfield around the world to any but another British subject, without the approval of the Board of Trade."²⁴ This clause was specifically directed at

preventing the sale of El Aguila to Standard Oil. The implication was that Mexican crude was so vital to the British war effort that it could not be taken out of British control—and yet, at the same time, as Cowdray repeatedly pointed out, the British government was not prepared to defend the lives, properties, and businesses of British citizens in Mexico by appointing a British minister to Mexico, under the pretext of the Carranza government's pro-German sympathies.

Under these circumstances, the relationship between Cowdray and the British government became distinctly strained. Cowdray met Foreign Secretary Arthur Balfour in June 1918 to explain the deteriorating political situation in Mexico and his decision, for the first time since the development of his oil business, not to pay with the latest “confiscatory” petroleum tax which “will cost us \$1.5–2.5 m. pesos (gold).” Cowdray was also concerned by the escalation of “nationalist propaganda and hostilities” between Mexico and the United States, which, because of Britain's close association with the United States, threatened to “expose all British properties to seizure, sale or destruction.” Cowdray urged Balfour to appoint a British minister “without further delay.” He explained that “it is not a question as to whether or not Great Britain accord recognition to an administration unworthy of the honour, but rather that the lives of British subjects and their extensive interests in this country demand the fullest measure of protection.”²⁵ His plea went unheeded, and prompted a frustrated Body to comment to Cowdray that “it really is a crying shame the manner in which we are being treated in Mexico by our own Foreign Office.”²⁶

The Clash with Constitutionalism

(p.208) One issue on which London and Washington were consistently able to agree, prompted by the vigorous campaigning of the companies themselves, was that the taxation policy of the Constitutionalists was damaging to foreign oil interests in Mexico. At the end of January 1915 Carranza decreed that the levy on oil production would be raised from 0.20 *centavos* (5d per ton) per ton—which had been introduced by Madero in 1912—to 0.60 *centavos*, as well as reintroducing *derechos de barra* (an export tax of colonial origin on vessels clearing the harbour at Tampico) of 0.50 *centavos* per ton.²⁷ At the same time, the Constitutionalist military commander in Veracruz, Cándido Aguilar, announced the introduction of an additional state tax of 0.07 *centavos* per ton. As the representatives of the foreign oil companies were quick to point out, this represented a threefold rise in the burden of existing taxation.

These new tax impositions were made even more onerous by the insistence that payment should be made in gold, rather than in increasingly worthless paper script which circulated in number of different forms in Mexico in this period. Body calculated that the new taxes represented an additional burden to El Aguila of US\$40,000 (£8,000 per month, and wrote in protest to His Majesty's Government, reminding it that “on the faith of these contracts we and our friends have invested £12,000,000 sterling in the oil business, which now employs—outside Mexico 3–4,000 employees with a turnover of £100,000 per week.”²⁸ The Constitutionalist authorities received protests from all of the foreign oil companies, but there was a marked difference in attitude between the hostility of the US companies and the pragmatism of El Aguila. When the protests produced no response from Carranza, Cowdray's reaction was to advise Body that it was “prudent” to pay the increases, suggesting that “probably you will be able to arrange for the greater part, if not the whole of your tax being set against the monies the Government owe us for oil supplied.”²⁹

Further concern was expressed by the foreign oil companies over Constitutionalist intentions to extend the scope of state regulation and control over the industry through the creation of government agencies (such as the *Comisión Técnica de Petróleo* in March 1915) and, subsequently, the creation of a formal Department of Petroleum in 1916, staffed by a growing phalanx of state bureaucrats.³⁰ But the issue that concerned all foreign oil companies and their respective governments was the threat posed by the radical proposals of the new Constitution promulgated by Carranza in February 1917 and, in particular, those expressed in Article 27, which advocated the restoration of the principle enshrined in Spanish colonial **(p.209)** law which claimed that all subsoil deposits belonged to the nation, and therefore could not be privately owned or exploited.

Article 27 was an explicit statement that Porfirian legislation which had vested in the owner of the surface the rights to subsoil minerals and had granted free exploitation of those minerals without the need for government concession—in other words, the legal basis on which foreign oil companies such as El Aguila had obtained their property and drilling rights—were no longer valid. Furthermore, the nation would henceforth “retain under its dominion as much as may be necessary for social development, such as mines, petroleum, etc., not bestowing on private persons more than the exploitation of these properties which the respective laws authorize.” In order to emphasise the nationalistic tenor of the document, only Mexican citizens, as affirmed in its first clause, would in the future have “the right to acquire land ... or to obtain concessions to exploit mines, waters or mineral fuels in the Mexican Republic.” In a concession to the role of foreign investment in national development, foreigners would be allowed to seek concessions and own land, but only if they renounced the protection of their governments—in other words, foreign investors would in the future be welcome to invest in Mexico, but on Mexico's terms rather than their own.³¹

The recent historiography of the Revolution has sought to contextualize and even, in some cases, to downplay the significance of the debates which took place at the Constituent Congress at Querétaro between December 1916 and January 1917, and the constitutional document which emerged in February 1917.³² The fact that the delegates were selected exclusively from the ranks of Carranza's supporters adds weight to this interpretation, and suggests that the Congress was essentially a window on internal debates between the different factions within the Constitutionalist movement.³³ Nevertheless, the Querétaro debates can also be seen as an important opportunity to rehearse the discussions of the nature and process of postrevolutionary reconstruction and the “reinstitutionalisation” of the Mexican state which would take shape over the course of subsequent decades. One of the most prominent aspects of the debates would be the strengthening of the state's role in forging national identity and promoting national development.

For the management of El Aguila, the outcome of the debates at the Constituent Congress was important enough to warrant a concerted effort to influence its proceedings. El Aguila paid a substantial fee to one of the Congress's more prominent delegates, the maverick anticlerical journalist and former *maderista* deputy, Félix Palavicini, to intervene in the debates on behalf of the company. There was nothing new, of course, in Cowdray's strategy of attempting to influence political decision-making **(p.210)** by paying retainers to prominent politicians. In fact, as has been argued throughout this book, it was one of the hallmarks of Cowdray's *modus operandi* in Mexico. What was different in this case was the clandestine nature of the operation, which was

not known to Palavicini's fellow delegates at Querétaro, never sanctioned (at least not officially) by El Aguila's board of directors, nor ever admitted by Palavicini throughout his lifetime.³⁴

Palavicini's career has always been shrouded in controversy, and has inspired radically different interpretations.³⁵ Trained as an agricultural engineer, he had always been more inclined toward politics, journalism, and education. He had received through the agency of Porfirian Minister of Public Instruction Justo Sierra funds to study in Paris during the final years of the Díaz regime (although there is some doubt about whether he actually completed his studies). He was a prominent member of the Antireelectionist movement, and had joined Francisco Madero's campaign in 1909, writing for the *maderista* newspaper *El Antireeleccionista*. He was given a post as director of the Industrial School for Orphans (*Escuela Industrial para Huérfanos*), subsequently became a deputy in the *maderista* Congress of 1911, and was arrested in October 1913 along with other *maderista* supporters by Victoriano Huerta.³⁶ Having established his anti-Huerta credentials, Venustiano Carranza appointed him *Oficial Mayor* in charge of the Education Ministry (*Secretaria de Instrucción*) in 1914, with direct responsibility for the fledgling National University.³⁷

His links with El Aguila went back to 1910, when, on the recommendation of Governor of Veracruz Teodoro Dehesa, he was employed in the Tampico office, nominally as a designer, although internal company correspondence indicates that he was employed “for special reasons.”³⁸ His influence with Carranza, which was both political and personal (he was rumoured to have been a good friend of Carranza's private secretary, Gerzayn Ugarte), persuaded R. D. Huchison, secretary of the board of directors of El Aguila, to recommend that Palavicini be reemployed by the firm. This arrangement was still in operation when the *convocatoria* was issued for the Constituent Congress in December 1916, and may well have influenced his decision to seek “election” as a delegate. At the same time there is evidence to suggest that El Aguila provided direct and indirect support to Palavicini for the establishment of the conservative daily newspaper *El Universal* in 1915.³⁹

Although his presence in Querétaro aroused the suspicions of some of his fellow delegates, to the extent that he had initial difficulty in establishing his Constitutionalist credentials, Palavicini was able to send regular, almost daily reports to Rodolfo Montes, El Aguila's representative with the Carranza government.⁴⁰ In the event, despite his assurances that **(p.211)** he would be able to influence the final text of the Constitution, he was unable to exercise any influence at all over the contents of Article 27, which were of greatest concern to his paymasters at El Aguila. He made a last-ditch attempt to sabotage its approval by arguing that, given its importance and the short time available for debate, it should be deferred until the next meeting of Congress. His proposal was summarily rejected by the assembled delegates.⁴¹

Given its long-term implications for the fate of the foreign oil companies in Mexico, the importance of Article 27 should not be underestimated. In the short term, it led to an avalanche of memos and correspondence between the oil companies, their legal representatives, and their respective governments—much of it exalted in tone and content with considerable vitriol poured onto supposed manifestations of Mexican bolshevism. Emotions ran even higher when the spirit of Article 27 became translated into specific legislation, such as the decree of February 1918, which attempted to impose a rental fee on all oil properties and a 5 percent royalty tax on all oil lands in production.⁴² This incremental rise in regulation and taxation galvanised the oil companies into collective action to defend their interests, and in 1918 to the formation of the Association of Petroleum Producers of Mexico (APPM). The association not only coordinated the

legal challenge in Mexico to the Carranza government's legislation but also acted as an influential lobby in Washington with a decisive impact on US policy toward Mexico. Its fundamental success was to extract from the Carranza administration an understanding that the restrictions imposed on foreigners in Article 27 would not be implemented retrospectively, and that the rights acquired by the oil companies prior to the promulgation of the Constitution would be protected.⁴³ In these volatile and polarised circumstances, however, the encounters between representatives of the oil companies and their counterparts in the Carranza government were frequently conducted in an atmosphere of considerable tension, mutual suspicion, hostility, and recrimination.⁴⁴

El Aguila's status as a Mexican company technically prevented it from joining the APPM, but Cowdray, through Body and Ryder, was careful to maintain communication with the group over questions of mutual interest—principally over taxation and legislation deemed contrary to the interests of all oil companies. It was also clear, however, that internal rivalries between the oil companies persisted, and that Cowdray and El Aguila had additional concerns which were distinct from those of the US oil companies. The personal dynamics were less than harmonious. Cowdray told Maurice de Bunsen at the Foreign Office in March 1918 that Doheny, chairman of APPM, “is a hot-headed Irish American, and what he agrees to today, he very likely will not carry out tomorrow, so it **(p.212)** is impossible to work with him.”⁴⁵ More important, as will be explained below, Cowdray was trying to keep his options open, as well as having to contend with the British government's simultaneous interference in the future of his oil business.

At the same time, it was also clear that opinion was divided within the Constitutionalist movement itself over the precise form which petroleum legislation should take. As a result, the legislation would have to wait until after the final battles of the Revolution had been fought. Although it is important to emphasise that there was nothing inevitable about the eventual nationalisation of the oil industry by the Mexican government, there is little doubt that the intense debates of this period resulted in the progressive erosion of the power and autonomy of the foreign oil companies operating in Mexico. Already by 1920, despite their concerted hostility and opposition to Constitutionalist regulation, they had been forced to concede to higher and more extensive taxation, and to the curtailment of their private property rights.⁴⁶

Manuel Peláez and Life in the Faja De Oro (Golden Lane)

Throughout these volatile times, the main priority for all parties with a vested interest in oil was ensuring that levels of production and distribution in the oil fields continued without major disruption. The crucial factor in this context was the relationship between the oil companies and the autonomous political boss or *cacique* of the Huasteca Veracruzana, Manuel Peláez.⁴⁷

As indicated in Chapter Five, the relationship dated back to the final decade of the Díaz regime, during the scramble for properties and drilling rights in the Tuxpan-Tampico region. However, Peláez's personal, family, and kinship-clientalist relations in the Huasteca had more profound roots, which were equally vital to the degree of influence he was able to exert over regional affairs. Prior to the arrival of the agents of the foreign oil companies, the Peláez-Gorrochótegui family had formed part of a local elite of merchant-entrepreneurs, *rancheros* and *hacendados* who had taken advantage of the gradual extension of local trade in the latter half of the nineteenth century to consolidate their social and economic status. Significantly, members of the family had also established a reputation for the defence of local interests, especially the land rights of the indigenous inhabitants of Peláez's native Temapache.⁴⁸ As members of the local landowning elite, and, of course, because their properties were assessed as **(p.213)** containing significant deposits of oil, the Peláez family was able to secure very favourable terms with the oil companies. It is also apparent that other, less prosperous communities (such as the *ranchos* and *condueñazgos* which were a common feature of landowning systems in the region) were also able to negotiate profitable, if less lucrative, terms with the oil companies.⁴⁹

After 1911, once royalties on oil production had begun to be paid and new sources of employment were created in the region, Peláez's status as a "classic" paternalist *cacique* extended beyond the representation of local landowners and rural communities to encompass the growing number of immigrants to northern Veracruz who gravitated to the region in response to the demand for labour from the nascent oil industry.⁵⁰ These new sources of employment, combined with the fragmentation of national and state authority in the region in the wake of the revolutionary disturbances after the fall of the Díaz regime, served to enhance Peláez's autonomy, and his role as an intermediary and power broker between local *hacendados* and rural communities, the oil companies, and their workers. After the fall of Huerta, as a result of alliances with other autonomous armed groups, Peláez was reputedly able to mobilise—and, most important, to pay in silver, rather than in discredited paper notes—a sizeable if disparate unit of local volunteers across the three Huastecas (i.e., the Huasteca regions of Veracruz, San Luis Potosí, and Tamaulipas), and thus to provide protection to both local *hacendados*, rural communities, and foreign oil companies.⁵¹ Because of the strategic importance of the area under his control, his role as a "stabilising force" was even recognised and endorsed by both the US and British governments, who at various times agreed to provide him with material support.⁵²

Prior to the local "arrangements" with Peláez, the oil companies in Veracruz had attempted to negotiate the protection of the oil fields with the local garrison of Constitutionalist (under the command of Constitutionalist General Cándido Aguilar), but they had proved to be unreliable, inefficient, and corrupt. As a result, while the oil companies were certainly far from happy to have to pay Peláez for protection, they became resigned to it in order to be able to ensure that production in the oil fields remained relatively undisturbed.

Peléez was not, therefore, as "official" postrevolutionary and pro-Constitutionalist historiography has tended to portray him, either the creation or exclusively an agent of foreign oil companies, but rather a combination of a traditional *cacique* with strong ties to local rural society and local political culture, and a more "modernising" political boss who was able to mediate between oil

workers and their employers. What he was able to offer—at a price—to all of his varied and disparate **(p.214)** clientele was protection against Constitutionalist military or political interference.⁵³

Peláez has often been described and, indeed, often described himself as a “*villista*,” a supporter of Pancho Villa, but the evidence suggests more conservative political affiliations.⁵⁴ Not surprisingly, as a conservative Catholic and member of the Veracruz landowning elite, Peláez first emerged during the Revolution as an opponent of Madero and a supporter of first Félix Díaz and then Victoriano Huerta. It was in support of the Huerta government that he first organised a small local independent militia which would become the basis of his power and authority throughout northern Veracruz. Following the overthrow of Huerta, Peláez retained a profound hostility toward Carranza, engendered by a combination of personal and political grievances.⁵⁵ It was, therefore, his implacable resistance to Carranza which earned him the label of *villista* rather than his empathy with the *villista* movement. Throughout the period in question it is important to understand that the aspect of Peláez's revolutionary participation most useful to the oil companies was not his political affiliations, but his political brokerage and autonomy. As national political instability increased after 1914, that autonomy grew in direct proportion, and provided him with greater freedom of manoeuvre.

Already by the end of 1915 Peláez was receiving, in addition to the royalties on oil production on his properties, regular payments from El Aguila, the Huasteca Petroleum Company, and the Penn-Mex Oil Company. Cowdray informed the Foreign Office that El Aguila was budgeting Mex\$30,000 every month to meet Peláez's “costs.” In addition, there were irregular requests for substantial one-off payments, accompanied by threats that oil production in the camps would be interrupted if the money were not forthcoming.⁵⁶ While these payments guaranteed protection in the oil camps, they had to be handled sensitively so as not to incur the wrath of the Constitutionalist military commander in Veracruz, Cándido Aguilar, who controlled the port of Tampico, where El Aguila's central office in the region was located. In fact, the board of El Aguila was most insistent that Rodolfo Montes (described as “El Aguila's representative with the Carranza government”) and Thomas Vaughan (El Aguila's manager in Tampico) make efforts to contact Aguilar to refute the allegations made in the local press of collusion with Peláez.⁵⁷ Montes was therefore entrusted with the task of using this evidence of these forced loans and threats made by Peláez in order to make a case (and a clearly dishonest one) to the Carranza administration that there was no collusion between El Aguila and *el cacique huasteco*.⁵⁸

It could even be argued that the protection provided by Peláez—if not as deferential as the oil companies would have liked, and certainly not so **(p.215)** comforting to the employees in the camps who were subjected to periodic occupations, threats to their persons and property, extortion, and even murder⁵⁹—was nevertheless fundamentally reassuring to Cowdray. When in February 1916 reports reached Cowdray of another round of fighting between *pelaecistas* and *carrancistas* in and around the Potrero camp, he was remarkably sanguine. He noted in response that “if our oil properties were destroyed, Peláez himself would suffer, as the lease we have from him would not be developed, relatives of his would be deprived of the great royalties they are regularly receiving, and a source of employment to the natives would cease to exist.”⁶⁰

The volatility of both domestic and international politics was also a vital factor in sustaining Peláez's *cacicazgo*. In May 1917 Peláez launched a manifesto which confirmed his hostility to Carranza, and his desire to seek broader anti-Constitutionalist alliances by rejecting the new Constitution and making it clear that he supported the Allied war effort: “we do not abandon the

interests which the belligerents have in the region that we dominate, and that these interests will be defended by us whoever may be their owners." While this was reassuring to the oil companies and their respective governments, it was clear that Peláez's control of the region was threatened by US recognition of Carranza, which might facilitate a Constitutionalist assault on the oil fields region. As a result, throughout 1917 and 1918 Peláez kept the pressure on the oil companies and their respective governments to sustain their support for his *cacicazgo* as the principal, and indeed only, guarantor of stability in the region.

While Cowdray and the management of El Aguila continued to support Peláez throughout this period, they did so reluctantly, in the absence of a more reliable alternative. At the same time, they were utterly convinced of the need to avoid any kind of foreign intervention of the oil region in a misguided attempt to protect the supply of oil. For example, in May 1917 Cowdray warned the US government that the growing threat of foreign intervention to protect the oil companies would leave Peláez with no option but to withdraw his protection: "Peláez was guarding the oil properties, and he would do so until any foreign force appeared, when he would discreetly retire and leave the situation in their hands."⁶¹ Body also argued that US recognition of Carranza also made Peláez more volatile and vulnerable to external pressure. He sent a cable to Cowdray in October 1917 (which Cowdray passed on to the Foreign Office) to report that Peláez had been approached by German agents, and that "if the US Government assists Carranza, rebels will be obliged to accept German money as matter is life and death to them."⁶² Although it has been suggested that Cowdray's support for Peláez cooled off following his "conversion" to the cause of recognising Carranza after 1917, it is equally **(p.216)** possible to argue that Cowdray was, with characteristic pragmatism, keeping his options open and pursuing a dual strategy to protect production at the source (by supporting Peláez), as well as redressing the lack of representation at the government level (by formally recognising Carranza and nominating a British minister to represent British interests).⁶³

In the event, Peláez's strategy proved successful in maintaining his personal authority and political autonomy in the region. As Constitutionalism continued to face concerted regional resistance up to 1920, he was able also to strengthen his position nationally by seeking alliances with anti-Carranza rebel groups dispersed throughout central and southern Mexico—in Morelos, Oaxaca, southern Veracruz, and the Huasteca Potosina.⁶⁴ His greatest asset to the foreign oil companies that operated within his jurisdiction was in providing physical protection to the oil camps, and in limiting the authority of the Constitutionalist government. He provided what his "clients"—the foreign oil companies, their governments, local landowners, and the mixed rural communities in northern Veracruz—most wanted, namely, freedom from outside interference, and a degree of stability which would allow oil production to continue with only limited interruption, providing continued profits for the oil companies, royalties for local landowners, and sources of employment in the oil industry for the local and immigrant populations. The forced loans he extracted from the oil companies—although they amounted to more than Mex\$1.5 million between 1915 and 1920—were, in the final analysis, comparable to the taxes demanded by the Constitutionlists as a relatively small price to pay for allowing oil production to continue without major interruption.⁶⁵

Labour in the Oil Camps

There was one further, vital service provided by Peláez to the oil companies and their operations in the Huasteca—not only supplying labour, but also keeping labour disputes to a minimum, especially in the rural areas under his direct control, which were where the majority of the oil camps were located. The available evidence suggests, surprisingly, that in the camps

themselves, there were few, if any, labour disturbances of any sort.⁶⁶ This is not to suggest, however, that labour disputes were absent from the oil zone throughout the Revolution, since this was clearly not the case. The conflicts between the oil companies and their workers were, in fact, frequent in a period characterised by labour mobilisations throughout Mexico,⁶⁷ but they were concentrated above all in urban or industrial settings—principally in the refineries and the port of Tampico—where **(p.217)** the characteristics of the labour force were fundamentally different from that of rural areas—including in the oil camps.⁶⁸

Urban labour in the oil industry demonstrated all of the contradictions of the partial proletarianisation of the labour force in countries (such as Mexico) which experienced partial modernisation or “underdeveloped industrialisation” in this period—improved wages, but greater insecurity, and the marked persistence of hierarchy and patronage in industrial relations at all levels.⁶⁹ Urban labour was more skilled, more organised (i.e., unionised), and certainly more militant.⁷⁰ According to one source, the number of labour disputes which took place in Tampico between 1915 and 1919 (twenty-one out of a total of twenty-seven) was, in fact, far greater than elsewhere within the different sections of the oil industry.⁷¹ Yet the local management of El Aguila, through a range of pragmatic responses to workers' grievances, nevertheless managed to continue to avoid major disruptions to oil production and transportation.

Tampico was outside Peláez's jurisdiction, and under the control of the Constitutionalist, whose pro-labour rhetoric often appeared to conflict with their anti-labour practices.⁷² Labour relations within the oil industry in this period were characterised by protests against wage differentials between Mexican and foreign workers, which occasionally extended into more politicised protests over foreign control of the industry, as well as manifesting more fundamental concerns over general terms and conditions of employment. But the most common causes of labour unrest were high levels of inflation and the persistent devaluation of paper currency, and the consequent demand for salary increases to compensate for the shortfall in purchasing power.⁷³

Cowdray had always considered himself a fair-minded employer, and had been a moderate advocate of workers' rights during his career as a Liberal politician.⁷⁴ Nevertheless, when confronted with a strike by the “Syndicate of Employees of Commerce,” which threatened to disrupt production at the Minatitlán refinery in March 1916, he showed little enthusiasm for this particular manifestation of workers' power. He lamented the “deplorable intelligence of those attempting to ‘blackmail’ the company,” and commented, “It is a thousand pities that irresponsible labour should attack a company that not only treats its employees fairly, but with real generosity.”⁷⁵ Subsequent internal correspondence in July 1916 shows, however, that the manager of the Minatitlán refinery had responded to the union's concerns and agreed to the workers' demands, first, to pay the wages in *infalsificables*, the “unfalsifiable” notes issued by the Constitutionalist government in May 1916 with the vain hope of eradicating the twin evils of forgery and inflation, and, second, to pay them at the current official rate of exchange.⁷⁶ However, this was a less **(p.218)** than generous solution, since Ryder admitted that, even at the new rate, this meant a drop in real wages of 50 percent, since the market value of *infalsificables* was more like 10 or 12 pesos to the gold peso rather than 5 to 1.⁷⁷ By the end of 1916, however, the *infalsificables* themselves, like all of the other paper money in circulation, had become valueless.⁷⁸

Given the acceleration of profound economic dislocation within the Mexican economy after 1916, subsequent responses from the management of El Aguila to the demands of their workers were—and needed to be—measured, and above all, pragmatic. For example, on hearing of a strike of El Aguila's workers in Tampico in December 1916 to demand the doubling of wages as a result of the decline in their purchasing power, Cowdray advised Body that “we cannot double wages, because they cannot subsequently be lowered when normal conditions return.” However, he then proposed that “the only way out would be to open a big store, supplying both food and clothing, not only at cost price, but probably at considerably smaller prices.”⁷⁹ Body's reply indicated that the company was already making concerted efforts to alleviate the problems facing their employees: “the Company is running messes at Tampico where food is obtainable by employees at the lowest prices: the refinery (at Minatitlán) has a general store, where they are selling articles of prime necessity at cost and under. The TNR is running commissariat cars attached to freight trains for supplying food to the men on the line at cost price. This has met with great success.”⁸⁰

Despite these difficult economic and political circumstances, the protection provided in the oil camps by Peláez, and the pragmatic approach to labour disputes in the refineries and ports, ensured that oil production (and profits) continued to rise throughout this period. However, Cowdray's other major business interest in Mexico, the Tehuantepec National Railway (TNR), was facing far greater difficulties, and had done so since 1914, in line with the rest of the domestic economy.

The Termination of the Tehuantepec National Railway Contract, February 1918
The interruptions of domestic traffic caused by the descent into civil war during 1914, with ever more frequent embargoes, confiscations, and theft of goods and rolling stock, had made the running of the domestic railway network increasingly difficult. The problems facing the TNR were, however, more profound, and more broad-ranging. Given that the bulk of the TNR's trade was international, the disruptions to international commerce (**p.219**) caused by WWI, and the competition to the Mexican trans-isthmus route from the Panama Canal (opened in 1914), represented far greater threats. Although Cowdray publicly claimed that, with competent management, the TNR would have been able to survive the competition from the Panama Canal, it was clear that interoceanic freight dropped off significantly after 1914. Privately, however, Pearson estimated that in order to compete with the Panama Canal, the freight charges on the TNR would have to be reduced (by US\$1 per ton), but he expressed the fear that his partner in the enterprise, the Mexican government, would not allow this to happen.⁸¹ A further blow was the decision by the American Hawaiian Steamship Company in April 1914 to abandon the Tehuantepec route in favour of the canal. For Cowdray, however, the war was the major obstacle to profitable business: “With the suspension of European traffic, we have only local and passenger traffic. We shall be losing money continuously until conditions change.”⁸²

In fact, it is clear from the company's internal correspondence that Cowdray had been looking for a way out of the TNR contract since the Madero Revolution of 1911. The major obstacle was simply that Cowdray continued to insist on the terms of indemnity which had been stipulated in the original contract. However, neither Madero nor Huerta had been sufficiently motivated to dissolve the partnership arrangement originally negotiated by Limantour in 1898 to pursue the termination of the contract, and neither had been prepared to meet Cowdray's terms. As a result, the negotiations had failed to make any progress.

Cowdray's main concern was that any agreement should be binding on any future government, and that the termination of the contract should not be used as a pretext to undermine his oil business by questioning his acquisition of substantial concessions, properties, and drilling rights. He was also keen to make sure, given the anxieties associated with the application of the Monroe Doctrine which had brought forth strong criticism of the original contract of 1898, that the United States would not object to any new contractual arrangement.⁸³ Ultimately, however, it was Carranza's nationalist preoccupations, manifest in the broader project to nationalise the railway network, which determined that the contract be rescinded in 1918.

A foretaste of the growing nationalist concerns which would bring the TNR back under the exclusive control of the Mexican government can be found in Madero's decree of April 1912, which stipulated that only Mexican citizens were able to work as engineers on trains within the National Railways of Mexico network, and that all foreign employees of the railways should "make themselves efficient in the Spanish language as early as possible."⁸⁴ Although this might suggest that the Madero government (**p.220**) harboured plans to rescind the partnership with S. Pearson and Son, there is little evidence of this. Negotiations over the future of the TNR certainly took place over the summer of 1912, but it appears that they took place on Cowdray's initiative. The stumbling block was the terms of compensation demanded by Cowdray, which Madero was not prepared to meet. The matter was postponed for further discussion, after Finance Minister Ernesto Madero received assurances from Cowdray that he would remain in charge of the TNR until further notice.⁸⁵

In fact, Cowdray himself not only acknowledged the nationalist arguments in favour of terminating the contract, but was also prepared to use them to his advantage in his negotiations. He explained in February 1914 to Body, who had informed him that the Huerta government was "desirous of acquiring our interest in the TNR," "A partnership between a private firm and a government is not one easy of fulfilment." Cowdray continued, "A Government that has nationalised the roads and is desirous of running the roads by its own natives is apt to become critical and impatient about foreign employees. Foreigners are apt to be looked upon as intruders."⁸⁶ However, the severe financial difficulties of the Huerta government (highlighted in the previous chapter) prevented the termination of the existing contract.

By the end of 1916, the escalation of violence and anarchy on the Isthmus of Tehuantepec, and frequency of attacks on rolling stock and installations, meant that operations on the TNR were, as Body reported, "virtually suspended." Every attempt was being made to avoid a complete shutdown of operations, in order to prevent military occupation of the entire line, and to avoid any grounds for litigation from the Carranza government over a possible breach of the firm's contractual obligations to keep the line open.⁸⁷ Body's fears appeared to have been confirmed in April 1917 when he was informed by a "confidential source" from the headquarters of the Constitutionalist Railways that the government was "seriously considering confiscation of assets of TNR." One week later Carranza made a statement to Congress confirming the rumour, and two days later Body received a formal request for the management of the TNR to be handed over to the government. The official reason given was the protection of Mexican neutrality in present war, although Body was of the opinion that the real reason was to protest US entry into the European war. Now that the United States had joined the Allied cause, anti-American hostility in Mexico, he argued, had been converted into hostility toward British interests.⁸⁸

The *de facto* termination of the partnership between S. Pearson and Son and the Mexican government soon became *de jure*. Cowdray retained his characteristic *sangfroid*, safe in the knowledge that the Carranza government (**p.221**) had more immediate cause to terminate the contract than he did. As Body commented to Maurice de Bunsen at the Foreign Office, Carranza's increasingly desperate need for revenue had concentrated his attention on releasing the share capital of the TNR. "The partnership," explained Body,

has over £1,000,000 in hand, after setting aside the monies that have to be paid to the German bondholders after the war, and, besides, owns shares representing 30% of the capital of the American-Hawaiian Steamship Company. The sale of these shares would bring the divisible assets up to such an amount as would give the Mexican Government some £2,000,000 in cash. Hence under their present financial situation they are naturally most anxious to complete the transaction.⁸⁹

The matter was finally settled in February 1918, with Cowdray receiving £2 million in compensation, as befitting his status as equal partner according to the terms of the original agreement. Under the circumstances prevailing in Mexico, Cowdray was aware that this was probably more than he could have expected. In fact, he was less than impressed by the way in which Carranza handled the transaction. He even suggested that the First Chief ought to have received a larger share than he did. He told Maurice de Bunsen that "if we had been trying to, we could not have made a deal by which Carranza got less free cash. The distribution of the available assets between the two partners could have given him more. By dissolving the partnership, his proportion of the assets was reduced by the amount of compensation he had to pay us."⁹⁰

Chronicle of a Death Foretold: The Sale of El Aguila, March 1919

If the termination of the TNR contract was far from a great loss to Cowdray and, in fact, appeared on the contrary to have been a considerable relief, the sale of a large proportion of his shares in El Aguila and the handing over of managerial control to the Shell Group in March 1919 left him with far more ambivalent feelings.

As has been explained in the previous chapter, a key component of Cowdray's business strategy in Mexico regarding El Aguila had been bluntly stated in January 1914 as a desire to "sell oil interests without financial loss." This was a decision determined not only, nor even principally by the deteriorating political conditions in Mexico but rather by the structural limitations of his oil business.

Although El Aguila and its sister companies (EOTC and AMPP) had developed an impressive and profitable worldwide infrastructure of (**p.222**) production, sales, and distribution in this period, Cowdray was aware that El Aguila lacked the capital and material resources to compete with the oil multinationals, and that its future lay in a partnership arrangement or a takeover by the only two global oil companies who would be able to offer the deal he sought—Standard Oil and the Shell Corporation. This explains his clandestine approach to Standard Oil in 1912. Standard's reluctance to approve the deal at the time confirmed that the negotiations depended ultimately upon the strategy adopted by El Aguila's main suitors. Following the outbreak of war, however, any attempt to conclude the sale became enmeshed in the efforts of the British and US governments to guarantee and protect vital supplies of oil-based products to the Allied military campaigns until the war was over.

There was one other alternative suitor whom Cowdray had also pursued since 1912 who could provide the necessary security and investment and make El Aguila's position less vulnerable—His Majesty's Government. The growing strategic importance of oil in Britain's defence planning had been signalled by the historic speech made by First Lord of the Admiralty Winston Churchill in July 1913, which argued that oil-fired ships should and would take the place of coal-fired vessels. The search for secure supplies of oil, and a means by which dependence upon existing independent oil oligopolies (Standard Oil and Royal Dutch) could be avoided, henceforth became a major preoccupation for the British government. The search would culminate in the government's purchase of a majority shareholding in the Anglo-Persian Oil Company (the forerunner of British Petroleum) in August 1914.⁹¹ Prior to the arrangement with Anglo-Persian, however, the Liberal government had been advised by the Admiralty to sign a contract with Cowdray's El Aguila, which was already the largest British-owned oil corporation in the world.

As part of the initial negotiations, Cowdray approached Chancellor of the Exchequer Lloyd George in December 1913 with the following proposition: "if the Government were prepared to put in £5,000,000 we would be prepared to undertake not to sell our interests and to give them such security for the money as would be a full quid pro quo for their assistance and would be satisfactory to the House of Commons." In return, the bulk of El Aguila's fuel oil would be supplied to the Admiralty, which as a result "would have all the oil they require for both peace or war." Furthermore, "if it were desired that the control of the company should remain in British hands for, say, 7 years, this can be arranged. But it would mean that we would have to look to the Government for financial assistance instead of selling the Company's securities to the Public."⁹²

Although Cowdray's proposal was discussed at cabinet level, it was rejected for four fundamental reasons. First, because imperial and strategic (p.223) interests determined that oil supplies from the Persian Gulf were far more significant to Britain than those from Mexico (hence the purchase of Anglo-Persian Oil). Second, because of the diplomatic schism which had developed between Britain and the United States over the recognition of Huerta, and US preoccupations over Cowdray's attempt to extend his oil operations in Colombia, it was clear that the direct involvement of the British government in the Mexican oil business would be perceived as a threat to the principles of the Monroe Doctrine, and would be strongly opposed in Washington. Third, the Admiralty harboured reservations about the suitability of El Aguila's fuel oil for its fleet, and preferred to retain its dependence on Texas crude for the bulk of its supplies.⁹³ Finally, the proposed deal between Cowdray, a Liberal Peer, and the Liberal government prompted a hostile reaction, especially in the Conservative press, that this was another example of the corrupt collusion between leading businessmen and Liberal politicians.⁹⁴ The fact that Lord Murray, the Liberal Chief Whip intimately implicated in the Marconi scandal, was now working for Cowdray, and that Chancellor Lloyd George's son, and Churchill's brother-in-law were also employees, was exposed in the national press, and only served to give rise to further speculation and innuendo. As a result, the Liberal government declined to sign a deal with El Aguila. As G. R. Searle concludes, "With the Opposition newspapers baying at their heels, it would have been politically suicidal for them to have done so."⁹⁵

If Cowdray's long-term strategy was clear in his own mind, events after 1914 were nothing if not unpredictable, and conspired to undermine his plans. While he continued to be flexible and thoroughly pragmatic, his correspondence over this period denotes a degree of impatience and restlessness. In April 1916 he sought the advice of London banker Samuel B. Murray of the London City & Midland Bank—and realised that his options were limited. He noted current debts

were “some £2m,” and that considerable investment capital would be required in the future (£3 million for El Aguila and AMOC, £2.5 million for the construction of nine steamers, and “many millions” for further oil explorations in Algeria, Britain, and Sakhalin). The fundamental and “ever-present” question was:

whether I ought or ought not to reduce or broaden the base of my oil interests. At present there are many eggs in one basket. The basket is, in my judgement, strong and reliable, and certainly worthy of one's whole attention. We have arrived at the sound position that it should readily find its own capital requirements without interfering with the distribution of big profits.⁹⁶

There were several options to be considered: first “should I assume that I or my Estate is permanently going to retain all my oil interests as they **(p.224)** are today? That is, to work for ourselves as much as possible and not for other shareholders. This means paying off our debts in 5 years, and also finding further capital requirements out of further income, which could not be done except by undue economy or possibly by restriction of our programmes.” Second, should he “follow a medium course by selling part of our oil securities so as to redeem our debts as soon as possible, but otherwise keep the oil business as a family business?” Or should he “form a Holding Company to take over the whole of our oil interests, as soon after the war as possible, and to create Preferential Capital—thereby to pay off our debts promptly? If we decided to do this we should be loathe to sell off any of our oil securities meanwhile.” Or, finally, should he “amalgamate our interests with some of our competitors, or with the Anglo-Persian and Burmah companies to create a very strong British Company—which would have the cordial and possibly active support of the Government. The disadvantage of this scheme would be that we get no cash relief, and that we should feel to have the responsibility of the Management of the combined Companies. Thus we should get no relief of any kind.” He concluded, “I should like to be free to adopt such one [*sic*] of the alternatives as I may desire to do when the war is over.”

Because his preferred option, the sale of El Aguila to Standard Oil, was blocked by the war, he initially chose to resurrect the last of these options, which he referred to as the “patriotic option.” In April 1916 Cowdray proposed a bold solution to Britain's essential vulnerability—the lack of direct control over petroleum resources, and the rising dependence upon US oil supplies, both of which had been exposed as a consequence of the war. The plan advocated the creation of a British oil monopoly (provisionally to be called the British Imperial Oil Company) based on a merger of the major oil companies then under British management, supported and protected by government investment, but which would nevertheless stop short of nationalisation.⁹⁷ It would be a limited liability company, under single management, and would seek public investment. It would not only market oil-based products in Britain and throughout the Empire, but establish refineries in the UK and training programmes for technical staff to run them.

The plan was considered by the Petroleum Products Committee of the House of Commons, but rejected as not only unworkable but potentially damaging to highly sensitive British-US relations. It was clear that Cowdray's blunt and brusque manner (the director of naval contracts described him euphemistically as “a man of strong will”) did not endear him either to civil servants or to the Admiralty.⁹⁸ In fact, Cowdray himself had strong reservations about the merger scheme, even though he saw that it would be to the long-term advantage of British interests. As a lifelong opponent **(p.225)** of managerial capitalism—and an advocate of personal management by those who have a stake in the enterprise—he foresaw that the involvement of the state in the running of the proposed company would lead only to bureaucratic inertia and

public and parliamentary scrutiny. Besides, he would lose his freedom of manoeuvre, and the Pearson group would be obliged to accept the long-term responsibility of management, which meant, as he put it, “the rope would be round their neck.” Although the formation of the company might be in British interests, Cowdray concluded that the plan should not be put into practice, since, as he somewhat cynically (and wearily) commented, “patriotism will be too onerous to be contemplated.”⁹⁹

While plans for what Cowdray later described as the “all-British” option for the future of Mexican Eagle lapsed, negotiations resumed with Standard Oil in November 1916.¹⁰⁰ Although this was Cowdray's preferred option, he was certainly not going to sell his interests cheaply, and he demanded £18 million (sterling) for the three companies. As a matter of courtesy, and because of his political status as a new member of the war time cabinet as president of the Air Board and a member of the Privy Council, Cowdray referred the matter to the Treasury and the Petroleum Products Committee as part of a process which he deemed to be merely a formality. To his surprise and consternation, the latter raised strong objections to the sale as detrimental to the national interest. Although Cowdray made no attempt to hide his initial anger at the committee's interference, he nevertheless sought a compromise solution not dissimilar to the one he had proposed in 1913: a partnership between El Aguila and the British government to the end of the war, with the latter receiving 50 percent of the stock (and 50 percent of the risk) in return for £9,250,000 of investment capital. The offer was, once again, rejected. Undeterred, Cowdray offered the government a 50 percent stake in El Aguila through the issue of debenture bonds, and thus avoiding the government becoming a shareholder in the company and incurring the wrath of either the US or the Mexican governments. Once again, negotiations came to nothing.

The *denouement* of the negotiations came in October 1917 with the British government invoking the Defense of the Realm Act, which prevented “any British subject from transferring any ownership rights in any oilfield around the world to any but another British subject, without the approval of the Board of Trade.” Relations between Cowdray and the British government had reached their lowest point. Cowdray complained publicly that these regulations were illegal, and that the government were “simply screening themselves behind the war in order to make regulations which were not actually required by war conditions.”¹⁰¹ To add insult to injury, three weeks later Cowdray discovered that Lloyd George (**p.226**) had offered Lord Northcliffe the post of minister of the newly created Air Ministry, which was due to take over the work of the Air Board, of which Cowdray had been president since January 1917. He immediately offered his resignation.¹⁰²

Relations did not improve over the coming months. The combination of the invocation of DORA with the continued refusal of the Foreign Office to provide diplomatic representation for British interests in Mexico prompted Sir Clarendon Hyde, the head of the firm's legal department, to write to the Foreign Office “formally to give notice that should any damage arise through our inability to place Mexican Eagle in a position to claim protection from a friendly and allied nation, we shall hold the British Government responsible for any loss or damage we sustain.”¹⁰³ Cowdray himself became increasingly exasperated with the Foreign Office's position, which he described as simply “indefensible.”¹⁰⁴

The end of the war, however, removed the most important impediment to the sale of El Aguila. In October 1918 Calouste Gulbenkian of Royal Dutch Shell offered an arrangement whereby the Shell Group would purchase the majority of shares, and thereby obtain managerial control of the

company, with Cowdray retaining “such a number of shares that it would be of small moment to him what happened to that remaining holding.”¹⁰⁵ This would, in Gulbenkian's words, “leave Lord Cowdray with a perfect peace of mind.”¹⁰⁶ The negotiations were concluded with unprecedented speed, and the final settlement was almost precisely the one which had been first proposed by Gulbenkian. According to the contract signed in March 1919, the Shell Group acquired 35 percent of the ordinary capital of El Aguila, and 50 percent of the total shares of Anglo Mexican, for a price of £7.7 million.¹⁰⁷ Although the Shell Group were not majority shareholders, they were permitted to nominate sufficient directors to secure management control on the boards of both companies, an arrangement which was stipulated in the contract to last for twenty-one years.¹⁰⁸

Although the personal terms of the sale were immensely favourable to Cowdray, his subsequent correspondence with the British government reveals a degree of bitterness and recrimination which suggested that the deal had certainly not provided Cowdray with “perfect peace of mind.” With the ink barely dry on the contract, Cowdray complained to Sir John Cadman, the chair of the British government's Petroleum Executive, that

it is a cause of great regret to me that I had to dispose of the bulk of my interest in El Aguila, but clearly I had no alternative as I was not prepared to carry indefinitely, and single-handed, the financial burden of this huge business. I consistently endeavoured over a period of years to get the British Government to cooperate **(p.227)** with me in maintaining the “all-British” position of El Aguila, but my efforts were entirely fruitless, and, further, we have not had that consideration and support from various Departments that we were fairly entitled to expect.¹⁰⁹

Cadman explained to Cowdray that his proposal that HMG should purchase a share of his interests had been considered “very carefully and sympathetically,” but also that “it was felt, however, and I cannot help thinking wisely, that it would have been most undesirable to invest a large sum of Government money in Mexico, primarily on account of the political conditions in that country but also because of the exception which would have been taken to such a step by the United States.”¹¹⁰

Cadman's reply only irritated Cowdray even more. His reply was swift:

We made the suggestion to His Majesty's Government that it should take half the risk with us at a time when the El Aguila property was considered by every one conversant with the position to be gravely endangered, not only by the general unrest in Mexico but owing to the possibility of the Mexican Government coming to active loggerheads with the US. In the latter event it was the declared intention of members of the Mexican Government to at once destroy all the oil properties. Of course when it is conceded that the Government could not properly become interested in a business, owing to the great risks it would run, it follows that it was not a fit risk for any private firm to have; but the Government insisted on our running this risk as they refused to allow us to sell our El Aguila shares to the Standard Oil Co and that at a time when they were the only buyers.”¹¹¹

As regards the risk of upsetting the US and Mexican governments, Cowdray was equally blunt:

We had considered this possibility and provided against it by suggesting that the Government might take Debentures, thereby securing themselves to the utmost extent possible against loss. As Debenture holders, neither the US or the Mexican Government could have properly raised any protest. Further, the Government were to have the right whenever they wished, to exchange its Debentures for shares; when the risks were over they had the right to the more valuable security—whilst they would have had the position of being able to pass on their security to any English Company.

Despite his complaints, the offer from the Shell Group could not have come at a better time for Cowdray, since he had received a report from the board of directors of El Aguila in Mexico (ironically enough, on Christmas Eve, 1918) that El Aguila's most productive well, Potrero del Llano No. 4, had begun to produce salt water and oil in equal quantities.¹¹² He was, therefore, fully aware of the news from Potrero when he signed the contract with Gulbenkian. By 1922, only three years after Cowdray had sold his controlling interest, Potrero had ceased to produce oil altogether. The combination of the decline in production of the Mexican fields, and **(p.228)** the continued wrangling over questions of taxation, labour laws, and sovereignty and between the Mexican government and the foreign oil companies throughout the next decade indicated that Shell had perhaps been given the raw end of the deal.¹¹³

The deal with Shell did not mean the end of Cowdray's participation in the oil business. The proceeds from the sale of El Aguila provided the capital to develop new oil ventures. While his hopes for major discoveries in the UK, Egypt, Greece, Morocco, Portugal, India, and Tunisia proved groundless, he had far more success with the Amerada Corporation in the United States and Canada, set up in partnership with his former employees in El Aguila—Thomas Ryder as president and Everette Lee DeGolyer as vice president, with John Body and Herbert Carr as directors. Between 1920 and 1926 Amerada's production rose from 240,000 barrels to over 5 million. But Cowdray's involvement with Amerada was far less direct or personal than had been the case of El Aguila.¹¹⁴

It is perhaps fitting to end this chapter with the telegram which Cowdray sent in March 1919 to Mexico to be circulated to all of the employees of El Aguila. It, on the one hand, encapsulates Cowdray's always idiosyncratic relationship with the English language, and, on the other, highlights both his lack of sentimentality and his management skills—especially, in the latter case, his ability to identify and praise the efforts of his staff and their contribution to the quite remarkable success of his Mexican oil business in the face of innumerable obstacles. It also highlights his natural tendency toward optimism, and his inclination always to put a positive gloss on the current situation. He intimated that current employees would not be made redundant as a result of the sale, a promise he could never hope to deliver now that the burden of management had been taken out of his hands:

Before publicly announcing the completion of marketing arrangements and close association with Shell Royal Dutch Companies which has been brought about by the acquisition by those companies of a large proportion of my firm's shares, I desire to convey my deep appreciation and heartfelt gratitude to one and all who have by their unstinted [*sic*] services made the El Aguila Co. the success it is. With this new alliance the El Aguila Company becomes a more powerful world factor in the Petroleum industry ... it is the ardent wish of both myself and our new ally that no changes should take place in the

present personnel of the Company. The management in Mexico will continue as at present.¹¹⁵

Whether this was an honest appraisal of the fate of El Aguila based upon his knowledge of the broader context of the future of the Mexican oil business in 1919—especially the news from Potrero—can only be a matter of speculation. What it perhaps showed was that, after thirty years (**p.229**) of building and sustaining his Mexican business empire, he had lost his enthusiasm for sustaining it. As he confided in melancholy fashion to his friend and business associate Henry Osborne O'Hagan toward the end of his life, "I have succeeded in life to the limits of my ambition; but I have not had such a happy life as you who are interested in so much that lies outside your business, while I have devoted myself so closely to my work that I have but few outside interests."¹¹⁶ The fate of the business empire he had built in Mexico was now in the hands of others.

Notes:

- (1.) SMA:PEA Box A3 Confidential memo from Body on a meeting with Sir Maurice de Bunsen 13/09/1915.
- (2.) SMA:PEA Box A3 Cowdray to T. Bowring, director of CT Bowring, oil distributors in GB, acquired by AMPPCo in 1913 26/12/1914.
- (3.) AHPM C39 Exp. 1025 ff. 45–4 8; the only exception to this was drop of only 18 percent in sales of gasoline, and rise in sales (179 percent) of cotton-seed oil; the board also pointed out that the figures were distorted by the fact that, again due to the interruptions of internal communications, almost two-thirds (109) of the 169 agencies which distributed El Aguila products throughout Mexico had not been able to send in their reports.
- (4.) AHPM 38 C2806 Exp. 73475 f. 37 Ryder to Body 11/10/1916.
- (5.) SMA:PEA Box A3 Cowdray to Hohler 09/11/1916.
- (6.) SMA:PEA Box A4 Cowdray to Dehesa 23/12/1915.
- (7.) SMA:PEA Box A3 Cowdray to Limantour 23/12/1915. Of the twenty tankers belonging to the Eagle Oil Transport Company (seventeen of which were owned outright, with three others on long-term charter), ten had been requisitioned by 1915, and fifteen by 1917; Knoblauch *Lord Cowdray's Interests in Mexico*, p. 295.
- (8.) Archivo José Yves Limantour (hereafter AJYL) 3a serie Cowdray to Limantour 19/01/1916.
- (9.) For a detailed account of German aspirations and conspiratorial activities, including the offer made in the infamous Zimmerman Telegram to the Carranza government in February 1917 to restore the territory taken from Mexico by the United States in 1848 if Mexico became an ally of Germany against the United States, thus precipitating US entry into WWI, see Katz *Secret War*, pp. 350–67. According to his own account, the telegram was intercepted partly through the agency of the British minister in Mexico, Thomas Hohler; Hohler *Diplomatic Petrel*, p. 244. As anti-German paranoia intensified in Britain and the United States, Cowdray agreed to the use of a tug belonging to El Aguila, but flying the Mexican flag, to search—without success—for a reported German submarine base off the coast of Tamaulipas in the summer of 1918. R.

Gerhardt "Inglaterra y el petróleo mexicano durante la Primera Guerra Mundial" *Historia Mexicana* XXV:1, julio-sep 1975, pp. 118-42.

(10.) Katz *Pancho Villa*, pp. 566-70.

(11.) AHPM C2214 Exp. 59763.

(12.) AJYL 3a serie Cowdray to Limantour 25/02/1916.

(13.) A. Sampson *The Seven Sisters: The Great Oil Companies and the World They Made* London: Hodder & Staughton, 1975, p. 60.

(14.) Meyer *Su Majestad Británica*, pp. 81-91.

(15.) There is also evidence that some US exports of crude to the UK were Mexican in origin; E. Durán "El Petróleo Mexicano en la Primera Guerra Mundial" in M. S. Wionczek (ed.) *Energía en México: Ensayos sobre el pasado y el presente* México: El Colegio de México, 1981, pp. 53-75. Cowdray himself estimated a total of 10 percent of oil supplies to Britain during the war came from his fields; SMA:PEA Box A23 R1/12.

(16.) SMA: PEA Lord Cowdray: Deputation to Lord Reading 08/09/1918.

(17.) Durán "El Petróleo Mexicano," p. 72.

(18.) SMA: PEA Box A3 Memo on meeting with Maurice De Bunsen, London 23/03/1918.

(19.) Brown argues that, as a holder of Mexican bonds, Cowdray was also keen to use the medium of diplomatic pressure to establish a timetable for the repayment of existing debt obligations; *Brown Oil and Revolution*, p. 246.

(20.) SMA:PEA Box A4 Body to Cowdray 18/05/1917.

(21.) Meyer *Su Majestad Británica*, pp. 81-91.

(22.) SMA: PEA Box A4 Body to Cowdray 22/05/1917.

(23.) SMA: PEA Box C49/2.

(24.) SMA: PEA Box 1C Reed *Mexican Eagle*, p. 10.

(25.) SMA: PEA Box A3 Memo on Interview with Mr. Balfour 18/06/1918.

(26.) *Ibid.* Body to Cowdray 16/09/1918.

(27.) As Durán points out, Carranza was unable to collect production taxes, since he did not control the oil fields, which meant that he was only able to benefit from the imposition of export taxes, since he controlled the port of Tampico; Durán "El Petróleo Mexicano," pp. 53-75.

(28.) SMA:PEA Box A3 Body to the Secretary of State for Foreign Affairs 03/02/1915.

(29.) SMA:PEA Cowdray to Body 29/12/1916. Ryder was less sanguine, explaining that Carranza was now demanding direct rather than indirect payment of taxes amounting to “up to \$179,000 *oro Mex.* every two months.” “We are,” Ryder declared, “at our wits ends”; AHPM C2806 Exp. 73475 Ryder to Body 23/11/1916. Haber, Razo, and Maurer *The Politics of Property Rights*, however, point out that when compared to the overall profits generated by oil exports, the tax demands represented little more than pocket change to the oil companies. This would also help to explain Cowdray's willingness to negotiate.

(30.) Brown *Oil and Revolution*, pp. 219-23.

(31.) E. V. Niemeyer *Revolution at Querétaro: The Mexican Constitutional Convention of 1916-17* Austin: University of Texas Press, 1974, pp. 134-65.

(32.) A. Knight *The Mexican Revolution* Cambridge: Cambridge University Press, 2 vols., 1986, suggests that the Querétaro debates were the equivalent of the Putney Debates during the English Civil War, at the same time emphasising that they were largely irrelevant to the outcome of the internecine struggles which were taking place outside the debating chamber.

(33.) It was also clear that many of the delegates had never even visited the constituencies they purported to represent.

(34.) F. Palavicini *Mi vida revolucionaria* México: Ediciones Botas, 1937. His fee was US\$500 per month. I am grateful to Eduardo Clavé Almeida for providing information on Palavicini's career as an agent for El Aguila.

(35.) See, for example, M. Becerra *Palavicini desde alla abajo ... historia del hombre pedagogo, político, ladrón, diplomático* México, 1924.

(36.) Palavicini *Mi vida revolucionaria*, pp. 25-35.

(37.) J. Garciadiego *Rudos contra Científicos: La Universidad Nacional durante la Revolución mexicana* México: El Colegio de México, 1996, p. 272.

(38.) It is also clear that El Aguila's manager in Tampico, T. H. Vaughan, was very unhappy with Palavicini, who “was placed in my office only to kill time,” and he was dismissed in August 1911; AHPM Exp. 73557.

(39.) El Aguila provided advertising revenue, and the paper was published from premises rented from the firm; AHPM Exp. 52455. This would perhaps help to explain the character of the paper, in Palavicini's own words, as nonpartisan and “*independiente*,” and *El Universal's* support for the Allied cause during WWI; Palavicini *Mi vida revolucionaria*, pp. 367-69; for Cowdray's relationship with the press, see Chapter Two, above.

(40.) AHPM Exp. 73542. Palavicini's contract lasted until May 1917. For the defence of his “revolutionary” credentials at Querétaro, which demonstrated his considerable oratorical skills and powers of persuasion, see Niemeyer *Revolution at Querétaro*, pp. 47-50.

(41.) Niemeyer, *Revolution at Querétaro*, p. 143.

(42.) Brown *Oil and Revolution*, p. 231.

(43.) Hall *Oil, Banks and Politics*, p. 14–22.

(44.) Not all encounters were conducted through the APPM; in September 1918, for example, Carranza's finance minister, Luis Cabrera, called an informal meeting in New York of lawyers representing the major oil companies (Luis Riba represented El Aguila) to gauge the reception of recent legislation passed by the Mexican government, especially those measures introduced in September 1918 which sought to tax not only production and exports, but also rents and royalties, and to introduce a new stamp tax on all property deeds. Cabrera met with a barrage of hostile abuse, especially from Doheny's lawyer F. R. Kellog, who summarised his views as follows: “the only solution of the situation created by the Constitution of 1917 and subsequent decrees was that the said Constitution and decrees should be abrogated, and that it was entirely useless to continue the discussions on any different basis and with different purposes”; AHPM C2824 Exp. 73657 Riba to Ryder 19/09/1918.

(45.) SMA:PEA Memo on meeting with de Bunsen 25/03/1918.

(46.) Brown *Oil and Revolution*, pp. 229–38.

(47.) Brown (*ibid.*, pp. 253–306) provides a detailed analysis of Peláez's role and significance in these years.

(48.) Veracruz was a state which also witnessed numerous agrarian rebellions in the nineteenth century; for example, a report from the British vice consul in Coatzacoalcos in October 1906 identified “200–500 revolutionaries from Acayucán, Chinameca and Minatitlán ... there can be little doubt that the disorders arose out of land matters, the Indians being dissatisfied with the treatment they received which they regarded as spoliation,” although whether this was directly related to the land fever associated with the oil boom remains unclear; PRO-FO 371/89 d.36405. The leadership and underlying structures of agrarian disputes, as the Mexican Revolution would demonstrate in myriad form, were a principal source of sustenance for the maintenance of *caciquismo* and *caudillismo*; see D. Brading (ed.) *Caudillo and Peasant in the Mexican Revolution* Cambridge: Cambridge University Press, 1980, and A. Knight and W. Pansters (eds.) *Caciquismo in Twentieth-Century Mexico* London: Institute for the Study of the Americas, 2005.

(49.) Serna *Oil, Revolution and Agrarian Society*, pp. 90–101.

(50.) During the fevered construction of new pipelines following the discovery of extensive deposits in 1911, Peláez became the most important labour contractor in the region; Brown *Oil and Revolution*, p. 257.

(51.) Durán “El Petróleo Mexicano,” p. 71 suggests that the number of Peláez's supporters was 30,000, which is most probably exaggerated. Cowdray reckoned that Peláez was able to call upon between 3,000 and 5,000 local troops; SMA:PEA Box A3 Cowdray to de Bunsen 15/3/1916. Serna *Oil, Revolution and Agrarian Society* (p. 195) suggests between 3,000 and 10,000.

(52.) Brown *Oil and Revolution*, pp. 278–92.

(53.) Myrna Santiago *The Ecology of Oil* (p. 97) sees Peláez's role primarily as the leader of an anti-Constitutionalist *hacendado* revolt who colluded with (and exploited) the oil companies in pursuit of the “commodification of the rainforest.”

(54.) Katz *Pancho Villa*, pp. 671–72.

(55.) Peláez also had strong personal reasons for his hostility to Carranza: his family's properties were confiscated in 1914 and he was temporarily unable to receive royalty payments on oil produced on his lands; Serna *Oil, Revolution and Agrarian Society*, p. 191. According to El Aguila's figures, annual royalty payments on production for 1916 in the Faja de Oro varied from Mex\$85 (Tierra Amarilla) to Mex\$14,257 (Potrero); SMA:PEA Box 45/6.

(56.) In December 1914 Peláez occupied the camp at Potrero and demanded Mex\$100,000. SMA:PEA Box A3 Memo on meeting with de Bunsen 15/03/1916. When told there was only Mex\$8,000 in the company safe, Peláez proceeded to take \$7,500 and, thoughtfully, provided a receipt; AHPM C2800 Exp. 73307.

(57.) AHPM C39 Exp. 1023 ff. 45–49 Board of directors meeting on 30/08/1915.

(58.) AHPM C2800 Exp. 73307 Montes to Ryder, 07/05/1915. Montes did not, of course, mention the regular payments made to Peláez. At the same time, Aguilar was regularly imposing fines on El Aguila for contaminating local rivers and threatening local agriculture (US\$50,000), and inventing new forms of taxation on production (Mex\$450,000), both in January 1915; *ibid.*, Wm. J. Pulford, Tampico, to T. B. Hohler 07/01/1915.

(59.) Three of El Aguila's employees (two British, camp superintendent Hugh Buckingham and treasurer Edward Campbell-Bannerman, one Mexican, Tirso Cruz) were attacked and murdered in March 1917, following an attack by "*hombres armados*" on the Nanchital camp in southern Veracruz. The report did not specify who the culprits were. In fact, violence and theft was just as likely to have been committed by Constitutionalist troops, who had a poor reputation amongst the foreign oil companies, and who were often referred to as *con-sus-uñas-listas* (with their claws at the ready); AHPM C39 Exp. 1025 Minutes of the board of directors meeting 27/03/1917.

(60.) SMA:PEA Box A3 PM Bennett (Electrical Engineer for El Aguila, Tampico) to Body 09/02/1916; memo from Lord Cowdray 15/03/1916.

(61.) SMA:PEA Box A4 Notes Re Mr Body's visit to Washington, May 1917. As an example of growing lawlessness, Body gave an account of his recent experiences of a raid on the Tampico–Mexico City railway, which left thirty passengers dead.

(62.) SMA:PEA Box A3 Body to Cowdray 22/10/1917. Body also reported that in order to prevent evidence of El Aguila's links to Peláez falling into wrong hands, "all the financial papers showing costs and profits on the contract I personally destroyed during my last visit."

(63.) Katz *Secret War; Brown Oil and Revolution*, p. 280.

(64.) See the essays in M. Wasserman and T. Benjamin (eds.) *Provinces of the Revolution: Essays on Regional Mexican History* Albuquerque: University of New Mexico Press, 1990.

(65.) *Brown Oil and Revolution*, p. 303. Peláez remained a significant actor in the politics of Veracruz after the Revolution, until the reconstruction of central authority eventually undermined his *cacicazgo*. This was a process repeated throughout Mexico in the 1920s and 1930s; see, for example, K. Brewster *Militarism, Ethnicity and Politics in the Sierra Norte de Puebla, 1917–30* Tucson: University of Arizona Press, 2003.

- (66.) Serna *Oil, Revolution and Agrarian Society* (pp. 226–27) contends that there is no record of disputes of any kind in the area under Peláez's control.
- (67.) The Madero government had not been a great advocate of pro-labour policies, but, crucially, it had given workers the freedom to organize; B. Carr *El movimiento obrero y la política en México 1910–29* Mexico: Ed. Era, 1979.
- (68.) For a detailed description of working conditions and an analysis of the racial and social segregation practised in the camps, see Santiago *Ecology of Oil*, pp. 148–78.
- (69.) Brown *Oil and Revolution*, pp. 307–65; S. Haber *Industry and Underdevelopment: The Industrialisation of Mexico 1890–1907* Stanford, CA: University of California Press, 1989.
- (70.) Santiago *Ecology of Oil*, pp. 231–48.
- (71.) Of the thirty labour conflicts which took place in this period within the Mexican oil industry (camps, docks, refineries, workshops, transport), half were in the refineries; A. Rendón Corona *Los conflictos laborales en la industria petrolera* México: Universidad Autónoma Metropolitana, 1996, p. 239, cited in Serna *Oil, Revolution and Agrarian Society*, pp. 226–27.
- (72.) The most well-known example was the suppression of the Casa del Obrero Mundial in July 1916; Carr *Movimiento obrero*.
- (73.) Following the publication of a report in *El Universal* in November 1916 on the rise in prices of basic staples between 1912 and 1916, El Aguila Director Thomas Ryder asked the Order Department to investigate. Staff found that the prices quoted in *El Universal* were broadly accurate; beans (*frijoles*), rice, and sugar had tripled in price, while corn (*maíz*) had quadrupled; AHPM C2806 Exp. 73475 ff. 141–42.
- (74.) See Chapter Two.
- (75.) SMA:PEA Box A4 Cowdray to Body 24/03/1916.
- (76.) The official exchange rate of *infalsificables* to the gold peso was 5 to 1, so the agreed wages would now be 7.5 pesos; AHPM C2902 Exp. 73475 Ryder to Body 24/07/1916.
- (77.) There also appears to have been a double standard in operation by the management of El Aguila. While they were prepared to pay wages in *infalsificables*, the sales manager in Mexico City (W. B. Stephens) was issuing instructions to its salaried agents throughout Mexico that payments to the company in paper money, including *infalsificables*, would no longer be accepted and should be made only in either gold or silver; AHPM C2902 Exp. 7345 Stephens to Ryder 24/11/1916.
- (78.) Knight *Mexican Revolution* Vol 2, p. 409.
- (79.) SMA:PEA Box A4 Cowdray to Body 29/12/1916.
- (80.) Ibid. Body to Cowdray 20/01/1917.
- (81.) SMA:PEA Box 55 TNR/5; Cowdray's notes 29/07/1913.

- (82.) SMA:PEA Box A3 Cowdray to Body 1914.
- (83.) A private communication to Cowdray from US Ambassador Page in March 1914 assured Cowdray that the United States would positively welcome the termination of the contract; SMA:PEA Cowdray to Clive Pearson 13/03/1914.
- (84.) SMA:PEA Box A4 Body to Cowdray 08/06/1912.
- (85.) SMA:PEA Box A3 E. Madero to Cowdray 02/07/1912.
- (86.) Ibid. Cowdray to Body 07/02/1914.
- (87.) Ibid. Body to Cowdray 21/11/1916.
- (88.) SMA:PEA Box A3 Body to Cowdray 29/04/1917. In his reply Cowdray acknowledged, and appeared to accept, the strategic justifications for the embargo: "connecting the two oceans with fine port facilities might, in Mexican opinion, render seizure necessary."
- (89.) SMA:PEA Box A3 Memo from Body to M. de Bunsen 12/11/1917.
- (90.) Ibid. Memo from Lord Cowdray re: meeting with de Bunsen 25/03/1918.
- (91.) Sampson *The Seven Sisters*, pp. 51-57.
- (92.) SMA:PEA Box 1C Reed *Mexican Eagle*, p. 9.
- (93.) Katz *Secret War*, pp. 178-9; Ansell *Oil Baron*, p. 128.
- (94.) Searle *Corruption in British Politics*, pp. 212-17.
- (95.) Ibid., p. 217.
- (96.) SMA:PEA Box A11 Cowdray to Murray 04/04/1916.
- (97.) The companies involved would be British Imperial Oil Co., Anglo-Persian Oil Co., Burmah Oil Co., Trinidad Oil Co, and Mexican Eagle; SMA:PEA Box A10.
- (98.) Jones *The State*, pp. 190-92.
- (99.) SMA:PEA Box A10 Notebook 6 "Review of Problems," p. 25.
- (100.) Cowdray had in the meantime begun to explore extensively for oil in the British Isles; Jones *The State*, p. 208.
- (101.) SMA:PEA Box 1C Reed *Mexican Eagle*, p. 10.
- (102.) SMA:PEA Box A9 Lord Cowdray's Retirement from the Air Ministry: Letter to the *Times* 16/11/1917; see Chapter Two for further details.
- (103.) Knoblauch *Lord Cowdray's Interests in Mexico*, p. 345.
- (104.) SMA:PEA Box A3 Memo Interview with Mr. Balfour 18/06/1918.

- (105.) SMA:PEA Box C44 Agreement SPS with Royal Dutch and Shell 26/03/1919. The British government could not object or invoke DORA, given the close connections it had fostered with the Shell Group during 1918; Jones *The State*, pp. 201-4.
- (106.) Document quoted in SMA:PEA Box 1C Reed *Mexican Eagle*, p. 11.
- (107.) SMA:PEA Box44 File3; the equivalent of some \$388 million in contemporary terms.
- (108.) The contract obliged the parent and subsidiary companies to adjudicate all management disputes solely in British courts. Shell also had an option to purchase further 125,000 shares, which was taken up in January 1920 (Box 11 Cowdray to Clive Pearson 15/01/1920), as a result of which both S. Pearson and Son, and RD-Shell held approximately 600,000 shares each. It is worth noting that the contract also allowed the firm to cull files from its Intelligence Department to remove all "sensitive" material; Box C44/3 Agreement of SPS w/RD Co & Shell 26/03/1919.
- (109.) SMA:PEA Box C44 Cowdray to Cadman 27/03/1919.
- (110.) Ibid. Cadman to Cowdray 15/05/1919.
- (111.) Ibid. Cowdray to Cadman 22/05/1919. Cowdray also complained that Anglo Mexican had been unfairly discriminated against, having been excluded from the development of Mesopotamian oil fields in the postwar settlement imposed upon the Ottoman Empire.
- (112.) AHPM C39 Exp. 1025 ff. 167-70 24/12/1918.
- (113.) Oil production in Mexico peaked in 1920, but by 1930 it had dropped to only 20 percent of the 1920 figure, and Mexico had dropped from its position of second-largest producer in the world to seventh place. This weakened the autonomy of the privately owned oil companies and strengthened the hand of the state in its attempts to regulate and control the industry. At the same time, after years of mixed internal division and political conflict with the state, the labour unions consolidated their internal organisation into one (the *Sindicato de Trabajadores Petroleros de la República Mexicana*, or STPRM, formed in 1935) and cemented their alliance with the administration of President Lázaro Cárdenas (1934-40). The oil companies' repudiation of a Supreme Court ruling in March 1938 in favour of STPRM demands, supported by Cárdenas, led directly to the nationalisation of the oil industry; J. Brown and A. Knight (eds.) *The Mexican Petroleum Industry in the Twentieth Century* Austin: University of Texas Press, 1992.
- (114.) Tinkle *Mr. De*, pp. 141-56.
- (115.) SMA:PEA Box C44/3 Tele gram to El Aguila in Mexico from Lord Cowdray, n.d.
- (116.) O'Hagan *Leaves from My Life*, p. 165.



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