Oil crisis in Mexico: The Carranza years

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OIL CRISIS IN MEXICO: THE CARRANZA YEARS

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The Mexican revolution of 1910-1911 followed thirty-five years of dictatorship under Porfirio Díaz. The revolution culminated years of political and social unrest that had surfaced during the decade of 1900-1910. Revolutionary forces pushed for change in a variety of sectors. It would prove difficult for any one leader to channel all the revolutionary impulses into an effective post-revolutionary society.

The liberals led by Francisco Madero supported political reform for Mexico as their primary goal. Other undercurrents of revolutionary sentiment existed that went beyond a mere desire to reform the political system prevalent in Mexico. Many revolutionaries supported the ideal of economic nationalism. They desired that Mexico be made economically independent of other nations and that foreign control over natural resources be terminated. Other reformers demanded an end to the influence of foreigners in all public affairs, an influence that had increased during the Díaz era. Another revolutionary impulse was in the direction of land reform. Many of the more radical revolutionaries demanded that the large haciendas be broken up and the property distributed to landless peasants.

Madero and his followers succeeded in ousting the aged
Díaz and Madero became the new president. He failed to satisfy moderate, liberal, and conservative elements both in and out of the revolution. Led by the Commander of the Army, General Victoriano Huerta, a successful coup ousted Madero in February, 1913. The Huerta takeover met almost instant opposition from elements who were either loyal to the assassinated Madero or who saw in Huerta a return to the policies of Porfirio Díaz. Venustiano Carranza, Governor of the state of Coahuila, had been an ardent Madero supporter. When Madero was killed, Carranza announced his opposition to the new regime. In Chihuahua, the bandit leader Pancho Villa mounted a military campaign against the Huerta government. To the south, the peasant leader Emiliano Zapata organized resistance to Huerta and demanded the restoration of lands which had been taken from villages during the Díaz years.

The forces under Carranza were known as the Constitutionalists because they supported political reform and the writing of a new constitution for Mexico. Huerta struggled vainly to remain in office, but the three-pronged opposition to his regime was too powerful. He was forced to leave the country in 1914, and thereafter the three revolutionary leaders fell to fighting among themselves for control of the country.

The period of struggle between Carranza, Villa, and Zapata saw the goals of the revolution fall by the wayside.
The conflict became a quest for personal power by each of the three. Few real revolutionary improvements were accomplished on a national scale, and revolutionary ideals became mere vehicles used by the leaders to garner personal support. Carranza viewed the problem of economic nationalism as one that could be exploited for his own benefit. He decided that he would direct a drive for economic nationalism against one particular foreign-dominated industry: oil.

The petroleum industry was practically controlled by foreigners. Carranza embarked on a struggle against the foreign oil companies to rescue ostensibly a valuable natural resource from greedy profiteers. This study will examine in detail the diplomatic conflict that occurred between the Carranza regime and the United States government. The efforts made by Carranza toward achieving an independent Mexican oil industry during his tenure in office would have far-reaching ramifications for U.S.-Mexican diplomatic relations and for future attempts by Mexico to achieve economic independence.
Constitutionalist forces led by Álvaro Obregón marched into Mexico City in January, 1915. Venustiano Carranza, First Chief of the Constitutionalist Army, claimed executive authority of Mexico without calling himself president. With Obregón occupying Mexico City and Carranza governing from Veracruz, the Constitutionalisists consolidated their power and thus gained preeminence among the several rival factions then attempting to control the country. The power of the Constitutionalisists, however, was far from absolute, and, in an attempt to unify the Mexican people behind his faction, Carranza embarked upon a course of action which he hoped would inspire nationalistic fervor.

Carranza remained keenly aware that exploitation of Mexican resources by foreign industrialists constituted a chronic irritant to the Mexican populace. Such exploitation was especially apparent in the foreign-dominated oil industry. For that reason Carranza instituted a program whose principal object was the assertion of Mexican control over the rich oil deposits. During the years prior to the Revolution the Porfirián government alienated most extant deposits by granting large concessions to foreign entrepreneurs.

Porfirio Díaz ruled Mexico from 1876 to 1911. Under his
regime, concessions had been granted to individuals and companies for the purpose of locating and surveying empty lands. If title to the land was questionable or could not be ascertained, the individual or company performing the survey could denounce the land. The denouncer would then receive as a reward title to one-third of the land and could purchase from the Mexican government the remaining two-thirds at what could only be described as a bargain price. As a result of the Mining Code of 1884, all government claims to ownership of subsoil properties were specifically vacated, and ownership thereto was deemed vested in those who owned the surface land. The surface owner then could lease out his subsoil rights or explore for and produce the subsurface deposits himself.

In 1901, an American company brought the first oil well in Mexico into production, and foreign investment capital subsequently poured into the fledgling Mexican oil industry. Díaz allowed foreign oil companies to operate relatively free of restriction, and the industry was flourishing by the advent of the 1910 revolution and the overthrow of Díaz.

Shortly before the revolution, an attempt at reform was made with the amendment of the Mining Code of 1884. Mexican nationalists had made a concerted effort at that time to have all bitumens and petroleum placed under national jurisdiction. That effort failed, but the nationalistic currents
prevalent at that time were a prelude to the regulatory measures which would be enacted during the Carranza years.

While Mexican revolutionaries continued to disembowel themselves and the nation, Carranza proceeded to act presidential from his refuge in Veracruz. On January 8, 1915, the American Secretary of State, William Jennings Bryan, received an urgent telegram from the United States Consul in Veracruz. Carranza had decreed the immediate cessation of all oil exploration and development until such time as foreign oil companies signed pledges that they would obey any new law governing the industry. The order was punctuated with a threat of destruction for any operation that continued in defiance of the decree. Alternately, Carranza assumed the right to claim any well brought in after the promulgation of the decree as the property of the Mexican government.\(^7\)

That information failed to amuse the dour Bryan, and, after a few days of deliberation, he dispatched a telegram to Veracruz with instructions to the consul to protest the decree in the name of the United States and to inform Carranza that there would be "serious complications and consequences" if any American property was destroyed.\(^8\) Later in January, the United States became more overt in its resistance and made it clear that no U.S. company would sign any document as required under the decree which bound it to obey such vagaries as petroleum laws which might be enacted.\(^9\)
Foreign protest and the chaotic situation prevalent in Mexico at that juncture prevented the enforcement of Carranza's decree. Therefore, none of the companies operating in the Tampico oil region obeyed its conditions but rather continued with business as usual. Even so, U.S. companies and investors became a bit jittery wondering what protections would be afforded them in the event Carranza attempted to confiscate or destroy their oil operations. In April, 1915, Secretary of State Bryan assured one potential American investor that the protection given by the United States would be in accordance with "generally accepted rules and principles of international law."\(^{10}\) However, undaunted by U.S. posturing and in spite of weak enforcement, Carranza doggedly continued to issue orders regarding the oil industry. For instance, on August 14, 1915, he issued a decree ordering that no drilling take place within thirty meters of the boundary of a company's property.\(^{11}\)

Such persistence helped disseminate the spirit of economic nationalism to local units of government. General Cándido Aguilar, Governor of the state of Veracruz and Carranza's son-in-law, echoed Carranza and ordered that no further contracts for sale or lease of oil lands would take place without the consent of the government of Veracruz. The order further stated that all persons taking part in the execution of contracts referred to in the decree would be considered
Mexican subjects for that purpose and could not seek protection from their home governments.\textsuperscript{12}

In light of such developments, fear grew in the United States that the Mexicans might take steps to nationalize the oil industry in their country. Newspaper reports like that published by the \textit{New York World} in February, 1916, exacerbated such fears. The \textit{World} claimed that Carranza was considering a plan to nationalize all Mexican oil property, nullifying concessions for the exploitation of petroleum deposits granted by previous administrations. Pastor Rouaix, Minister of Development in the Carranza regime, allegedly praised the plan.\textsuperscript{13} Such reports, however, turned out to be mere panic-mongering as Carranza, on February 28, 1916, simply ordered suspension of all oil operations pending the issuance of a new petroleum exploration law.\textsuperscript{14} But rumors continued to fly, and in May of that year it was reported that the Mexicans were preparing another decree that would revise the tax laws pertaining to the production of petroleum.\textsuperscript{15} In fact, no new tax law was forthcoming that year, with the minor exception of a decree, issued September 4, 1916, which required all oil companies in Mexico to register with the tax bureau by September 15.\textsuperscript{16} As usual, the oil companies refused to obey those orders.

Oil operators' defiance of national government edicts proved no great risk, for Carranza's forces did not control the major oil-producing regions. The area around Tampico and
Túxpan was in the hands of a minor rebel chief, Manuel Peláez, a sometime Villista general opposed to the Carranza regime. Peláez was part of a family which controlled extensive tracts of oil-bearing land around Tampico. His army was estimated to include 4,000 to 6,500 local residents, workers, and pistoleros.17

In 1916, the oil companies operating within Peláez's territory began paying tribute to the general to insure his good will and invite protection against possible action by the Carranza government. In August, 1916, the U.S. State Department was informed by its consul in Tampico that Peláez wished an understanding with American authorities under which he would afford guarantees for the protection of U.S. properties in return for assistance in the form of supplies and ammunition ostensibly to carry on his resistance movement.18

The Peláez rebellion was not without support in U.S. government circles. For example, William F. Buckley, an independent oil producer, described the Carranza regime as a "rotten bunch," and wrote also that "the sincerest desire of General Peláez and his subordinates has always been to bring about a speedy disappearance of all differences between Mexicans." Buckley urged that all Americans support Peláez and he proposed that a treaty be forced upon Mexico wherein the Mexicans would formally recognize the Monroe Doctrine and expressly acknowledge the rights of property acquired by U.S.
citizens in Mexico.\textsuperscript{19} That reactionary idea did not prevail.

As 1916 drew to a close, the legal status of foreign oil companies operating in Mexico remained uncertain. In November, the Department of Development issued a statement which declared all permits, laws, decrees, and leases previously issued by local governments null and void.\textsuperscript{20} Enforcing such a decree was another matter. Oil companies steadfastly resisted Carranza's edicts and paid tribute to the unpredictable Peláez. The U.S. State Department repeatedly sought clarification of the situation, but assurances, when there were any from Carranza, were vague and subject to sudden change, always susceptible to alterations by orders issued at lower levels of the Mexican government.

Up until 1917, the Carranza regime had little substantive base for its decrees. That situation changed with the promulgation, in early 1917, of the new Mexican Constitution, for that document contained a revolutionary provision concerning ownership of subsoil properties. Article 27 provided that the Mexican nation held direct dominion over all subsoil deposits, including petroleum. National ownership of those deposits was deemed "inalienable and imprescriptable," and concessions for exploration could be granted only by the national government. Further, anyone wishing to extract minerals had to agree to operate under Mexican law.\textsuperscript{21}

Article 27 horrified foreign investors holding properties
or leases in Mexico, for it raised the awesome specter of outright nationalization or expropriation of their holdings. To add to their consternation, *El Universal*, a Mexico City newspaper, in February, 1917, published an article entitled "Statements of the Chief Clerk of the Ministry of Development on the Nationalization of Petroleum." The article declared that all hydrocarbons had come under the direct control of the Mexican government because of the operation of Article 27. Worried U.S. oilmen, in response to rumors of possible action by the Mexican government, made repeated queries to the State Department regarding their status with the Mexican government. No answer came until June, 1917.

A report was received by the Secretary of State that no well drilled after the promulgation of the new Constitution would be officially sanctioned by the Mexican government because no permission had been obtained by oilmen to drill as required under Article 27. Apparently, U.S. oilmen had assumed that the new Constitution would not take effect until May 1, 1917, the date it was to become law, and they had hurriedly drilled wells in order to beat the effective deadline. It came as a nasty blow when Carranza stated that the basic prohibitions had come into effect on February 5, the date on which the document was published and thereby became public knowledge. Carranza took no punitive action as to those wells drilled between February 5 and May 1, in that no prop-
erty was confiscated and no drilling operation halted, for he lacked the necessary power to do so. However, the publication of the new Constitution did serve to legitimize his regulatory efforts.

In April, 1917, the government of the United States, under increasing pressure internationally, made a decision which would markedly affect its diplomatic attitude toward Mexico. War was declared on Germany and the United States joined the Allied war effort. In World War I, the first war in which petroleum products played a major strategic role, the problem of keeping oil flowing from whatever source was paramount. A cutoff of Mexican oil, it was feared, might result in a serious impairment of the Allied war effort. The U.S. State Department had the ominous responsibility of protecting and promoting a steady supply of oil.

In February, 1917, the United States had sent Ambassador Henry P. Fletcher to Mexico, the first ambassador sent there subsequent to American de facto recognition of the Carranza government in October, 1915. Anticipating involvement in Europe, the State Department had instructed Ambassador Fletcher to do everything possible to avoid a break with Carranza. He was to improve relations if that could be done but to defer consideration of the problem of Article 27 until the war in Europe was over. The ambassador later noted, "During the war my job was to keep Mexico quiet, and it was done."24
Fletcher pursued a moderate course diplomatically. With regard to the various decrees and statements issued sporadically by the Mexican government, Fletcher adopted a policy that amounted essentially to a juggling act, wherein the interests of the United States, U.S. oil companies, and the Carranza regime were held in abeyance. On one occasion, in the month of April, 1917, Carranza issued a decree which levied an export tax of 10 percent on all Mexican petroleum products. The oil companies insisted that the tax was illegal, for they had received concessions under Díaz which exempted them from such taxes. The State Department urged Fletcher to exert some pressure for revocation of the tax decree. The ambassador, however, noting that the Mexican government needed revenue and further that taxes on foreign oil interests were locally popular, requested reconsideration of the instructions. Forced to realize the patent absurdity of risking a break with Mexico just for the windfall benefit of a few self-serving interests (the price of oil having skyrocketed due to the European war), the State Department mitigated its position and instead suggested that the oil companies pay the tax under protest while the U.S. government reserved the right to protest in the future. Thus, Fletcher's temperate hand averted a showdown with Carranza over the tax issue.

Foreign oil companies' lust for profit was not easily thwarted, and the existence of Peláez provided a possible
avenue of resistance to the regulatory measures of the Carranza government. By aiding Peláez, some oil companies hoped to circumvent the authority of the Mexican national government, mollycoddled they thought by the U.S. government, and perhaps even contribute to the downfall of Carranza. Such subversive sentiments, however, generated paranoia, as is often the case, and in the United States rampant rumors circulated that Carranza would take action to wrest control of the oil region from Peláez.

The situation being what it was, all reports reaching the United States that concerned conditions within the Mexican oil regions were carefully examined. In January, 1917, a report reached Washington, D.C., relating that Peláez had demanded heavy tribute from oil companies for their protection, threatening to destroy their facilities if they refused compliance. On February 3, 1917, the Secretary of State received a document from the Secretary of the Navy which contained a copy of a report relayed by the U.S.S. Illinois. Evidently, Peláez was collecting $5,000 per month from one oil company operating at Tuxpan, and amazingly, some oil companies were paying up to $10,000 per month in tribute! To be sure, the almost medieval situation under Peláez turned out to be at least as odious to the oil companies as the policies put forth by Carranza.

In light of that high-tension situation, the paranoia
of the oil companies operating in Mexico seemed justified, for they were walking a tightrope, risking the wrath of Peláez if leaning to one side, the enmity of Carranza if leaning to the other. Carranza, of course, knew of the tribute being paid to Peláez, but interpreted that to mean the United States government was directly aiding Peláez in order to destabilize the Constitutionalist regime. Although he did not move to take the oil fields, having been blackmailed with the threat of destruction of the fields, Carranza's belief in a conspiracy involving the U.S. government and Peláez enraged him and served to weaken the already-tenuous relationship between the United States and Mexico. The American government was thus increasingly drawn into the same precarious position as the oil companies operating under its auspices. Ambassador Fletcher therefore was to have an ever more difficult time conducting smooth diplomatic relations amidst that tangle of interests.

Fletcher did, however, hold a trump card, the prospect of de jure, or full legal recognition of the Carranza regime by the United States government. Fletcher knew that such recognition would mean much to Carranza, as it would add legitimacy to the Constitutionalist regime in an international sense. Playing that card, Fletcher requested and received assurances from Carranza that there would be no confiscation of foreign-owned properties in Mexico under Article 27.
On the basis of those assurances, Ambassador Fletcher recommended de jure recognition be extended to Mexico. President Wilson granted it on August 31, 1917. The ambassador's trust proved to be at the time well-placed, for in September Carranza expressed disapproval of a proposed petroleum law. This law would have claimed indisputable direct Mexican control of that country's petroleum.

The United States held another trump card, a point of leverage that it curiously failed to utilize. In January, 1917, General Zambrano, Carranza's brother-in-law, had approached the Morgan Bank of New York City requesting a loan for Mexico. He was informed that no credit could be extended until the Mexicans in some way had undertaken to protect foreigners in their persons and property. In full knowledge of Mexico's failure to obtain a private loan, the State Department, in October, 1917, seeking to gain an advantage in oil negotiations with Mexico, encouraged the Mexican government to approach the American government itself for a loan. Carranza refused to borrow from the U.S. government, for he held it responsible for Mexico's inability to garner a loan from private sources. Fred I. Kent of the Federal Reserve Board suggested that an ultimatum be delivered to Carranza demanding that Mexico either join the Allies and request a loan or submit to intervention. Such an aggressive policy was never pursued, but, then again, neither was a more
moderate, reasonable policy. The matter was simply dropped.

Although the United States refused to intervene directly in the affairs of Mexico in late 1917, its powers of persuasion in domestic matters proved considerable. In September, an article was published in La Prensa which indicated that an attempt would soon be made by the Constitutionalist army to subdue the oil-producing regions. By December, reports circulated that the Constitutionalisists were assembling 25,000 soldiers at Tampico. Edward L. Doheny, one of the major American holders of Mexican oil property, urged Ambassador Fletcher to try to dissuade Carranza from undertaking the rumored invasion. Fearing that such an invasion would have a disastrous effect on the flow of oil to the Allies, Fletcher did so, and the invasion never materialized.

The year 1918 heralded the end of the tenuous equilibrium carefully maintained by the oil companies and the Constitutionalsists during the previous years. Renewed Mexican efforts to implement Article 27 would produce a flare-up in tension in U.S.-Mexican relations and would spark vehement calls for intervention in Mexico by U.S. interests.

The first hint of the oncoming storm came in January, 1918, when the Governor of Veracruz ordered that concessions to products of the subsoil granted S. Pearson and Son, Limited, a British oil company, be declared null and void. All rights granted by the concessions were to revert to the state of
To make matters worse, it had come to the attention of the U.S. State Department that several U.S. oil companies had been refused permission to drill on lands which they held in Mexico; that, apparently, in consequence of an opinion issued by the Attorney General of Mexico. His opinion was that Article 27 forbade any exploitation whatsoever of Mexican resources by foreign companies. The U.S. State Department informed Ambassador Fletcher of its displeasure over these developments and he in turn discussed the matter with Mexican authorities. Alberto J. Pani, Minister of Industry, assured the ambassador that foreign companies were not forbidden to operate in Mexico but that they had to submit to any new petroleum laws, organize as Mexican companies, and renounce the protection of their home governments.

On February 19, 1918, the storm broke. Carranza issued a decree on that date which set new taxes on all petroleum lands. The decree levied a graduated tax from 10 to 50 percent on annual rental fees paid lessors, established a flat tax of 5 percent on all royalties paid by the lessee to the lessor, and created various other petroleum-related taxes based on lands which were owned outright by the oil companies on which no rental had to be paid. The oilmen were to remit the tax dollars to the landowner who in turn would pay the money to the Mexican government. To allow implementation of the decree, registration of all land titles was required.
In the eyes of the oilmen, such a complex and hard-to-administer taxation scheme was bad enough, but the concession provisions of the decree proved intolerable. In addition to its taxation provisions, the decree pronounced state ownership of all oil deposits and provided further that private parties wishing to extract those deposits had to apply for government permission. If such application was not made, the leaseholder would lose his rights and a third party could lay claim to the land after a certain period. A prominent Mexican scholar observed that "the decree of February, 1918, attempted nothing less than to change the land titles granted during the Porfirian administration to mere concessions." Eight days after the decree was issued, the U.S. Secretary of State wired Fletcher that U.S. oil interests were notably perturbed. The oil barons claimed that the new decree would wreck their operations at Tampico, paralyze U.S. industries engaged in war contracts, and cause serious interference with Allied naval operations thereby. The Secretary urged the ambassador to get a thirty-day suspension of the decree in order that the U.S. government might examine it on behalf of its nationals.

Believing that compliance with the decree amounted to legal acceptance of Article 27 with all its implications, many oil companies refused even to register land titles with the Mexican government. Even Ambassador Fletcher urged
that Allied oil interests adopt a unified stance in opposition to the decree. In a move that seemed to reflect a shift away from moderate policy, Fletcher issued an opinion which claimed a concerted effort would have to be made by Britain and the U.S. against Mexico should the latter, in order to compel compliance with the decree, refuse clearance at port for oil tankers. 46

On April 2, the State Department, still without assurances from Carranza, dispatched a strongly-worded note of protest directly to the First Chief. The U.S. accused Mexico of outright confiscation and warned of "the necessity which may arise to impel it [the U.S. government] to protect the property of its citizens in Mexico divested or injuriously affected by the decree above cited." 47 Aware of the need for a united front, British and American oil interests operating in Mexico, in order to channel their efforts more effectively, formed the Association of Producers of Petroleum in Mexico. 48 The organization appointed representatives to go to Mexico for negotiations concerning the new decree. American threats and industry negotiators had, however, little effect, at least overtly.

Although by mid-1918 foreign oil interests had adopted a quite aggressive posture toward the Constitutionalist regime, they could not remain too closely allied to Peláez. In the face of a resurgence in Carranza's efforts to gain
control of the oil fields, Peláez had increased his demands for tribute from the oil companies and backed his demands with harassment of oil operations. His forays took the form of minor irritations, such as cutting water lines and blowing up bridges. However, Peláez was no fool and did not seek to destroy the actual source of his power.

As 1918 wore on, anti-American sentiment in Mexico grew, due largely to America's increasingly antagonistic attitude and Carranza's flagrant nationalism. To allay Mexican antagonism, the United States softened its stance toward Mexico. In May, the Federal Reserve Board approved a request by General Obregón for importation of 4.3 million dollars in gold, silver, and currency into Mexico. Other trade deals were made and the U.S. Food Administration worked to relax the despised export controls on certain food commodities. On June 7, President Wilson delivered a speech to a carefully-chosen group of Mexican newspaper editors. He stressed good relations between Mexico and the United States, claiming that the only goal of the U.S. vis-à-vis Mexico was "disinterested service."

By adopting the soft approach, the Wilson administration hoped to woo Carranza into delaying or cancelling the worrisome decree of February 19. In July, reports of new confiscatory laws reached the United States, making modification of Mexican policy, especially the decree of February 19, more
imperative. Circular Number 6, issued by the Department of Industry, cancelled permits for sinking oil wells in the event work had not begun within six months of the date of permit issuance, or if work had not been completed within one year of the date of issuance. The circular further provided that such properties could be denounced by third parties who could then lay claim to the property.\textsuperscript{52}

Late in July, at the suggestion of the State Department, Carranza agreed to extend the registration period of the decree by fifteen days. On August 12, he issued an order which seemed to withdraw the requirement that land titles be registered. The order of August 12 also stated that, concerning oil claims which had been surveyed and in which capital had already been invested, no third party denouncement could take place.\textsuperscript{53} One authority asserts that the order of August 12 effectively cancelled the implementation of the decree of February 19 until the end of World War I.\textsuperscript{54} The Wilson "soft" policy gave foreign oil interests a respite from nationalist pressure.

Foreign oil interests, however, continued wary. Though the spirit of Mexican nationalism had been waylaid, it was far from dead. Evidence of its vitality surfaced in Carranza's presidential report of September 10, 1918. He outlined his so-called Carranza doctrine upon which he would base future policy regarding the oil industry and which echoed the
nationalist sentiment of his revolutionary regime. The doc­
trine stated first that all countries were equal and should respect each other's laws, institutions, and sovereignty. Second, no country should in any way interfere with the inter­nal affairs of another. Further, Carranza postulated that no individual or company should, on the basis of foreign sta­
tus, claim a superior position to that of the people of the country in which such foreign interests operated. Nationals and aliens should be equal under the laws of the host nation. Last, the Carranza doctrine stated that legislation should grant equal protection where at all possible and make dis­tinction based on nationality only when the exercise of na­
tional sovereignty was involved.55

The Carranza doctrine spelled trouble for foreign oil companies. Under its provisos Carranza could claim that the decrees and laws of his regime were completely equitable for they applied to both Mexicans and foreigners alike. In short, Mexico had the right to make any laws concerning any activity occurring on her soil, regardless, and the rights of foreign­ers were subordinate to Mexican sovereignty.

The relatively stable atmosphere of late 1918, which had largely been a result of U.S. softline policy, disintegrated with the coming of the new year. On January 8, 1919, the State Department received information concerning a decree issued by Carranza on December 27, 1918. The decree, while
not reversing the order of August 12, 1918, extended the period in which denouncement of oil lands by third parties could be made. The extension was to last up until the Mexican Congress could enact a new petroleum law. Oil operators naturally were concerned about the renewed possibility of losing concessions by denouncement, but the Mexican government took no action to enforce the decree and, as usual, it served only to inflame passions.

Oil company discomfiture was only the beginning. The Mexicans threatened new actions with different pronouncements and rumors thereof emanating from various sources in a veritable flood. In March, Minister of Finance Luis Cabrera was quoted by another Mexican official as saying that Mexico did not intend to make Article 27 retroactive; that oil, mining, and other interests acquired prior to the promulgation of the Constitution of 1917 would be protected. Yet only a few days later, the Department of Industry issued a circular that threatened to punish companies and individuals that had continued drilling wells in defiance of that infamous decree of January 7, 1915. Such contradictory statements and "assurances" from different levels of the Mexican government attested to a gross lack of cohesion concerning oil policy in Mexico. The random nature of oil administration by the Mexican government strained the nerves of foreign oil executives and contributed much to the growing instability of 1919.
The lax enforcement of its decrees by the central government had been a balm to the troubled foreign oil interests. Words by themselves had little clout. But by early April, 1919, clearly Mexico had become more aggressive. At that time, the Huasteca Petroleum Company complained of harassment, citing several examples where it and other companies had been refused permits to drill. Evidently, on January 30, 1919, the Tampico oil inspector sent word to the International Petroleum Company that it had to apply for a new drilling permit for an oil well already in process of being drilled. In addition, on August 24, 1918, the Chief Inspector at Tampico allegedly had refused an application for a drilling permit by the Transcontinental Petroleum Company. Those and other such actions fueled anti-Mexican sentiment in the United States.

Early in 1919, the conclusion of World War I allowed American politicos to turn away from Europe and look towards matters nearer home. Outraged by the effrontery of the Mexican government, an organization called the National Association for the Protection of American Rights in Mexico began a campaign to force adoption of hardline policy towards Mexico. Congressional debate was initiated with the intent of arousing
public opinion, and speeches, resolutions, and hearings on the Mexican problem were prevalent throughout the Congressional year.

Senate investigators heard inflammatory testimony concerning losses by American oil companies. J. D. Lester testified that carrancista soldiers, stationed at Palo Blanco, had consumed meals valued at 4,500 pesos in the mess hall of one American company without paying for the food. He cited other instances where Carranza's forces had commandeered horses and mules from Americans in the Tampico region, and he stated that during the second half of 1917, five American oil company employees had been murdered in Mexico.\(^6^1\)

Apparently in response to the vituperative mood in the U.S. Congress, Carranza changed his tack and concentrated his efforts only on the licensing of new oil wells. It was announced that companies wishing to drill any well commenced after the promulgation of the Mexican Constitution had to obtain a permit which could only be obtained after the applicant registered title with the Mexican government and promised to accept the Organic Law on Petroleum when it was enacted.\(^6^2\) It would appear however that other factors were taken into account in the licensing process, for Panuco Boston was refused a permit to drill a new well because of alleged non-compliance with previous decrees issued by Carranza.\(^6^3\)
Some companies, having refused to abide by the decree's provisions, simply stopped drilling, but others, especially recalcitrant, continued to work in spite of the decree. In response to such resistance, the Mexican government threatened confiscation of the property involved if work continued without federal permission. That action was to take place by and under the authority of the ancient and radical decree of January 7, 1915. Carranza himself pronounced that Article 27 would remain unamended and that Mexico would not sacrifice her national wealth to placate foreign petroleum interests.

On May 1, 1919, Carranza addressed the opening session of the Mexican Congress. He informed the assembled legislators that he would propose a bill which would, in accordance with the Carranza doctrine, equalize the legal status of Mexican and foreign petroleum interests. That portion of the Carranza doctrine was an application of the Calvo doctrine, named after an Argentine scholar, diplomat, and commentator on international law. Calvo had proposed that foreign residents and companies be subject to the same laws and judicial process as the citizens of the country in which business was carried on. Foreign businesses were to be treated as if they were locally owned.

To facilitate a smooth phase-in of the law which would most probably follow Carranza's latest proposal, Minister of Finance Cabrera arranged for the establishment of a system
whereby the Department of Industry would issue provisional permits for the drilling of new wells subject to the relevant legislation pending in the Mexican Congress. However, Cabrera, in early June, informed U.S. authorities that no provisional permits could be issued until the return to Mexico of General Calles, the Secretary of Industry. In mid-June, the U.S. Secretary of State, then Robert F. Lansing, was informed that the Sub-Secretary of Industry had relayed a new Carranza order. All drilling operations were to immediately cease where permits had not been obtained. Huasteca Petroleum Company shortly reported that on May 16, 1919, Carranza had issued an order directing the Mexican War Department to send troops to the oil regions. Drilling and construction work being done by foreign interests without permit was to be stopped.

Soon a deluge of reports reflecting iron-handed tactics hit the United States. The Mexican army shut down drilling operations indiscriminately. A senior American official wired the U.S. Secretary of the Navy that soldiers were placed on the property of Atlantic Refinery Company on June 10. Drilling was stopped. Many other such cases were reported and U.S. oilmen clamored for armored intervention.

The State Department strongly protested Mexican tactics and applied pressure to Carranza to issue provisional permits. Cabrera responded with general agreement but emphasized the
provisional nature of the permits. He also stated that the oil companies had to agree that new wells would be subject to any future legislation. The Mexicans desired assurances that wells drilled after the promulgation of the Constitution of 1917 would fall under some measure of regulation as per Article 27. On July 2, it was confirmed that Carranza had authorized issuance of provisional permits provided the applicants agreed to abide by future legislation. There were no further shutdowns.

Unbelievably, the oil companies, conjuring up the ghost of Díaz, refused to accept the condition for issuance of the permits, claiming to do so would undermine property rights which had been acquired in the bygone Porfirian era. Pressures grew stronger for armed intervention, and U.S.-Mexican relations again deteriorated. "American Legion posts, the Governor of Texas, oil company representatives, and some consuls in Mexico," writes Robert Freeman Smith, "joined in the clamor stimulated by the National Association for the Protection of American Rights in Mexico and congressional interventionists." Yet the calls for intervention did not constitute a major public movement, for the general public was more interested in the European peace treaty process and President Wilson's efforts to get the treaty ratified.

When at last a petroleum bill came before the Mexican Congress, oil industry lobbyists flocked to the Mexican cap-
itol, hoping to work with officials in shaping the law which would ultimately implement Article 27. In August, the Chief of the Petroleum Bureau of the Department of Industry announced that the bureau considered Mexican oil to be the property of the Mexican nation. Chagrined by that opinion, petroleum producers pushed a weak bill which would have recognized all rights "heretofore legally acquired in petroleum lands," declared Article 27 non-retroactive, and abrogated the decrees and orders of 1918. The bill was opposed by Carranza and met with an easy defeat in the Mexican Senate.

The Senate shortly thereafter began consideration of a much tougher bill proposed by the executive branch. That bill contained provisions repugnant to oil interests and was bitterly opposed by them. When one chamber of the Mexican Congress, the Senate, passed the Executive Petroleum Bill on December 8, 1919, any hope of a compromise seemingly evaporated. The Mexican legislature was no panacea for foreign oil interests.

As oil companies had stubbornly resisted the provisional permit system, anticipating legislative relief, in November, shortly before passage of the executive bill, Carranza ordered further drilling operation shutdowns. The Association of American Petroleum Producers, alarmed that several wells had been ordered closed, was shaken when it learned that troops had entered the Tuxpán district under the guidance of a gov-
ernment petroleum inspector. Work at some wells was forcibly suspended, and a chaotic situation ensued. The New York Times reported that James Wallace, an employee of an American oil company operating near Tampico, was shot and killed on November 26, 1919, by carrancista soldiers.

The situation provoked massive protests by oil companies involved in Mexico, sending reverberations through the halls of the U.S. State Department. A petition, protesting the confiscatory decrees and legislation, signed by a number of American oil executives, was sent to the State Department and Congress shortly after the Mexican Senate passed the Executive Petroleum Bill. The signatories appealed for protection against Mexican action which had forced them to stop drilling on lands which they owned or leased. The companies complained that the Mexicans were acting in a discriminatory manner toward U.S. interests.

There was in fact quite a body of evidence to support the claim of discrimination. As early as May 16, 1919, as mentioned above, Carranza had issued an order directing his troops to stop drilling operations on property belonging to U.S. and other foreign interests. In apparent contradiction to the Carranza doctrine, no mention was made regarding domestic operations in that order. Further, there was evidence of partisan dealing. The Association of Petroleum Producers in Mexico informed the Secretary of State that its
members were being prevented from drilling even though the British-owned Mexican oil company, El Aguila, was permitted to continue its operations. The true outrage was that El Aguila had not complied with decrees and orders of the Carranza regime any more than had U.S. firms and had refused to pay taxes on rents and royalties or file titles to its lands. Such Mexican preference for the British clearly demonstrated to U.S. entrepreneurs that Carranza openly pursued a policy of discrimination.

By January, 1920, the situation had grown intolerable for oil operators in Mexico. Saltwater was flooding many of the suspended wells, necessitating the drilling of new adjacent wells, an expensive process. Worse, permits for such wells could not be obtained without submission to the abhorrent requirements of the provisional permit system. C. N. Whitehead, federal manager of the U.S. Railroad Administration for the Southwestern District, complained that harassment of U.S. oil producers in Mexico interfered with delivery of oil to railroads in Texas. The results of Mexican oil policy were striking closer to home.

In the middle of January, 1920, the Association of American Petroleum Producers in Mexico made a direct appeal to President Carranza. Virtually begging him to issue provisional permits, the association members pledged they would be "willing to accept provisional permits valid until Congress
passes the relative Organic law, provided the acceptance or use of such permits will not destroy or prejudice such rights as they may have. . ." With that, the companies had gone as far as pride and self-interest would allow, by seeming acceptance of the provisional permit system with a tacit escape provision. The essential underlying request was that U.S. oil companies be granted permits under the same conditions given the British. El Aguila had been granted permits with the understanding that property rights previously acquired would not be injured.

Carranza accepted the proposed settlement, and Robert Lansing was instructed as to the conditions under which the provisional permits would be issued. The permits would be valid only until the Mexican Congress finally enacted the Organic law implementing Article 27. Permits would be necessary for any well started since May 1, 1917, whether or not the well had been completed. In addition, the issuance of the permits could not in any way be interpreted to deny the Mexican government sustained rights or judicial principles. Further, the oil companies acquired no new rights by permit, and it was made quite clear that privileges under the permits could be revoked if companies failed to comply with the Organic law when it was enacted. Last, issues that were pending in the Mexican courts vis-a-vis the application of Article 27 and relevant executive decrees, and oil legislation
in Congress, were not to be at all affected by the existence of the permit system. Oilmen knew they were trapped and grudgingly accepted those conditions.

The settlement with Carranza temporarily smoothed U.S.-Mexican relations without specifically addressing a single crucial issue. However, the agreement, which was more form than substance, enabled both U.S. oil companies and the Carranza government to save face. Secretly, oilmen hoped the arrangement would become permanent with the election of a more friendly Mexican government.

Despite his efforts, Carranza had not been able to assert effective national control of Mexican natural resources, but he was still regarded as an enemy by foreign interests because of his strident advocacy of nationalism. Worry over the possibility of outright nationalization of natural resources was laid to rest, albeit temporarily, when Carranza was killed in May, 1920, in a revolt led by General Obregón. The interim government leader, Adolfo de la Huerta, wanted to assert control over the subsoil but he also desired cordial relations with the United States. To that end, negotiations were undertaken with the U.S. concerning diplomatic recognition of the new government. Senator Fall, of the infamous Fall Committee investigating Mexican affairs, urged that the United States, as a requisite for recognition, impose a treaty on the new Mexican government, which treaty would exempt U.S.
citizens from the application of Article 27. 89

President de la Huerta sent representatives to negotiate for recognition, but the American government attached a list of conditions which made it difficult for Mexico to attain the desired diplomatic status. The conditions included a promise to protect foreign lives and property, a pledge that Article 27 would not be applied retroactively, and a host of other stipulations. 90 With that, it became clear that de la Huerta would not get what he wanted, for negotiations faltered and diplomatic recognition was not granted.

Domestic developments actually determined the degree to which de la Huerta might succeed diplomatically. The interim government was moving ahead with measures to promote national control over oil resources. In August, 1920, the Department of Industry issued Circular Number 10, which fixed general conditions under which concessions for oil exploration in so-called federal zones would be granted. Such zones were defined as including strips twenty meters wide along all streams from the high water mark, and, if the stream was large enough to be navigated by raft, ten meters more in width. 91 Oil companies owning or leasing such land adjacent to streams denied the right of the Mexican government to create such federal zones. With that failure, President de la Huerta lost all chance of getting what he wanted.

By the time Álvaro Obregón ascended to the presidency
in December, 1920, nothing concerning the oil issue or diplomatic recognition had been settled with the United States. President Wilson had insisted on at least two conditions for diplomatic recognition, conditions which the Mexicans would not accept. First, the Mexicans had to recognize their obligations under international law which included protection of life, property, and the guarantee of payment of just claims for compensation of damages done to foreign-held property. Second, Article 27 could not be made retroactive to the extent that it abrogated duly acquired rights. Oil had once again caused a rift in U.S.-Mexican relations.

The Carranza years were characterized by changeable positions. Mexico would push for control over her subsoil properties, and then retreat in the face of strong protests by foreign governments, especially the United States. Although Carranza had managed to obtain full diplomatic recognition by the United States, experience with his regime hardened U.S. negotiators, and no diplomatic recognition of a Mexican government would be forthcoming for three years after his death. The negotiators had learned not to easily surrender the potent bargaining chip of diplomatic recognition, and would strive in the future to attain a more specific agreement with Mexico before again extending recognition.

The oil problem would continue to plague Mexico until 1938, when it was solved by total expropriation under then
President Lázaro Cárdenas. In the meantime, the basic issue of national ownership of subsoil products and property would be glossed over by temporary agreements. Carranza had been the first Mexican president to wrestle with the problem and had established precedent for the "balancing technique," characterized by alternating pressure, reaction, and temporary settlement of the oil problem. That legacy would effect, however inefficiently, the transition from Porfirian neocolonialism to the radical nationalism of President Cárdenas.
NOTES


4. Smith, p. 4.
5. Smith, p. 3.

7. United States Consul, Veracruz, to the Secretary of State, January 8, 1915, Records of the Department of State Relating to the Internal Affairs of Mexico, 1910-1929, File No. 812.6363/146, Record Group 59, National Archives, Washington, D.C.; hereafter cited by author, recipient, date, file number, RSD, RG 59, NA.

8. The Secretary of State to the U.S. Consul, Veracruz, January 13, 1915, File No. 812.6363/146, RSD, RG 59, NA.

9. Consul, Tampico, to the Secretary of State, January 23, 1915, File No. 812.6363/154, RSD, RG 59, NA.

10. R. W. Austin to the Secretary of State, April 14, 1915, File No. 812.6363/182, RSD, RG 59, NA.

11. U.S. Vice Consul to the Secretary of State, September 30, 1915, File No. 812.6363/198, RSD, RG 59, NA.


15. Parker, Mexico City, to the Secretary of State, May 14, 1916, File No. 812.6363/230, RSD, RG 59, NA.
16. Parker, Mexico City, to the Secretary of State, September 4, 1916, File No. 812.6363/246, RSD, RG 59, NA.


18. Consul, Tampico, to the Secretary of State, August 11, 1916, File No. 812.6363/245, RSD, RG 59, NA.

19. Papers of William Frank Buckley, Sr., University of Texas Library (reel 1), Typescript, p. 5.

20. Parker, Mexico City, to the Secretary of State, November 4, 1916, File No. 812.6363/251, RSD, RG 59, NA.


22. Parker to the Secretary of State, February 16, 1917, File No. 812.6363/265, RSD, RG 59, NA.

23. McHenry, Tampico, to the Secretary of State, June 13, 1917, File No. 812.6363/282, RSD, RG 59, NA.


26. Dawson, Tampico, to the Secretary of State, January 25, 1917, File No. 812.6363/256, RSD, RG 59, NA.

27. Josephus Daniels, Secretary of the Navy, to the Secretary of State, February 3, 1917, File No. 812.6363/259, RSD, RG 59, NA.
28. Fletcher to the Secretary of State, August 2, 1917, File No. 812.63/481, RSD, RG 59, NA.


30. Henry P. Fletcher to the Secretary of State, September 5, 1917, File No. 812.63/301, RSD, RG 59, NA.

31. Memorandum from the State Department, Division of Mexican Affairs, July 20, 1917, File No. 812.63/293, RSD, RG 59, NA.

32. Smith, p. 111.

33. Smith, p. 113.

34. Dawson, Tampico, to the Secretary of State, September 6, 1917, File No. 812.00/12272, RSD, RG 59, NA.

35. Cobb, El Paso, to the Secretary of State, December 8, 1917, File No. 812.63/323, RSD, RG 59, NA.


37. Consul, Veracruz, to the Secretary of State, January 3, 1918, File No. 812.63/326, RSD, RG 59, NA.

38. State Department Memorandum to the United States Embassy in Mexico City, January 13, 1918, File No. 812.63/328, RSD, RG 59, NA.

39. U.S. Embassy in Mexico City to the Secretary of State, January 27, 1918, File No. 812.63/330, RSD, RG 59, NA.

40. Fletcher to the Secretary of State, February 25, 1918, File No. 812.512/1885, RSD, RG 59, NA.
43. Meyer, p. 15.
44. The Secretary of State to the U.S. Embassy in Mexico City, February 27, 1918, File No. 812.512/1885, RSD, RG 59, NA.
45. Smith, p. 117.
46. Fletcher to the Secretary of State, March 1, 1918, File No. 812.512/1888, RSD, RG 59, NA.
47. Smith, p. 118.
49. Dawson, Tampico, to the Secretary of State, April 16, 1918, File No. 812.6363/386, RSD, RG 59, NA.
50. Smith, p. 120.
51. Smith, p. 120.
52. Fletcher to the Secretary of State, July 23, 1918, File No. 812.6363/406, RSD, RG 59, NA.
53. State Department Memorandum to Ambassador Fletcher, April 8, 1919, File No. 812.6363/444, RSD, RG 59, NA.
56. Fletcher to the Secretary of State, January 8, 1919, File No. 812.6363/422, RSD, RG 59, NA.
57. George T. Summerlin to the Secretary of State, March 4, 1919, File No. 812.011/68, RSD, RG 59, NA.
58. Summerlin to the Secretary of State, March 24, 1919, File No. 812.6363/433, RSD, RG 59, NA.
60. Smith, p. 151.
62. Smith, p. 162.
63. Ira Williams to Fletcher, April 24, 1919, File No. 812.6363/450, RSD, RG 59, NA.
64. H. N. Branch to the Secretary of State, April 16, 1919, File No. 812.6363/447, RSD, RG 59, NA.
65. Summerlin to the Secretary of State, April 23, 1919, File No. 812.52/459, RSD, RG 59, NA.
66. Summerlin to the Secretary of State, May 2, 1919, File No. 812.032/52, RSD, RG 59, NA.
67. Smith, p. 28.
68. Summerlin to the Secretary of State, May 7, 1919, File No. 812.6363/456, RSD, RG 59, NA.
69. Summerlin to the Secretary of State, June 2, 1919, File No. 812.6363/462, RSD, RG 59, NA.
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72. Daniels to the Secretary of State, June 26, 1919, File No. 812.6363/478, RSD, RG 59, NA.
73. Summerlin to the Secretary of State, June 19, 1919, File No. 812.6363/485, RSD, RG 59, NA.
74. Summerlin to the Secretary of State, July 21, 1919, File No. 812.6363/486, RSD, RG 59, NA.
75. Smith, p. 155.
76. Summerlin to the Secretary of State, August 15, 1919, File No. 812.6363/576, RSD, RG 59, NA.
77. Smith, p. 167.
78. Summerlin to the Secretary of State, December 9, 1919, File No. 812.6363/593, RSD, RG 59, NA.
79. F. Watriss to the Secretary of State, November 15, 1919, File No. 812.6363/581, RSD, RG 59, NA.
81. Lansing to Senator F. M. Simmon, December 18, 1919, File No. 812.6363/598, RSD, RG 59, NA.
82. Huasteca Petroleum Company to the Secretary of State, June 20, 1919, File No. 812.6363/475, RSD, RG 59, NA.

83. H. Walker to the Secretary of State, December 13, 1919, File No. 812.6363/608, RSD, RG 59, NA.

84. From 46 members of the Petroleum Producers Association to Venustiano Carranza, January 13, 1920, File No. 812.6363/623, RSD, RG 59, NA.

85. C. N. Whitehead to the Secretary of State, January 9, 1920, File No. 812.6363/621, RSD, RG 59, NA.

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87. H. Walker to the President of the United States, January 16, 1920, File No. 812.6363/626, RSD, RG 59, NA.

88. Summerlin to the Secretary of State, January 22, 1920, File No. 812.6363/632, RSD, RG 59, NA.

89. Smith, p. 177.

90. Smith, p. 179.

91. Alvey A. Adee to Summerlin, August 18, 1920, File No. 812.6363/707, RSD, RG 59, NA.

92. Smith, p. 181.
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