

THE DIPLOMACY OF EXPROPRIATION: AMERICAN AND
BRITISH REACTIONS TO MEXICO'S EXPROPRIATION
OF FOREIGN OIL PROPERTIES, 1937-1943

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ABSTRACT

On 18 March 1938 Mexican labour problems in the oil industry culminated in Mexican President Lázaro Cárdenas' decision to expropriate the holdings of 17 American, Dutch and British oil companies.¹ The purpose of this thesis is to fill the gaps in the literature on the Mexican oil nationalisation by analyzing the policies of the oil companies, and comparing and analyzing in detail how policy was determined in both Britain and the United States at a time when Britain was trying to win US cooperation in the face of increasing hostilities in Europe and the Far East. While Whitehall wanted US cooperation in taking a firm stance against Mexico, Washington refused. Washington's failure to cooperate with London is consistent with its resentment of Britain's still extensive trade relations with several South American countries and its attempts to form preferential trade agreements at the Ottawa conference of 1932 and subsequently an exclusive sterling bloc. Also, Washington's pursuit of the Good Neighbor policy precluded any association with

¹ The companies included Mexican Eagle, which was managed and partly owned by the British and Dutch Royal/Dutch Shell, as well as subsidiaries of the American companies Standard Oil of California, Standard Oil of New Jersey and Sinclair Oil.

the tough policy adopted by Britain. Despite its refusal to be associated with Britain on this matter, Washington ended up taking a hard line towards Mexico, but American officials went to great lengths to make policy appear consistent with the Good Neighbor policy.

Totally reliant on overseas oil at a time when war seemed imminent, policy-makers in Britain immediately decided to prevent other countries from following Mexico's example by showing Mexico's policy to be a failure. Officials in Whitehall responsible for oil policy believed that secure access to foreign oil necessitated British ownership and control of oil supplies abroad whenever possible. Not only did Whitehall's concern about oil supplies in war focus policy-makers, but the governmental machinery for formation of oil policy allowed for a consistent policy towards Mexico. Washington on the other hand lacked such machinery, and American officials displayed inconsistency in their policy toward Mexico. Also, the United States had plentiful indigenous supplies of oil, and Washington's main concern, to the disappointment of Whitehall, was increased trade with Mexico and other nations, rather than defending the more specific interests of the oil companies whose properties had been expropriated in Mexico.

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ABBREVIATIONS

CID-Committee of Imperial Defence

Cmd-Command

CTM-Mexican General Workers Union

FO-Foreign Office

HMSO-His Majesty's Stationery Office (before 6 February 1952); Her Majesty's Stationery Office (from 6 February 1952)

PP-Parliamentary Papers

RG-Record Group

STPRM-Mexican Syndicate of Oil Workers

Vol-volume

INTRODUCTION

On 18 March 1938 Mexican President Lázaro Cárdenas issued a decree expropriating the properties of most of the foreign firms engaged in the oil industry, including subsidiaries of Anglo-Dutch Royal Dutch/Shell¹ and the American companies, Sinclair Consolidated, Standard Oil of California and Standard Oil of New Jersey.² His policy reflected a resurgence of the nationalism and zeal for social and economic reform which had characterised the Mexican revolution since 1910, at which time foreigners controlled nearly half of Mexico's wealth, and only 3 percent of the Mexican people owned land.³ In an effort to redress the imbalance, Mexican presidents from 1915 expropriated American-held agricultural lands and distributed them among needy Mexicans, and in June 1937, Cárdenas expropriated National Railways, a company partly owned by US interests, which operated approximately 55 percent of the railroad

¹ In some of the published primary material, the subsidiary of Royal Dutch/Shell is referred to as '*Compañía Mexicana de Petróleo "El Aguila"*'. Throughout this thesis, it will be referred to by its English name, 'Mexican Eagle'.

² The expropriation decree excluded two small companies, Titania and Mercedes, which were subsidiaries of a company owned by Standard Oil of New Jersey and possessed extensive leases and concessions before the expropriation.

³ Cronon, E. David: *Josephus Daniels in Mexico* (Madison: University of Wisconsin Press, 1960), pp. 32-33.

trackage in Mexico. Cárdenas' policies, which catered to the revolutionary ideals, won him and his successor Manuel Avila Camacho widespread domestic approval except among oil workers themselves who had been influenced by anarcho-syndicalist thought and wanted more control of the oil industry than the management of Pemex, the government oil company, allowed.⁴

The Mexican expropriation was not a novelty to the oil companies, Washington or London. In 1917 the Russian Bolsheviks seized the oil properties of Shell and Nobel Brothers Petroleum Producing Company, which later sold its interests to Standard Oil of New Jersey, and the companies never recovered their investment. In Persia in 1932, the shah cancelled the concession of Anglo-Persian, in which the British government was the majority shareholder, but the matter was settled within a few months by referring it to the League of Nations after which the concession was renegotiated. In March 1937, the Bolivian government seized the concession of a subsidiary of Standard Oil of New Jersey after the company had expressed interest in selling it, and by 1942 the Bolivian government agreed to compensate the company for the concession

⁴ Ashby, Joe C.: Organized Labour and the Mexican Revolution under Lázaro Cárdenas (Chapel Hill: University of North Carolina Press, 1967), chapter 11.

and its properties.⁵ What makes the Mexican expropriation doubly interesting for the international historian is the fact that it occurred five days after Hitler's *Anschluss* of Austria. The response of the British and American governments thus had to take into account not only the companies' interests but also the implications for national security.

On 19 November 1941, days before the Japanese attack on Pearl Harbor, Washington, in an effort to strengthen defence cooperation with Mexico, formally agreed to allow Mexico to compensate the American oil companies. Washington made no mention of British oil interests or the fact that both British and American companies, which had formed a united front against the Mexican government, objected strenuously to compensation. Washington's disregard of British interests was typical of US-Mexican negotiations since 1937. From the start of the labour troubles in Mexico which led to the expropriation, Washington had far more ability to influence the Mexican government than London despite the fact that Mexican Eagle, which was managed and partly owned by Royal Dutch/Shell, had been responsible for 63 per cent of Mexican production while American interests had been responsible for merely 27 per cent. The state

⁵ Wood, Bryce: The Making of the Good Neighbor Policy (New York: Columbia University Press, 1961), pp. 192-197.

department, however, ignored requests from both London and the American oil companies to represent British oil interests. The resulting tension between London and Washington reflected the wider, long-standing conflict between Britain's pursuit of oil security and America's smouldering resentment of any commercial activity which smacked of imperialism - conflict that had manifested itself earlier in Anglo-American oil rivalry in Central America and the Middle East. While Britain had no significant known domestic oil and, therefore, had to rely on sources of oil from abroad, the United States in 1938 had plentiful local supplies. But this fact did not stop Americans from feeling vulnerable to British economic 'imperialism' and resentful at British control of so much of the world's raw materials overseas.⁶

The primary purpose of this thesis is to analyse Washington's and London's policies on Mexican oil in the context of Anglo-American relations from 1937, when Mexican labour challenged the oil companies' position, until Washington's agreement with Mexico in late 1941. Although the archives of Shell shed little light on Mexican Eagle's policy and the archives of the American companies remain inaccessible for the relevant time

⁶ Memorandum by Balfour on the Mexican Oil Question, 1 December 1938, FO 371 22776 [A 8808/10/26]; Yergin, Daniel: The Prize: The Epic Quest for Oil, Money and Power (New York: Simon and Schuster, 1991), p. 272.

period, the thesis will also analyse the policies of the oil companies as they tried to persuade Washington to coerce Mexico into returning the properties. Their decision in 1943 to agree to the settlement Washington had negotiated in 1941 will also be explained. It is beyond the scope of this study, however, to consider Mexican policy in any detail.

THE LITERATURE

Despite the importance of Britain's stake in the Mexican oil industry and the acrimony between the United States and Britain over oil resources, the literature on British oil policy has so far neglected to provide a detailed analysis of Britain's reaction to the expropriation and analyze the problem in sufficient depth from the point of view of Anglo-American relations. D.J. Payton-Smith's official history, Oil: A Study of War-time Policy and Administration (London: Her Majesty's Stationery Office, 1971) mentions the Mexican expropriation only fleetingly despite the fact that it caused so much concern among British policymakers about oil supplies during wartime. Brian S. McBeth's British Oil Policy, 1919-1939 (London: Frank Cass, 1985) briefly analyses the British attitude to the Mexican problem and touches on the

expropriation's implications for British defence and London's failure to get Washington to take a strong stand in the matter. It, however, relies mainly on British sources and does not treat the matter in the context of Anglo-American relations. Lorenzo Meyer's *Su Majestad Britanica contra la Revolucion Mexicana, 1900-1950* (Colegio de Mexico: Centro de Estudios Internacionales, 1991) provides an excellent analysis of Anglo-Mexican relations, but also omits a detailed analysis of the Anglo-American context.

Maria Paz Salinas' thesis, 'The International Dimensions of the Cárdenas Government, 1934-1940' (Ph.D. dissertation, University of London, 1985) draws on both British and Mexican government sources, but approaches the problem primarily from the Mexican angle and ends the study when Cárdenas left office in 1940. John F. Thynne's thesis, 'British Policy on Oil Resources, 1936-1951, with Particular Reference to the Defence of British Controlled Oil in Mexico, Venezuela and Persia' (Ph.D. dissertation, University of London, 1987) devotes one chapter to the British government's reaction to the Mexican expropriation and its efforts to elicit the support of the government of the United States, but makes little attempt to analyse the matter from the point of view of Anglo-American relations and to analyse Washington's

policy adequately. Ernest Gilman in 'Economic Aspects of Anglo-American Relations in the Era of Chamberlain and Roosevelt, 1937-1940' (Ph.D. dissertation, University of London, 1976) devotes only twenty pages to the Mexican oil expropriation and ends the study before the Mexican-American settlement.

Many excellent studies exist on Anglo-American economic, political and military relations in this period, among them C.A. MacDonald, The United States, Britain and Appeasement, 1936-1939 (London and Basingstoke: The Macmillan Press, 1981); David Reynolds, The Creation of The Anglo-American Alliance, 1937-1941: A Study in Competitive Co-operation (London: Europa, 1981); Donald Cameron Watt, Succeeding John Bull: America in Britain's Place (Cambridge: Cambridge University Press, 1984); Alan Dobson, The Politics of the Anglo-American Economic Special Relationship, 1940-1987 (Sussex: Wheatsheaf Books, 1988); and Alan Dobson, US Wartime Aid to Britain, 1940-1946 (London: Croom Helm, 1986). None, however, mentions oil and Mexico. A detailed analysis of British and American reactions to the Mexican oil nationalisation should, therefore, complement the existing literature on Anglo-American relations.

While much literature exists on Washington's reaction, few studies analyse Washington's policy in detail. Clayton Koppes in 'The Good Neighbor

Policy and the Nationalisation of Mexican Oil' Journal of American history (June, 1982) rightly presents Washington's reaction as consistent with the Good Neighbor policy, coercion by economic and political means rather than military intervention, which Washington had used in the region earlier. The state department's influencing the treasury to stop purchasing silver from Mexico after the expropriation helped eventually drive the ailing peso off the foreign exchange market. As Lorenzo Meyer in Mexico and the United States in the Oil Controversy, 1918-1942 (Austin: University of Texas Press, 1972) points out, Secretary of State Cordell Hull's note of 26 March 1938 requesting Mexico to pay compensation before Washington could recognise the expropriation as legal was far more malign in its intent than its words alone conveyed, since it was well known that Mexico was in no position to pay. It was in effect an unneighbourly attempt by the colossus of the north to give Mexico no other choice but to return the oil properties.

The scholarly literature on Washington's reaction, however, does not adequately explain what motivated the state department. Bryce Wood's The Making of the Good Neighbor Policy (New York: Columbia University Press, 1961), E. David Cronon's Josephus Daniels in Mexico (Madison: University of Wisconsin Press, 1960), Meyer's Mexico and the United States in the Oil Controversy and Daniel

Yergin's brief account of Washington's reaction in The Prize: The Epic Quest for Oil, Money and Power (New York: Simon and Schuster, 1992) show that the state department balanced the conflicting concerns of the oil companies on the one hand and American defence interests in Mexico on the other. They all rightly attribute Washington's agreement with Mexico in November 1941 to concerns about defence. They, however, do not do justice to the complexity of Hull's and Undersecretary of State Sumner Welles' attitudes toward the oil companies.

Dick Steward's Trade and Hemisphere: The Good Neighbor Policy and Reciprocal Trade (Columbia: University of Missouri Press, 1975), which briefly narrates Washington's efforts to get a reciprocal trade agreement with Mexico and shows how the oil expropriation obstructed this goal for several years, shows that Hull's primary focus was his reciprocal trade agreements programme rather than protection of the oil companies. Archival evidence indeed confirms that Hull never considered full support of the oil companies. Rather, he tried to further the broader cause of American commercial interests abroad, and his actions must be interpreted in light of his desire to establish a trade agreement with Mexico rather than any strong loyalty to the oil companies.

Studies such as Lorenzo Meyer's recognise Washington's pursuit of conflicting commercial and

defence concerns. However, they do not explain the main actors' responses to the dilemma or analyse them in the wider context of the administration's concerns about German and Japanese aggression. The literature on the Mexican oil nationalisation also largely ignores the struggle for influence among officials in Washington. E. David Cronon's analysis of the relationship between Hull, US Ambassador to Mexico Josephus Daniels and President Franklin D. Roosevelt is laudable, but both he and Lorenzo Meyer pass over the struggle between Sumner Welles and Hull, who broadly agreed with one another on policy toward Mexico but struggled for control over foreign policy-making. Although Welles' private papers were closed while this thesis was being researched, the state department documents provide sufficient material to explain his behaviour with regard to policy toward Mexico.⁷

After explaining the early history of oil in Mexico, the formation of policy in Washington and London, and the attitude of the oil companies in the first chapter, chapter two examines the reactions of the oil companies to the events culminating in the oil expropriation and the tension between Washington and London as Cárdenas challenged the oil industry. The third chapter

⁷ Irwin Gellman treats the relationship between Hull, Roosevelt and Welles in a broader context in Secret Affairs: Franklin Roosevelt, Cordell Hull, and Sumner Welles (Baltimore: Johns Hopkins University Press, 1995).

explains Washington's reaction to the expropriation before the US agreement with Mexico in November 1938 settling the outstanding debts Mexico owed US interests after the expropriation of farmlands from 1915. It also shows how policy-makers were faced with a dilemma over whether to placate Mexico for defence purposes or stand up for US commercial interests abroad, and in November 1938, the concern for security led Cordell Hull to agree to a compromise settlement which set a precedent that was deeply unpopular among the oil interests. The fourth chapter examines Whitehall's and the oil companies' bitter reactions to Washington's refusal of cooperation during the same time period. The oil companies were so determined to secure the return of their oil properties that they suspended discussions with Cárdenas. Also during that time, Mexico severed relations with Britain, although a detailed analysis of the diplomatic correspondence shows that this event was largely due to the provocative behaviour of British Minister to Mexico Owen St. Clair O'Malley.

The fifth chapter analyses the boycott of Mexican oil by the expropriated oil companies between March 1938 and the start of the war. As is shown, both American and British oil companies not affected by the expropriation helped Mexico find markets for its oil, thus posing a substantial challenge to the boycott. The reactions of

Washington and London to these companies and the countries wishing to purchase the oil in turn illustrate the main differences in American and British priorities in the Mexican oil matter.

The sixth chapter describes Sinclair Oil's desire to make a settlement with Mexico, which prompted efforts by the other American and British oil companies to get Washington to stand up for their interests. The oil companies' plan involved staging abortive negotiations with Mexico to convince Washington that Mexico City was unreasonable. Washington, however, continued its policy of compromise, and Sinclair Oil agreed to accept minimal compensation from Mexico in April 1940. Chapter seven describes London's continued resentment of Washington's policy during this time. It also resumes the analysis of the boycott after the start of war when the Allied blockade made the selling of Mexican oil to Germany nearly impossible. Chapter eight analyses Washington's response to the growing need for Mexico's solidarity in the event of war and continued desire to protect US commercial interests. It also explains why Washington, after Hull and Welles substantially breached diplomatic protocol with the Mexican ambassador in 1941, finally reached a settlement with Mexico without the consent of the oil companies. Chapter nine explains Britain's reactions to US negotiations with Mexico during

this time. It also explains Whitehall's decision to renew relations with Mexico, Britain's bitterness at Washington's settlement and the renewed determination of the board of trade to increase trade with Mexico despite the apparent efforts of the United States to close British interests out of the oil industry there.

Finally, conclusions are drawn which address the themes omitted by the existing secondary literature. The issue of Mexican oil provided a mild irritant in Anglo-American relations. Whitehall's reliance upon Washington and its resentment toward Washington are evident in the comments and actions of policy-makers as they tried to secure Washington's support for British oil interests. Officials in Washington, however, expressed their antipathy toward British interests tacitly, by not cooperating with any of Britain's requests for help. Washington regarded British efforts to obtain its cooperation in the Mexican issue as yet another instance of Britain trying to get the United States to pull its chestnuts out of the fire as had occurred in the First World War. Washington's non-cooperation with Britain was a symptom of American resentment of British imperialistic activity in general and in the western hemisphere in particular. Whitehall officials in turn resented what they regarded as Washington's unwillingness to allow British oil

interests to work overseas supplies of oil, which they desperately needed. Despite Whitehall's anger, the fact that Britain needed US help in the war made retaliation unthinkable.

Second, British policy was far more focused than Washington's. Although Britain did not suffer from any major oil shortages before the American settlement of November 1941, its reliance on oil supplies abroad was central to the decisions officials in Whitehall made about the matter, and on the whole they tended single-mindedly to protect the interests of Mexican Eagle. Also, in Britain there was no tradition of Progressivism and muckrakers, the name President Theodore Roosevelt gave to journalists who vilified big business in widely circulated magazines such as McClures and Collier's.⁸ It can also be said that British policy-makers lacked options and influence effectively to deal with the matter, especially after the break in relations with Mexico. After Mexico severed relations, however, policy-makers did the best they possibly could to make a negative example of Mexico to discourage other oil suppliers from taking foreign oil properties.

⁸ From the turn of the century Progressivism was a political reaction against the results of industrialisation including poverty among urban working classes, the corrupting influences of cities and the power of big business which exploited labour. One such muckraker who directed a hostile campaign against Nelson Rockefeller's Standard Oil was Ida Tarbell.

Because Washington unlike Britain had plentiful oil supplies in the US, Hull did not feel compelled to make maintaining access to overseas supplies his main priority. Instead, he focused on achieving a Mexican-American trade agreement, part of his reciprocal trade agreements program, based on the theory that close ties of finance and trade would maintain peace between nations. He, therefore, set out to establish a standard of respect for US interests investing in Mexico before a trade agreement could be established.

Instead of demanding the return of the expropriated properties, Hull adhered to the Good Neighbor policy ostensibly by formally recognising the expropriation. At the same time, however he used economic sanctions to intimidate Mexico City into returning the properties. Hull influenced the Treasury to halt direct silver purchases, drastically reduce the Mexican quota for oil imports, and stopped federal agencies from purchasing Mexican oil. The oil companies and the British government also stopped purchasing Mexican oil and influenced other companies to do the same. The boycott, however, was not that effective between the expropriation and the start of the war. It was only until after the Allied blockade started that they were able to cut Mexico off from foreign markets

Although Mexico continued to refuse to return the properties, Hull, inspired by Daniels, decided in November 1941 to come to an oil agreement with Mexico involving compensation and also to lay the foundations for a reciprocal trade agreement. As the thesis will demonstrate, however, Daniels did not rescue Mexican-American relations from the brink of disaster after the insulting diplomatic gaffes of Hull and Welles, as E. David Cronon argues in Josephus Daniels in Mexico. While Daniels played an important role in the signing of the November agreement, the shared awareness in Washington and Mexico City of common security needs rather than the role of a single diplomat made the agreement possible.

The fact that whoever had the approval of President Roosevelt had the most influence over policy and the struggle for influence that ensued also caused inconsistencies in US policy. Daniels and Roosevelt had great sympathy for Cárdenas' decree and took liberties with the state department's policy by sending messages to Mexico that contradicted those of Hull and Welles. If the president and ambassador had been solely in charge of Mexican policy Washington would not have suffered any of its inconsistencies, but Roosevelt could not maintain a constant watch over Mexican matters; he also relished differences of opinion

among members of his cabinet and the administration as a whole. As Hull later said of him:

Mr. Roosevelt seldom intervened when his Cabinet officers or principal assistants got into quarrels among themselves. He gave the impression almost of being a spectator looking on and enjoying the drama.⁹

As the thesis will later show, both Welles and Hull straddled conflicting defence and commercial objectives in forming policy toward Mexico. Welles' behaviour emerges particularly lacking in coherence. He acted consistently with Hull's policy some of the time, but would also support Roosevelt's and Daniels' reactions to the problem which directly contradicted Hull's preferred course of action and assumptions about the matter. This inconsistency in behaviour can perhaps be attributed to his desire to gain influence in the administration at Hull's expense because whenever Roosevelt or Daniels were paying attention to the issue, he seemed to agree with them. As the thesis will also show, such inconsistent behaviour and competition for influence among officials in Washington greatly contributed to the disjointed nature of US policy and contrasts with the formation of policy in Britain.

⁹ Hull, Cordell: The Memoirs of Cordell Hull, Vol. 1 (London: Hodder & Stoughton, 1948), p. 205.

CHAPTER ONE
SETTING THE STAGE

EARLY HISTORY OF OIL IN MEXICO

Foreign oil prospecting in Mexico started in 1884 when Porfirio Diaz, Mexico's dictator from 1876 to 1880 and from 1884 to 1911, ended years of Spanish legal tradition which Mexico had inherited. Spanish laws had stated that substances in the subsoil belonged to the state and that individuals needed licenses to exploit them.¹ To attract foreign capital for modernizing Mexico, Diaz gave away vast tracts of land and offered generous terms to foreigners willing to invest in projects to build harbours, railways, mines, public utilities and facilities to exploit natural resources.² Mexican investors believed the country's oil resources were not worth exploring, and in any case Mexico lacked the entrepreneurs and the necessary capital.³ Diaz, therefore, changed the mining code to enable owners of land also to own the rights to the subsoil resources, including petroleum and gas,

1 Cooper, Bryan, (ed.): Latin American and Caribbean Oil Report (London: Petroleum Economist, 1979), p. 115.

2 Powell, J.R.: The Mexican Petroleum Industry (Berkeley: University of California Press, 1956), p. 7.

3 Meyer, Lorenzo: Mexico and the United States in the Oil Controversy, 1918-1942 (Austin: University of Texas Press, 1972), p. 22.

without the necessity of securing specific rights from the government.⁴ Soon after the change in Mexican law, the Americans, Henry Clay Pierce, head of the Waters-Pierce Oil Company, an affiliate of Standard Oil of New Jersey, and Edward L. Doheny, who started to prospect for oil in Mexico in 1900, both discovered rich oil fields.⁵ Americans continued to invest in Mexican oil, and by the time of the expropriation in 1938, many other companies had been established,⁶ and oil interests in Mexico had evolved and expanded so that many of them controlled the pumping, refining, transport and marketing of the oil.

In 1901 the Englishman Weetman Pearson, later Lord Cowdray, a member of parliament and entrepreneur, decided to prospect for oil in Mexico to run the Tehuantepec Railway he had recently reconstructed.⁷ The so-called *cientificos*, advisers to Diaz on matters involving Mexico's modernization were uneasy about the success and the potential domination of Mexican oil by Standard Oil of New Jersey. They, therefore, encouraged Pearson to prospect for oil in order to break Waters-Pierce's monopoly of the distilled petroleum

4 Gordon, Wendell C.: The Expropriation of Foreign Owned Property in Mexico (Washington, D.C.: American Council on Public Affairs, 1941), p. 5.

5 Mancke, Richard B.: Mexican Oil and Natural Gas (New York: Praeger Publishers, 1979), pp. 23-25.

6 Rippy, Merrill: Oil and the Mexican Revolution (Leiden: E.J. Brill, 1972), p. 310.

7 Waugh, Evelyn: Robbery Under Law (London: Chapman and Hall Ltd., 1939), p. 93.

product, kerosene, in Mexico.⁸ In 1910 Pearson discovered a huge oil field and formed what later became the Mexican Eagle Oil Company, an 85 percent British owned company which at the time of the expropriation represented virtually all the British interests in oil. The Mexican government encouraged bitter competition between American and British interests,⁹ and to give Pearson an advantage, Diaz introduced a tax on imported refined oil products, knowing that Waters Pierce was the only company which used refineries in the US and brought oil back into Mexico. A price war ensued between Pearson and Henry Pierce, and in 1913 Standard Oil abandoned Waters Pierce, losing the monopoly of selling petroleum in Mexico and leaving Pearson in control of over 50 percent of the Mexican oil industry. In 1918 Shell started managing Mexican Eagle and got a 20% shareholding in the company, while Pearson remained the majority shareholder.¹⁰

The government of President Venustiano Carranza, a vehement nationalist who bitterly resented the fact that foreigners dominated every aspect of his country's economy except agriculture, drafted and ratified the constitution of 1917,

8 Mancke, p. 25.

9 Thynne, John Francis: 'British Policy on Oil Resources, 1936-1951' (Ph.D. diss., University of London, 1987), p. 60; Rippey, Fred J.: British Investments in Latin America, 1822-1949 (Minneapolis: University of Minnesota Press, 1959), p. 102.

10 Meyer, p. 26.

designed to provide social justice, distribution of land and Mexican control over natural resources.¹¹ Article 27 of the constitution stated unequivocally that the state owned all minerals, oils and hydrocarbons in the subsoil.¹² To counter Washington's insistence on the principle of international law which upheld the legality of intervention whenever necessary to protect the contracts of Americans, Carranza, inspired by an Argentine lawyer of the 19th century, Carlos Calvo, included a clause which stated that foreigners could only acquire property if they agreed formally to relinquish their right to request support from their governments in the event of a dispute regarding their affairs in Mexico.¹³ The constitution also set a legal precedent for expropriation by stating that the government could expropriate private property provided that it was for public welfare and that the government indemnified the previous owner based on the value of the property. Despite the existence of this provision, the immediate cause of the oil expropriation arose from the efforts of labour to exercise their rights under article 123,

¹¹ Brown, Jonathan C.: 'Why Foreign Oil Companies Shifted Production from Mexico to Venezuela during the 1920's' American Historical Review, V (April, 1985), p. 369; Sigmund, P. E.: Multinationals in Latin America: The Politics of Nationalization (Madison: University of Wisconsin Press, 1980), p. 51.

¹² Randall, Stephen J.: United States Foreign Oil Policy, 1919-1948 (Kingston: McGill University Press, 1985), p. 51.

¹³ Philip, George: Oil and Politics in Latin America (Cambridge: Cambridge University Press, 1982), p. 203.

a basic code which established minimum standards for labour such as an eight-hour day and one day of rest after six days of work.¹⁴

The oil companies regarded the constitution as a formidable threat to their property in Mexico and tried to get the support of the state department against efforts of subsequent governments to apply it to their holdings. In reaction to these efforts, Washington and to a lesser degree London had several ways to get the Mexican government to co-operate:¹⁵ withholding recognition of a president who tried to apply article 27 retroactively to the disadvantage of foreign holders of property,¹⁶ threatening arms embargoes and refusing to grant loans. Mexico City was particularly concerned about the possibility of armed intervention since President Woodrow Wilson had ordered the navy to occupy the port of Vera Cruz in April 1914 and General John J. Pershing to hunt the rebel forces of Pancho Villa in Spring 1916.¹⁷

Roosevelt's administration continued the shift by President Herbert Hoover away from military intervention after the inter-American conference at

14 Stocking, George Ward: The Mexican Oil Problem (Dallas: Southern Methodist University Press, 1938), pp. 11-12.

15 Randall, p. 51; Sigmund, pp. 52-53.

16 Sigmund, p. 52.

17 Turner, Louis, : The Oil Companies in the International System (London: George Allen and Unwin, 1973), p. 80; Schulzinger, Robert D.: American Diplomacy in the Twentieth Century (Oxford: Oxford University Press, 1984), pp. 57-59.

Havana of 1928 when Latin American delegates harshly criticised Washington's use of physical force in the region.¹⁸ The depression led the Roosevelt administration to reject further the idea of force which was highly costly to the US and deemed counter-productive. In Latin America, the depression led to stronger authoritarian control and nationalism in reaction to the widely held belief that dependence upon foreign investment lay at the root of current economic troubles. When Roosevelt took office, he immediately faced social unrest in the US protectorate of Cuba whose economy was dominated by the sugar industry where Americans had invested heavily. Both Roosevelt and Hull in particular wanted Latin America to provide a large market for US manufactured goods and desperately wanted to maintain stability in the region.¹⁹

In his inaugural address Roosevelt reaffirmed Washington's move away from physical force when he proclaimed that in its relations with countries of the western hemisphere, the US would adhere to the policy of the Good Neighbor, which he described as a reciprocal policy between countries who respect obligations and agreements between each other.²⁰

18 Green, David: The Containment of Latin America: A History of the Myths and Realities of the Good Neighbor Policy (Chicago: Quadrangle Books, 1971), p. 7.

19 see chapter one of Green, David: The Containment of Latin America.

20 Franklin Roosevelt, Inaugural Address, 4 March 1933 in Rosenman, Samuel I.: The Public Papers and Addresses of

At the pan-American conference in Montevideo in 1933, Hull agreed to a resolution which barred intervention in the internal affairs of the signatory countries, and at the Buenos Aires conference in 1936, the US unequivocally renounced the use of force.²¹ The US, however, had not renounced the use of political and economic pressure, and as this thesis will show, the Good Neighbor policy did not preclude either form of pressure in the place of military intervention to get President Cárdenas to return the oil properties.

The Good Neighbor policy had overtones of the anti-European feelings that had inspired the Monroe Doctrine of 1823 which was against new colonial European intervention or enterprise in the western hemisphere. The renunciation of intervention in the internal affairs of Latin American states was as much a guarantee to Latin American states against US interference as it was a subtle warning to European nations to keep out of the region.²²

Franklin D. Roosevelt: The Year of Crisis, 1933, Vol 2 (New York, Random House, 1938), p. 11-16.

²¹ Schulzinger, p. 153.

²² Harper, John Lamberton: American Visions of Europe (Cambridge: Cambridge University Press, 1994), p. 56.

THE FORMATION OF POLICY IN WASHINGTON

Washington's policy toward Mexico during the Roosevelt administration was the result of input from several officials involved in a struggle for influence over foreign policy and winning the president's favour. Unlike the British system, where officials in government generally accept the value of party unity because their political fortunes rise and fall with the party, the president's cabinet members are far more likely to cross one another. Also, the fact that the president is elected makes him far more powerful among cabinet members than a British prime minister, who takes office as a result of a particular party winning an election, and winning the president's favour often enhances an official's political influence. Since Roosevelt did not sustain a keen interest in the Mexican oil problem on account of more pressing domestic problems and more direct defence issues, cabinet members and other officials took charge of the matter and whoever was closest to him at a given time had the most influence over matters regarding Mexico.

Nowhere was the struggle to win Roosevelt's favour as strong as between Secretary of State Cordell Hull and Undersecretary Sumner Welles, and despite his seniority, Hull felt threatened by

Welles. The undersecretary and the president, although 10 years apart in age, had known each other from childhood and had both attended Groton and Harvard, and Welles came from an east coast patrician background while Hull was born into a poor family in Tennessee. In addition, Hull's ill health forced him away from office for periods of convalescence, leaving Welles to conduct policy single-handedly during his absences, and because Welles oversaw Latin American affairs in the state department, he had considerable influence over Mexican matters and often acted inconsistently with Hull's policy. Hull's resentment of Welles became particularly strong in 1940 after Welles went on the peace mission to Europe and the president decided at the last minute not to back Hull for the presidency.²³ Despite the undersecretary's close relationship with the president, Roosevelt seemed careful not to make Welles feel too secure in his position because the bitter rivalry between the secretary and undersecretary enhanced his own influence.

Although the differences between the two men's attitudes toward the Mexican oil expropriation were minimal, Welles was unable to put his enmity for Hull aside and work effectively with him,

²³ Gellman, Irwin F.: Secret Affairs: Franklin Roosevelt, Cordell Hull and Sumner Welles (Baltimore: The Johns Hopkins University Press, 1995), p. 215.

particularly in 1941. They both saw the need for collaboration with Mexico in matters of defence on the one hand and the need to protect US commercial interests abroad on the other. Close military coordination with Mexico, however, would almost certainly have required the state department to be lenient about the oil matter, since demanding respect for the rights of Americans investing abroad would have run the risk of alienating Mexico City.

The fact that Hull blended defence and commercial concerns together complicated the matter further. Hull's reciprocal trade agreements programme, which Welles agreed with in principle,²⁴ made peace and close economic relations synonymous because, he believed, countries with strong ties of finance and trade would refrain from waging war against one another. Mexico's decision to increase its tariff rates at the beginning of 1938 and the subsequent expropriation of the oil properties had infuriated Hull, who had been trying to lay the ground work for a reciprocal trade agreement with Mexico, and left him determined to resolve the oil matter in a way that would establish a standard of respect for US interests operating abroad before reciprocal trade agreements with Mexico and other nations could be established. He specifically

²⁴ Ibid., p. 109.

hoped to increase American investment in Latin America and also regarded the area as an important market for American exports.²⁵

While Hull sought to restore good relations with Mexico and to protect US interests at the same time, Welles' behaviour fluctuated between supporting US commercial interests and being lenient toward Mexico. Although Hull was concerned about the struggle for influence with Welles, he did not let it overtly affect his policy toward Mexico the way Welles seemed to do. Welles formed opinions and changed his mind often. He endeared himself to Josephus Daniels, whom he knew the president held in high esteem, and often contradicted earlier actions in order to reflect Daniels' opinion or that of Roosevelt when the president was taking an active interest in Mexican matters. He also appeared to have confidence in his own ability to control matters and smooth situations over after he suddenly changed his mind. While the secretary and undersecretary had perhaps equal influence over policy toward Mexico, the fact that Roosevelt had put Welles formally in charge of Latin American affairs in 1937 meant that the British ambassador dealt with him more than Hull,

25 Wood, Bryce: The Making of the Good Neighbor Policy (New York: Columbia University Press, 1961), p. 210-211; Memorandum of a Conversation by the Secretary of State, 22 January 1938, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5 (Washington, D.C.: United States Government Printing Office, 1954), pp. 776-79.

and Welles often distorted US policies in conversation with the British.

Another of Hull's adversaries was Secretary of the Interior Harold Ickes who became petroleum administrator for war at the end of May 1941. Ickes and Hull had fallen out in 1938 when the interior department reversed its decision in summer 1938 to sell helium to the Nazis, and Hull challenged Ickes to honour his commitment. The relationship between the two became even more acrimonious when both were vying for Roosevelt's backing in the 1940 presidential election in which the president decided to seek a third term.²⁶ Like Roosevelt, Ickes questioned Hull's competence frequently and once wrote of him, 'the fellow just can't think straight.'²⁷ Ickes also believed Hull's idea that breaking down trade barriers would deter war was dangerously naive. Although Ickes was rarely involved in the formation of policy toward Mexico, as an old Progressive, he was highly suspicious of big business, opposed Hull's solution of the Mexican oil problem and tried unsuccessfully to persuade Roosevelt between 1941 and 1943 that the US government should buy the producing and refining facilities in Mexico.

²⁶ Gellman, pp. 152, 214.

²⁷ Ickes, Harold L.: The Secret Diary of Harold Ickes, Vol 3, The Lowering Clouds (London: Weidenfeld and Nicolson, 1955), p. 339.

By far the closest person politically to the president in this story was Daniels who had been Roosevelt's superior during his term as assistant secretary of the navy during the First World War. Despite the fact that Roosevelt had not always agreed with Daniels, he had great respect for him, chose to continue addressing the ambassador as 'chief' and allowed him to obstruct Hull's harsher policies toward Mexico with impunity. Both Daniels' and Roosevelt's involvement in the oil issue gave Mexican officials the impression that Washington's policy was far more tolerant than the state department intended it to be. Daniels and Roosevelt shared an antipathy to big business, a Progressive's sympathy for the common man whom Cárdenas was trying to benefit, and resentment of British interests operating in the western hemisphere. Daniels in particular resented British activities in Mexico because he had been in President Woodrow Wilson's cabinet when Anglo-American oil rivalry in Mexico was at its fiercest. At the time, Weetman Pearson supported Victoriano Huerta, the Mexican president, against Wilson's wishes, and his efforts to secure a loan for Huerta in the City of London raised Wilson's suspicions that he was trying to establish a monopoly over Mexican oil. The issue was not resolved until the coming of war made Whitehall realise that close

relations with Washington were more important than supporting Huerta.²⁸

While Hull, Welles, Daniels and Roosevelt had the most input on policy toward the Mexican oil problem, Secretary of the Treasury Henry Morgenthau, Roosevelt's neighbour in Hyde Park, also played a role in policy formation. Although Morgenthau's foreign silver purchases often pitted him against the secretary of state who believed that the silver purchases allowed him too much control over foreign policy, Morgenthau cooperated to some degree with Hull over silver purchases from Mexico. Like Hull, Morgenthau also experienced a dilemma with regard to policy toward Mexico. On the one hand, he was very concerned about Mexico turning to Germany, Japan or Italy, but on the other, he wanted to teach Mexico fiscal responsibility, and, therefore, objected to making aid to Mexico too readily available. Above all he believed silver purchases to be a waste of federal money and complied with Hull's request to stop special purchases of silver from Mexico. He refused, however, to lower the price on the world market, where he continued to purchase Mexican silver.²⁹

²⁸ Meyer, pp. 37-8.

²⁹ Conversation with Taylor and Lochhead, and Morgenthau, 28 March 1938, 9:07 a.m., Morgenthau Diary, #117; Memorandum of a Conversation, 5 April 1938, RG 59, Records of the Department of State [812.6363/3450].

THE REACTION OF THE OIL COMPANIES

Despite the Anglo-American competition for oil resources, the oil companies responded to the Mexican expropriation in a united front. This consisted of independent companies such as Sinclair and British and American major oil companies such as Shell, Standard Oil of New Jersey and Standard Oil of California. However, not only were the major American and British companies traditional competitors, but the interests of smaller independent companies, which lacked global systems of production, transport refining and marketing, often clashed with those of larger oil companies. For example, when Washington and American oil interests were trying to solve the problems of surplus oil and falling prices early in the Roosevelt administration, independent oil producers opposed limits being placed on production, while Standard Oil of New Jersey urged the government to allocate quotas for oil production.³⁰

Anglo-American oil interests learned early the value of working in unison. Francisco I. Madero, a young member of Diaz' establishment who took power in 1911, issued a decree obliging oil companies and landowners to cooperate with a government registry

30 Nash, G.D.: US Oil Policy 1890-1964 (Pittsburgh: University of Pittsburgh Press, 1968), p. 131.

by providing information about the value of their holdings to facilitate payment of indemnities in case the government took over any properties. The companies' joint refusal to comply with this new law as well as Mexico's strained relations with Washington contributed to Madero's decision to do away with the registry. Similarly, when a tax was introduced in the state of Veracruz British and American oil companies resisted it together, and, with the support of the American consul there, successfully countered the new measure.³¹

In reaction to the expropriation in 1938, the Anglo-American oil interests and Sinclair Consolidated staged a boycott of Mexican oil, tried to secure Washington's support for both British and American oil interests through their main spokesperson William Farish, president of Standard Oil of New Jersey, and insisted that they owned the rights to oil in the subsoil. Despite the absurdity of making calculations of future profits on estimated sizes of oil reserves, the American and British companies confidently asserted that their properties were worth \$450 million.³² The Mexican government denied their claim to oil in the ground and offered compensation for their original investments and other expenses excluding future profits from the subsoil. The companies, however,

³¹ Meyer, pp. 31-2.

³² Cronon, p. 186.

refused offers of compensation from debt-ridden Mexico. Above all they wanted to discourage other countries such as Venezuela, where their investments in the oil industry were considerable, from following Mexico's example. They, therefore, refused anything short of the return of their properties, even if temporarily, to make Cárdenas' policy appear to fail in the eyes of the world. The united front between American and British oil companies even outlived the agreement Washington negotiated on behalf of the American oil companies in November 1941.

Although the united front was fairly solid among subsidiaries operating in Mexico, it was a mere marriage of convenience among the parent companies, and it eventually broke down. The rivalry and distrust among the parent companies were far too strong to sustain cooperation among the subsidiaries operating in Mexico. Throughout the 1930's Standard Oil of New Jersey, while it was discussing cooperation with Shell, was thinking of merging with Standard Oil Company of New York so it could handle competition from Shell more effectively. In addition, in 1936 Shell was outraged to learn that the company was also contemplating selling its Mexican operation to William Davis, a maverick independent oil man, who

almost certainly would have broken the united front.³³

It will be seen that the first break in the united front was not due to lack of cooperation between American and British major oil interests but due to the decision of Sinclair Consolidated, which had large domestic holdings in the US and fewer international holdings than the larger international oil companies, to make an early settlement with Mexico in the spring of 1940. The break which came in 1943 involved American interests agreeing to the settlement Washington had negotiated with Mexico in November 1941 with the understanding, as Whitehall suspected, that the American oil companies might have a chance of returning to Mexico.

THE FORMATION OF POLICY IN LONDON

Input on policy came from several departments in Whitehall. The oil board, comprised of the secretary of mines, the civil lord of the admiralty, senior officials of the service ministries, the treasury and the board of trade, was concerned mostly with the needs of the armed services in the event of war and recommended oil

³³ Yergin, Daniel: The Prize: The Epic Quest for Oil, Money and Power (New York: Simon & Schuster, 1992), p. 267.

strategy to the committee of imperial defence of which it was a sub-committee. Because Britain relied on petroleum wholly from overseas sources, the foreign office also played an important role in determining oil policy. The fact that the *Anschluss* of Austria occurred a few days before the expropriation distracted the attention of senior officials in the foreign office. As a result, responsibility for the execution of policy usually went no higher in the foreign office hierarchy than John Balfour, head of the American department, who relied heavily on input from Owen St. Clair O'Malley, the minister in Mexico City. More senior officials intervened only intermittently during the crisis, and the matter rarely went as high as the cabinet.

In addition to the oil board and the foreign office, the petroleum department, a subdivision of the mines department, headed by Secretary for Mines Captain Crookshank, M.P., was responsible for a wide variety of oil matters. These included promoting British oil companies in world trade, coordinating action and information on petroleum at home and abroad and advising the government departments about technical, commercial and political matters involving oil. Director of the Petroleum Department Frederick Starling not only met directly with Mexican Eagle, but also played an important role as a liaison between the oil board

and the foreign office. While neither Starling nor anyone in the foreign office was a member of the oil board, he attended all of their meetings and acted as a channel of information to both bodies which usually heeded whatever advice he gave.

Britain, unlike the United States whose oil supplies were plentiful at the time, had no known domestic supplies,³⁴ and the British empire only produced 5 percent of the world's oil.³⁵

Remembering the unprecedented and vital role oil played in World War I, Whitehall was highly concerned that failure to return to the status quo ante in Mexico would encourage other countries to expropriate British oil holdings and stop supplying British oil needs at a time when hostilities seemed imminent. While officials in the department of overseas trade, M.P.s and others objected to Whitehall's support of the boycott of Mexican oil which required great sacrifices for British concerns which normally traded with Mexico, Balfour and Starling kept tight control over policy and single-mindedly pursued the interests of the oil companies - never experiencing dilemmas over policy to the degree officials in Washington did. The interests of the oil companies were regarded as

34 Payton-Smith, D. J.: Oil: A Study of War-time Policy and Administration (London: H.M.S.O., 1971), p. 24.

35 'Note on the Advantages accruing to His Majesty's Government from having Foreign Oil fields developed under British control', Confidential Print, South and Central America, 1 December 1938, FO 371 20636 [A8808/10/26].

synonymous with defence. Whitehall wanted not only British access to foreign sources, but also British control of the production of needed petroleum products abroad:

The position which British oil companies have built up affords the only basis on which the Empire can hope to have any assurance of securing the large supplies needed. As long as foreign governments are not directly concerned in the oil business they are much less likely to interfere with the companies in the export of oil.³⁶

ANGLO-AMERICAN RIVALRY OVER MEXICAN OIL

Officials in Whitehall felt particularly frustrated because Britain's ability to influence events in Mexico was commensurate neither with its strategic stake in Mexican oil nor Shell's control of 63% of oil production in Mexico.³⁷ Officials in Whitehall realised that they would have to depend on the United States to raise objections because of Washington's strong historical role in Mexico, but their approaches to Washington for help both directly and through the united front led to nothing. Washington bitterly resented Britain's economic presence in the western hemisphere, especially Latin America. These feelings were

³⁶ Ibid.

³⁷ New York Times, 20 March 1938, p. 3, column 4; 8 April 1938, p. 29, column 4.

borne not only of an oil rivalry between the two countries, but also of a fierce rivalry for raw materials and markets which went back to the turn of the century.

From the start of the Great War, the US successfully challenged British predominance in Latin America as Britain was preoccupied with the war and reconstruction. The Great War had reversed the financial situations of Britain and America making America a net creditor nation which replaced Britain as the main source for investment capital. The rivalry worsened further in the 1930's as both countries tried to cope with the depression: Britain's National government adopted a system of protective tariffs from 1931-32, and at the Ottawa conference in 1932 Britain implemented higher tariffs and import quotas to discriminate against foreign goods. Britain left the gold standard in September 1931, and most of the Dominions as well as other countries dependent upon trade with Britain tied their currencies to the pound and joined the emerging sterling trading bloc. Britain's defaulting on war debts in 1934 increased American resentment of Britain.³⁸

From 1936 President Franklin D. Roosevelt tried to increase military and economic co-

³⁸ Reynolds, David: The Creation of the Anglo-American Alliance, 1937-41: A Study in Competitive Co-operation (London: Europa, 1984), pp. 13-14.

operation with republics in South America and was perturbed about the British interests entrenched there. The British controlled the production and distribution of tin, dominated the oil industry and had envied trading arrangements with Argentina. They also tried to block American commercial enterprise in Brazil. The president especially resented the control of primary materials like rubber and oil by colonial powers and cartels.³⁹ While Roosevelt and his administration were bitter about British trade policies and colonial possessions, Whitehall resented what it believed were American efforts to block its access both to air routes in Latin America and raw materials such as tin, tobacco, rubber, cotton and oil.⁴⁰ Ever since US entry into the war in 1917, Whitehall suspected the US of wanting to stop the Allies' imperialism as much as eliminate German militarism.⁴¹

The rivalry became particularly strong after the Second World War began when Britain's dollar shortages became acute. In winter 1939-1940, the purchases of supplies from the US made the problem of paying for them increasingly serious, and

³⁹ Gilman, Ernest: 'Economic Aspects of Anglo-American Relations in the Era of Chamberlain and Roosevelt, 1937-1940' (Ph.D. dissertation, University of London, 1976), pp ii-xxvii and pp. 308-10.

⁴⁰ Watt, Donald Cameron: Succeeding John Bull: America in Britain's Place (Cambridge: Cambridge University Press, 1984), p. 87.

⁴¹ Reynolds, p. 15.

Britain tried buying some supplies from elsewhere and increasing exports to ease dollar shortages. As a result, Anglo-American competition for markets for agricultural products and manufactured goods increased particularly in Latin America. Hull was irate at Britain's discrimination against American products and was highly suspicious about Britain's tactics to gain dollars. He could not understand how the British empire was unable to afford American goods.⁴² Washington, therefore, refused every request from the foreign office, which maintained that the expropriation was illegal, to voice strong diplomatic disapproval of the Mexican act and to co-ordinate their policies regarding Mexico.

Whitehall was furious that Washington appeared to condone the expropriation. Most if not all of the companies' subsidiaries by virtue of being incorporated in Mexico were subject to Mexican law, and Washington recognised that Mexico had the right to expropriate property within Mexico provided it was for the public good and provided Cárdenas promptly arranged adequate and effective compensation. The fact that a strike before the expropriation led to grave fuel shortages which crippled transport and industry fulfilled the 1917 constitution's requirement that expropriations be

⁴² Dobson, Alan P.: US Wartime Aid to Britain, 1940-1946 (London: Croom Helm, 1986), pp. 15-28.

justifiable in the name of public welfare. While Washington conceded Mexico's right to expropriate provided the country paid prompt, adequate and effective compensation, disagreements arose over what constituted such compensation. Mexico City insisted that it had 10 years to pay compensation for the companies' investment. The oil companies, however, insisted on immediate compensation for future profits on oil still in the ground.⁴³

As the thesis will show, the differences between the reactions of London and Washington were more apparent than real. The state department had made compensation the requirement for recognition of the legality of expropriation, knowing that Mexico was incapable of paying such compensation. Its demand was intended to secure a settlement allowing the American oil companies to return to Mexico in a managerial position. The state department tried to mask this ambition with the Good Neighbor policy which provided a convenient excuse for the American government to turn down British suggestions of stronger action toward Mexico. Whitehall also wanted to secure the return of Mexican Eagle, Shell's Mexican subsidiary, to managing and working its former Mexican concessions and hoped that its refusal to recognize the

⁴³ Gaither, Roscoe, B.: Expropriation in Mexico: the Facts and the Law (New York: William Morrow, 1940), p. 9.

legality of the expropriation would achieve this goal.

CHAPTER TWO
ANGLO-AMERICAN TENSION BEFORE THE
EXPROPRIATION: NOVEMBER 1936-MARCH 1938

*In time of war, Britain would be largely dependent on foreign supplies of oil whereas the United States owing to their big home production would not. They could, therefore, afford to look with comparative equanimity on this sort of thing whereas it is vital to Britain that our foreign sources of supply should remain under British-owned control. The lack of satisfactory cooperation from the US in this is indeed heartbreaking.*¹

Gerald Gray Fitzmaurice

The nature of the Anglo-American oil rivalry in Mexico was apparent throughout the labour troubles which culminated in the expropriation. Mutual hostility existed mainly between the two governments and among independent oil companies of the two countries rather than among the major firms. It is the purpose of this chapter to analyse Anglo-American competitiveness in the Mexican oil industry in the period just before the oil nationalisation of March 1938. After first explaining the important changes President Lázaro Cárdenas made to the labour movement and the Expropriation Law of November 1936, all of which

¹ Fitzmaurice, Minute, 16 March 1938, FO 371 21364 [A2004/10/26].

threatened foreign oil companies, the different reactions of Washington, Whitehall and the oil companies are given in turn. While Washington showed great reluctance to get involved in what was regarded as largely an internal Mexican matter, Whitehall believed the situation potentially threatened Britain's oil supplies in an emergency and resented Washington's mild policy. The oil companies also resented what they regarded as Washington's inaction, and, in the absence of the administration's support, they resorted to trying to coerce the Mexican government by harming the Mexican economy.

Second, the effects of Mexico's attempts to do business with British companies at the same time as it expropriated the American company Standard Oil of California's lands show the degree of Anglo-American resentment of each others' interests in Mexico. Third, it is seen that Whitehall's efforts to get support from Washington failed: US officials gave Whitehall misleading information rather than divulge details of their policy. Welles' efforts to use Washington's silver purchase programme to put pressure on the Mexican government provide an illustration of Washington's secrecy. Last, the chapter describes how Washington, London and the oil companies reacted to the final events leading to the expropriation.

LÁZARO CÁRDENAS' POLICIES BEFORE THE EXPROPRIATION

In an effort to modernize Mexico, redistribute wealth and improve the plight of labourers, Cárdenas sought to fulfil the aspirations of the peasant class and catered to the strong, widespread nationalist sentiment.² Many Mexicans bitterly resented foreigners who they believed operated in Mexico at the expense of their own economic well-being.³ Cárdenas, therefore, introduced socialist democracy and developed agriculture and light industry run by workers' co-operatives. The co-operative system, he hoped, would allow Mexico to evolve from a feudalistic system to a socialist one thus by-passing the intermediate stage of capitalism which Karl Marx had predicted.⁴

Although Cárdenas did not actually create the socialist society he had planned, he transformed labour into a powerful bargaining force by bringing it closer to the government and unifying oil workers under a labour code. Before Cárdenas became president, the freedom to strike had existed only in theory. Despite rhetoric in favour of

² Cline, Howard F.: The United States and Mexico (New York: Harcourt Brace, 1963), pp. 216-18.

³ Carrillo, Alejandro: The Mexican People and the Oil Companies (Mexico: Workers University of Mexico, 1938), p. 8.

⁴ Meyer, Lorenzo: Mexico and the United States in the Oil Controversy, 1918-1942 (Austin: University of Texas Press, 1972), p. 151.

labour, corrupt leaders and labour courts had usually ensured that private interests prevailed against workers in disputes. Due to resistance from the Mexican government and the oil companies to the establishment of a single union of all workers for the oil industry, nineteen independent oil unions for ten thousand workers had existed in 1934 when Cárdenas became president.⁵ Because oil workers had formed unions based on company affiliations, no consistency existed in working standards and labour contracts from one company to another.⁶ In 1935 Cárdenas unified these unions under the Syndicate of Oil Workers of the Mexican Republic, the STPRM, which affiliated with the powerful General Workers' Union, the CTM.⁷

On 3 November 1936 the general assembly of the STPRM submitted to the oil companies a list of demands in accordance with article 123 of the constitution of 1917 which established minimum standards for labour. The constitution also set out a procedure to settle disputes between labour and management whereby, at the request of either party, a tribunal known as the federal board of conciliation and arbitration would bring about a

⁵ Philip, George: Oil and Politics in Latin America (Cambridge: Cambridge University Press, 1982), p. 215; Ashby, Joe C.: Organized Labor and the Mexican Revolution Under Lázaro Cárdenas (Chapel Hill: University of North Carolina Press, 1963), p. 119.

⁶ Powell, J.R.: The Mexican Petroleum Industry, 1938-1950 (Berkeley: University of California Press, 1956), p. 19.

⁷ Meyer, Lorenzo, p. 154.

settlement by compulsory arbitration. The union's demands included filling most managerial and other positions with members of the union, training Mexicans to replace foreign technicians and establishing union control over hiring and firing. In addition, the union wanted the companies to provide workers with higher wages, medical care, indemnity in cases of lay-offs and voluntary leave, pensions, scholarships for workers' children, and housing of specified standards. The union threatened the companies with a general strike if they did not quickly agree to start negotiations based on its demands.⁸ These demands came at the same time as the new Mexican Expropriation Law of 23 November 1936 which furthered the federal executive's authority vested in it by the constitution to expropriate all privately owned land by substantially widening the definition of public utility. It also gave the president the authority to declare partial or full expropriations so long as compensation was paid within 10 years.⁹

⁸ Workers University of Mexico: The Oil Conflict in Mexico (Mexico: The Workers University of Mexico, 1937-1938), pp. 11-13.

⁹ Rippy, Merrill: Oil and the Mexican Revolution (Leiden: E. J. Brill, 1972), p. 77.

WASHINGTON'S POLICY IN THE AFTERMATH OF MEXICAN
LABOUR'S CHALLENGES

Although concerned about the well-being of US commercial interests operating abroad, Washington gave little response to the new law and Mexican labour's challenges to the oil companies. Hull believed strongly in the importance of pan-American goodwill in the defence of the western hemisphere. The union's demands in Mexico and the expropriation law happened at roughly the same time as Hull's departure for the inter-American conference at Buenos Aires, where he hoped to increase pan-American solidarity against threats to world peace. After Franklin Roosevelt's landslide victory in the presidential election in November 1936, the president's concerns about what he believed was the inevitability of war in Europe and the danger of it spreading to the western hemisphere led him to join Hull at the conference where he roundly condemned war. In the end the conference achieved both a multilateral pledge of non-intervention and a declaration which obliged each nation present to consult one another when a non-American nation threatened the peace of the western hemisphere.¹⁰

¹⁰ Gellman, Irwin: Secret Affairs: Franklin Roosevelt, Cordell Hull and Sumner Welles (Baltimore: Johns Hopkins Press, 1995), pp. 112-17; Hull, Cordell: The Memoirs of Cordell Hull, Vol. 1 (London: Hodder & Stoughton, 1948), pp.497-500.

Consistent with the belief in the importance of pan-American solidarity and the pledge of non-intervention, the state department refused to support the oil companies in fighting the challenges Mexican labour posed. When the oil companies tried to persuade the state department to give formal disapproval of labour's demands, the department informed them that they had to exhaust legal avenues in Mexico and suffer a denial of justice before Washington would consider taking decisive action to protect their interests.¹¹ Cordell Hull, trying to lay the groundwork for a reciprocal trade agreement with Mexico, did, however, see the need to get a guarantee that Cárdenas would not take American property under the expropriation act, and Cárdenas told Josephus Daniels that, because Mexico needed American investment in the country, he would not take over oil fields or mines in which US investment had been substantial.¹²

¹¹ Meyer, p. 147.

¹² Cronon, E. David: Josephus Daniels in Mexico (Madison: University of Wisconsin Press, 1960), pp. 122-5.

WHITEHALL'S POLICY AND CRITICISM OF WASHINGTON

Washington's maintenance of this cautious attitude toward the problem deeply disappointed Whitehall. The world situation looked increasingly precarious, and Whitehall did not want Washington's reaction to encourage other countries to make trouble for British oil interests abroad. The possibility existed of war with Italy, Germany and Japan simultaneously. In summer 1937 war broke out between Japan and China, which posed a potential threat to Britain's empire in South East Asia and India. Italy, whose imperialistic ambitions were confirmed during the Abyssinian crisis, threatened Britain's position in the eastern Mediterranean which linked Britain to the Suez Canal, the gateway to Britain's eastern empire, and to its oil interests in the Middle East. After Hitler's occupation of the demilitarized zone of the Rhineland, Britain, however, regarded Nazi Germany as the main threat.¹³

Britain's lack of effective allies made the prospect of a war even more bleak. The US seemed to have embraced isolationism in order to

¹³ Reynolds, David: The Creation of the Anglo-American Alliance, 1937-41: A Study in Competitive Co-operation (London: Europa, 1981), pp. 7-8; Watt, Donald Cameron: How War Came: The Immediate Origins of the Second World War, 1938-1939 (New York: Pantheon Books, 1989), pp. 26-7.

concentrate on domestic policy and recovery from the depression. The fact that France had so many different ministries in such a relatively short period of time made Britain lose confidence in its former ally. Stalin's purges of the bureaucracy and officer corps shook British confidence in possible support from the Soviet Union. The isolationism of Canada and South Africa reduced the hopes of Commonwealth support.¹⁴

The Mexican oil problem made Britain's situation seem all the worse. John Balfour and Frederick Starling, both highly influential in forming policy toward Mexico, immediately perceived the situation in Mexico as a potential threat to British oil supplies during wartime. The prospect of Italian hostilities in the Mediterranean cutting Britain off from Iraqi and Iranian oil as well as the possibility of American neutrality precluding Britain from using US oil in wartime made Whitehall all the more reliant on British oil production in Latin America. Starling wanted to avoid setting an unhelpful precedent which would make the example of Mexican labour inspire other South American countries such as Venezuela, which supplied approximately 40 percent of British oil needs, to

¹⁴ Reynolds, pp. 7-8; Parker, R.A.C.: Chamberlain and Appeasement: British Policy and the Coming of the Second World War (Houndmills, Basingstoke, Hampshire and London: The Macmillan Press, Ltd., 1993), p. 19.

challenge British petroleum interests.¹⁵ At the time, only oil production in Iraq and Iran, which could supply the admiralty with an adequate amount of oil for wartime, was sufficient to make a substantial contribution to Britain's oil supplies in an emergency.¹⁶

US neutrality legislation made Britain all the more nervous about oil supplies. In August 1935 Italy's attack on Abyssinia, at a time when it was still widely believed that sales of US arms to the Allies had led to US involvement in the First World War, inspired congress to prohibit Americans from exporting implements of war and munitions to any country involved in hostilities. Subsequently congress tried to include oil on the list of banned exports. The British oil board, which planned for the needs of the armed services in the event of war, was highly concerned and, therefore, tried to prepare for the dreaded scenario of American oil being denied to the British empire if Britain were to become involved in a war with Germany. The second Neutrality Act of May 1937, making oil available to belligerents on a cash and carry basis, somewhat alleviated British concerns. The oil board, however, still prudently made plans in

¹⁵ Starling to Balfour, 8 March 1938, FO 371 21463 [A1721/10/26].

¹⁶ Payton-Smith, D.J.: Oil: A Study of War-time Policy and Administration (London: H.M.S.O., 1971), p. 52.

case American oil became unavailable to Britain in the future.¹⁷

Although Britain had much at stake, Whitehall felt powerless to demand the cessation of challenges to its oil interests. Although Royal Dutch/Shell was part Dutch, its ties with Whitehall were as close as any fully British company. The strong historical role of the United States and its economic leverage over Mexico, however, eclipsed Whitehall's ability to influence events in Mexico. The British, therefore, had to rely on Washington to take the lead in the matter and insist that the Mexican government check labour's demands.¹⁸

Washington, however, quietly refused Whitehall's requests to coordinate policies. In August 1937 the foreign office sought Washington's cooperation in making representations to Mexico, and Sumner Welles replied, complaining about a denial of justice might only provoke severe problems for the oil companies. Welles was also vague about the prospects of cooperation with the British government.¹⁹ The foreign office privately fumed at this stance. As Adrian Holman, a clerk in the American department said, 'There is little hope of US cooperation until it is too late!'²⁰

¹⁷ Ibid., pp. 56-57.

¹⁸ Balfour, Memorandum, 27 May 1938, FO 371 21471 [A4305/10/26].

¹⁹ Lindsay to Foreign Office, 24 August 1937, FO 371 20635 [A6192/132/26].

²⁰ A. Holman, Minute, 26 August 1937, FO 371 20635

Whitehall's resentment of Washington's lack of cooperation in the Mexican matter coincided with British resentment at what Whitehall officials believed was Washington's lack of effort to bring peace in the Far East. After the violence between Japanese and Chinese soldiers at Marco Polo Bridge in July 1937 that unleashed the Sino-Japanese war, Britain wanted to make joint approaches with the US to Japan and China, but Washington refused to cooperate, preferring parallel representations instead. Washington was particularly concerned not to appear to be ganging up on the Japanese which would justify and give support to the extremists in the Japanese army, and in addition congress had just defeated Roosevelt's efforts at reforming the supreme court, which had cost him dearly in terms of support in congress, and he could not take a chance of further alienating isolationists.²¹

THE OIL COMPANIES' REACTION IN THE ABSENCE OF
WASHINGTON'S SUPPORT

On 11 November 1936 Anglo-American oil interests formally refused to start negotiations based on the union's demands, alleging their

[A6192/132/26].

²¹ MacDonald, C.A.: The United States, Britain and Appeasement, 1936-1939 (London and Basingstoke: Macmillan, 1981), p. 37; Parker, pp. 104-7.

inability to pay for the changes. What they objected to the most, however, was not so much the increase in wages but the loss of control which would result from the demanded increase in the number of Mexicans in managerial jobs.²² While they refused to make any concessions on putting Mexicans in positions of management, they did make an offer to increase annual wages by 14 million pesos which was only 3 million pesos lower than what labour representatives had requested. The oil issue was a highly nationalist one, and the companies' refusal to give Mexicans control over their oil fields made the union reject this offer and call a strike on 28 May 1937.²³

The companies reacted by trying to damage further Mexico's already ailing economy. Strengthening labour had clearly not had the benign effect Cárdenas had intended because the strike exacerbated the depression in the Mexican economy and contributed to social unrest.²⁴ The strike led to a sharp increase in commodity prices and the closing of industries due to lack of fuel. The price of gasoline soared and prevented the use of modern equipment on many farms, and many crops failed leading to food shortages. The depression

²² Ashby, p. 196.

²³ Gobierno de Mexico: Recopilacion de Documentos Oficiales del conflicto de Orden Economico de la Industria Petrolera (Mexico, Gobierno de Mexico, D.F., 1940), pp. 20-21.

²⁴ Powell, p. 20.

had already badly affected Mexico as had Cárdenas' programmes to reform agriculture and organize public works, which had severely drained the treasury. The Mexican government was heavily in debt and desperately needed oil revenues as well as foreign exchange. In 1937 foreign sales of petroleum and petroleum products had amounted to 18.2 per cent of Mexican exports, and agriculture had provided a significant source of revenue of which the Mexican government had deprived itself when it expropriated agricultural lands. The Mexican government had a particularly difficult time getting foreign exchange needed to pay for the necessary foodstuffs. Mexico was caught in a severe depression as the peso fell and domestic prices rose dramatically.²⁵

The companies, hoping the economic troubles would lead to the toppling of Cárdenas, contributed to the problems in every way open to them. In August 1937 they started to withdraw their deposits from Mexican banks, and the metallic reserves of the Bank of Mexico decreased from 194 million pesos to 110 million between then and March 1938. Deposits and reserves of capital in private banks dropped more than 113 million pesos from June 1937 to April 1938. The resulting decreased public confidence caused other depositors to withdraw

²⁵ Scroggs, William O.: 'Mexican Oil in World Politics', Foreign Affairs Quarterly, XVII (1938), p. 173.

their money from Mexico in fear of a fall in the rate of exchange.²⁶ Meanwhile, the Mexican government confronted heightened social unrest which resulted not only from the disruption in the fuel supply but also from the companies' refusal to sell oil within Mexico on credit as they had previously done.²⁷

Because of the threat the severe economic troubles posed to Cárdenas' political position, the federal board of conciliation and arbitration announced the existence of a national emergency. This allowed it to apply the provision of the Federal Labour Law of 1931 designed to alleviate the disastrous economic effects of protracted disputes between capital and labour.²⁸ In accordance with this provision, the federal board of conciliation and arbitration ordered a return to normal conditions before the dispute arose pending the decision of three experts appointed by the board.²⁹ On 3 August 1937 the experts submitted to the board their report which, as the companies had expected, recommended most of the benefits requested by the workers including their request to increase their control of management. The report

²⁶ Rippy, p. 244.

²⁷ Cronon, p. 162.

²⁸ Ashby, p. 197.

²⁹ Powell, pp. 18-20.

also pronounced the companies financially capable of meeting the cost of the demands.³⁰

The companies were desperate to establish a denial of justice to encourage the support of the state department.³¹ In accordance with the legal procedure outlined by the Federal Labour Law of 1931, the companies, therefore, filed a response to the experts' decision. They then waited for special group seven of the federal board of conciliation and arbitration to review the experts' report and their response to it to make a final decision on whether to make the experts' recommendations legally binding.³² The American oil companies reported their compliance with the Federal Labour Law of 1931 to the state department and expressed their concern that if special group seven upheld the experts' recommendations, they would have to stop their Mexican operations. Thomas Armstrong, a manager of Standard Oil of New Jersey, suggested that the state department should tell the Mexican government that it was imposing

³⁰ Summary Conclusions and Recommendations in Report Rendered by the Commission of Experts, 5 August 1937, enclosed in Gallop to Foreign Office, 6 August 1937, FO 371 20635 [A5926/132/26].

³¹ The Chargé in Mexico (Boal) to the Secretary of State, 16 August 1937, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5, 1937 (Washington, D.C.: United States Government Printing Office, 1954), p. 665.

³² Mr. F. C. Panill of the Standard Oil Company of New Jersey to the Chief of the Division of American Republics (Duggan), 11 August 1937, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5, 1937 (Washington, D.C.: United States Government Printing Office, 1954), pp. 662-64.

unreasonable conditions on the oil companies and ask it to suspend the decision of the board until the department had the opportunity to review the case. Sumner Welles reiterated that 'the only ground for action by the department would be a denial of justice' after the companies had exhausted all legal avenues in Mexico.³³

ANGLO-AMERICAN MUTUAL SUSPICIONS

While special group seven was considering the case, Mexico City offered an arrangement for D.A. Thomas' independent British oil company Centralamer Ltd., a subsidiary of Harrison, Ltd., to drill in the Poza Rica field and construct the necessary pipelines and refineries to help the national Mexican oil company, Pemex, which lacked refineries, adequate wells, and marketing capabilities abroad.³⁴ News of the probable agreement led to heightened Anglo-American tension both between American and British oil interests as well as London and Washington. It also created a rift in the foreign office between the department

³³ Memorandum of a Conversation by the Chief of the Division of American Republics (Duggan), 18 August 1937, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5, 1937 (Washington, D.C.: United States Government Printing Office, 1954), pp. 666-7.

³⁴ Department of Overseas Trade to Foreign Office, 13 October 1937, FO 371 20636 [A7415/132/26]; Starling to Holman, 26 November 1937, FO 371 20636 [A8573/132/26].

of overseas trade and the American department over whether to support the interests of an independent company over those of Mexican Eagle.

Mexican Eagle was furious at the prospect of such an agreement because it had brought in the first well in this field in 1930, which the New York Times had called 'the second most important oil field in the world'.³⁵ The company believed that the lands in the Poza Rica area involved in the arrangement with Thomas were ones to which it had been claiming rights for several years under the Petroleum Law.³⁶ The Petroleum Law of 31 December 1925 required companies to apply for the Mexican government's confirmation of all of their concessions which were acquired before 1 May 1917 when the constitution went into effect. In order to get the concessions confirmed the companies had to prove that they had done positive acts or development work before 1 May 1917 on the property in question. Any such concession, if granted, would run for only 50 years, according to the new law, rather than in perpetuity as before.³⁷

Starling was concerned that the Mexican government had not yet reaffirmed Mexican Eagle's concession on lands in Poza Rica and afraid that the success of Thomas' company could help the

³⁵ Cronon, p. 42

³⁶ Starling to Holman, 26 November 1937, FO 371 20636 [A8573/132/26].

³⁷ Cronon, p. 42.

Mexican government in their efforts to bring down the existing oil companies in Mexico.³⁸ He believed that in view of the substantial role Shell played in the defence of Britain in comparison with the minimal role of companies the size of Centralamer, Whitehall ought to consider the interests of Mexican Eagle before those of an independent company. He also felt compelled to support Mexican Eagle because of the enormous investments it had already made in Mexico.³⁹

The department of overseas trade disagreed with Starling because it believed that if Whitehall did not support Thomas' agreement, its business might end up in America or Germany.⁴⁰ In the words of Joseph Pyke, the British consul general in Mexico City, Thomas' arrangement would help 'further British sales to Mexico at the expense of the United States and Germany'. The department of overseas trade also argued that if Thomas had a contract with the Mexican government to distribute oil, British shipping interests would benefit.⁴¹ News that Thomas decided to get tankers and oil well machinery from the United States rather than

³⁸ Allen, Minute, 11 October 1937, FO 371 20636 [A7064/132/26].

³⁹ Starling to Holman, 26 November 1937, FO 371 20636 [A8573/132/26].

⁴⁰ Gallop to Foreign Office, 9 September 1937, FO 371 20636 [A6603/132/26].

⁴¹ Consul General Pyke to Foreign Office, 30 August 1937, FO 371 20636 [A6644/132/26]; Department of Overseas Trade to American Department, 13 October 1937, FO 371 20636 [A7415/132/26].

Britain and the fact that the petroleum department was so influential in formulating policy on oil matters caused Starling's views to prevail.⁴²

Mexico's efforts to break the united front threatened to cause major friction between the large Anglo-American oil interests but ultimately failed. In November the Mexican government offered Mexican Eagle an agreement for the joint exploitation of oil in Poza Rica, and at roughly the same time, Mexico City nationalized 350,000 acres of land leased to the Richmond Petroleum Company, a subsidiary of Standard Oil of California. Mexican Eagle was tempted by the terms Mexico offered and agreed to recognise Mexico's right to the subsoil and to participate in a loan that the Mexican government had tried to float.⁴³ The company promised the Mexican government 13,000 barrels minimum per day or payment of a royalty of up to 35 percent on gross production, which the government hoped would help the country through its economic crisis.⁴⁴ In addition the company offered to build three refineries in Mexico, buy ten tankers and drill a number of wells.⁴⁵ The major oil companies, however, continued to work together against Mexico's threats to their oil interests.

⁴² Department of Overseas Trade to Allen, 27 November 1937, FO 371 20636 [A8583/132/26].

⁴³ Meyer, p. 161; Kluckhohn, pp. 109-110.

⁴⁴ Rippey, p. 203.

⁴⁵ Kluckhohn, p. 110.

Despite this seemingly good arrangement, the American oil interests persuaded Mexican Eagle to reject the deal at the last minute in order to cooperate with the American companies in trying to solve the labour dispute and secure their chances of future successful operations in Mexico.⁴⁶

Josephus Daniels and Thomas Lockett, the American commercial attaché in Mexico reacted adversely to Mexican Eagle's initial acceptance. Neither Lockett nor Daniels realised that Centralamer and Mexican Eagle were competing in the Poza Rica field and believed that the two were working together. Part of Mexican Eagle's contract was to recognise the Mexican government's right to approximately 30 drilling locations within the Poza Rica area. Part of the independent group's contract, which happened so suspiciously near the time of the Poza Rica agreement with Mexican Eagle, was to drill from 20 to 30 wells in Poza Rica. Lockett believed that Centralamer planned to drill wells where Mexican Eagle agreed not to and that Centralamer also planned to store the oil from these wells in storage tanks owned by Mexican Eagle.⁴⁷ The fact that gasoline, which came from

⁴⁶ Ambassador in Mexico (Daniels) to the Secretary of State, 17 November 1937, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5, 1937 (Washington, D.C.: United States Government Printing Office, 1954), p. 674-5; Cronon, p. 184.

⁴⁷ Daniels to Secretary of State, 13 November 1937, RG 151, Records of the Bureau for Foreign and Domestic Commerce [File 312: Oils and Minerals-Mexico].

the particular section of Poza Rica where the independent company planned to drill, did not meet export specifications made Lockett all the more suspicious that the two were working together; the only way to make such oil marketable abroad was to mix it with high octane gasoline from a major company, Shell being the most likely of all.⁴⁸

Lockett was also bitter that Mexican Eagle's agreement with the Mexican government seemed to spare it from labour problems in Mexico which the American companies still had to face. He wrote, '...concessions granted to Mexican Eagle in Poza Rica, in conjunction with the deal of the independent British groups, have pulled the former's chestnuts out of the fire.' He continued, 'The already predominant position of Mexican Eagle in the petroleum industry has been greatly enhanced.'⁴⁹ Thomas Lockett lamented that the British along with the Mexican government had 'almost complete control of one of the richest petroleum fields yet discovered in Mexico'.⁵⁰

The US embassy in Mexico even believed that British interests were, with the help of the Mexican government, driving out US interests. Daniels believed that Cárdenas had deliberately

⁴⁸ Lockett to Daniels, 17 November 1937, RG 151, Records of the Bureau for Foreign and Domestic Commerce [File 312: Oils and Minerals-Mexico].

⁴⁹ Ibid.

⁵⁰ Daniels to Hull, 17 November 1937, RG 59, Records of the Department of State [812.5045/583].

tried to drive a wedge between the united front of American and British oil interests and that the British legation had actively supported the negotiations of the independent group and Mexican Eagle. Pierre Boal, the counsellor of the US Embassy in Mexico, suspected that Shell might have had hopes of removing American oil interests from Mexico with Mexican help.⁵¹ Daniels also reported to the state department that the granting of the Poza Rica concession to Mexican Eagle might make the situation for the American companies all the more difficult because the Mexican government might feel in a stronger position to have special group seven uphold the recommendations of the experts.⁵²

British suspicions of American machinations were closely similar. In September Rodney A. Gallop, British chargé d'affaires in Mexico, had complained to Ramón Beteta, Mexican undersecretary of state for foreign affairs, about US oil interests in Mexico which he believed strove to eliminate all foreign oil interests. Gallop and Beteta agreed that although officials in Washington did not strive to eliminate other foreign interests in Mexico altogether, certain US business circles most probably did, and if the Mexican government

⁵¹ Gilman, Ernest: 'Economic Aspects of Anglo-American Relations in the Era of Chamberlain and Roosevelt, 1937-1940' (Ph.D. diss., University of London, 1976), p. 151; Daniels to Secretary of State, 17 November 1937, RG 59, Records of the Department of State [812.6363/3042].

⁵² Daniels to Hull, 17 November 1937, RG 59, Records of the Department of State [812.5045/583].

were intent on eliminating big foreign companies from the country, the oil interests of the United States would most likely find a way to remain.⁵³ When he realised how annoyed Washington was over the agreement of Mexican Eagle in Poza Rica and the arrangement with Thomas, Starling began to fear US oil interests in Mexico might come to a compromise solution with the Mexican government. British oil interests had a much greater stake in the Mexican oil industry than those of the United States, and therefore, they had a great deal to lose if the Mexican government broke the united front by coming to a separate agreement with US interests.⁵⁴

WHITEHALL'S EFFORTS TO GET WASHINGTON'S SUPPORT

On 18 December 1937 special group seven of the federal board of conciliation and arbitration announced its decision to accept almost all of the experts' recommendations and said that the award's total cost would be approximately 26,329,393 pesos. The companies were horrified and announced their plans to appeal the decision in the Mexican supreme court. They reiterated that they could not afford such an increase particularly since they predicted

⁵³ Gallop to Anthony Eden, 2 September 1937, FO 371 20636 [A6648/132/26].

⁵⁴ Starling to Holman, 3 January 1938, FO 371 21461 [A19/10/26].

the cost of the award would be much greater than the figure stated given all the benefits the workers were demanding.⁵⁵ On 29 December Jersey Standard⁵⁶ issued a defiant press release rejecting the board's decision.⁵⁷

The foreign office was unable to secure any cooperation from Washington in reacting to special group seven's reaction. When Minister to Mexico Owen O'Malley stressed to the American embassy in Mexico the need for close cooperation between the two countries regarding labour difficulties in Mexico,⁵⁸ he got nowhere with Daniels whom he described condescendingly as a politician rather than a professional diplomat and complained about his lack of frankness.⁵⁹ O'Malley contrasted the secretiveness of Daniels with the helpfulness of Pierre Boal, with whom O'Malley tried to cultivate a good relationship. O'Malley and members of the foreign office began to wish that rumours of Boal taking over Daniels' position would soon materialise.⁶⁰

When Ronald Lindsay, British ambassador to the US, asked if Welles could arrange close contact

⁵⁵ Feis to Welles, 20 December 1937, RG 59, Records of the Department of State [812.5045/621].

⁵⁶ Standard Oil of New Jersey

⁵⁷ Cronon, p. 176.

⁵⁸ Holman to Lindsay, 26 December 1937, FO 371 20636 [A 9329/132/26].

⁵⁹ O'Malley to Troutbeck, 27 December 1937, FO 371 21462 [A524/10/26].

⁶⁰ O'Malley to Holman, 13 January 1938, FO 371 21462 [A887/10/26].

between the American embassy and the British legation in Mexico, Welles said his government had adopted no attitude on the matter. He said that he saw no advantage in such a suggestion and that the American embassy had not been authorised to make any representations to the Mexican government. He continued that the matter was within the jurisdiction of the Mexican courts and that the oil companies needed to go through Mexican legal channels to sort out the situation. He even said that the American oil companies had made no request of the department of state for any help.⁶¹

O'Malley angrily recounted the meeting to the foreign office and wrote that it was not true that the companies had not requested help. While they had not asked for official representations, the local American managers had been asking the US embassy to show 'a lively interest in the matter to the Mexican government and to use unofficial influence on the Mexican government'. Welles was obviously reluctant to share the details of these matters with the British.⁶²

The US policy of intervening only after the companies had exhausted legal recourses and a denial of justice occurred also angered O'Malley.

⁶¹ Memorandum of a Conversation between Lindsay and Welles, 29 December 1937, RG 59, Records of the Department of State [812.5045/620].

⁶² O'Malley to Foreign Office, 31 December 1937, FO 371 21461 [A19/10/26].

He believed that the most opportune time for the governments of the United States and Britain to cooperate in trying to influence the action of the Mexican government was before the companies exhausted legal remedies in Mexico. In this way the Mexican government would be able to back down from their position while still saving face. If the companies were to exhaust all legal recourse in Mexico and still get nowhere, intervention on the part of the state department or foreign office or both would leave the Mexican government in a position from which retreat would be difficult. He suspected that Welles might be intentionally misleading Britain:

It must surely be known to Welles that a useful moment for exercise of influence is before legal remedies have been exhausted ... before the president has got into a position from which retreat (would be) very difficult.⁶³

⁶³ Ibid.

THE UNITED STATES AND SILVER

During the Welles-Lindsay conversation of 29 December Welles never revealed his plans subtly to use the prospect of Washington discontinuing special direct monthly purchases of Mexican silver, as leverage over Mexico City. Such purchases were part of a larger policy which started in 1934 with the Silver Purchase Act whereby the US treasury purchased silver on the world market until the value of the metal in the monetary stocks of the United States reached one fourth of that of gold or until its price exceeded \$1.29 per ounce.

Secretary of the Treasury Henry Morgenthau had started purchasing the metal directly from the Mexican government in January 1936 to help it obtain badly needed revenue and foreign exchange.

Eduardo Suarez, the Mexican minister of finance, on 13 December 1937, had asked Morgenthau to purchase 35,805,000 ounces of silver at 45¢ per ounce, advance \$10,000,000 and agree to continue monthly purchases of silver produced in Mexico.⁶⁴ Suarez explained to Morgenthau that Mexican exports were suffering from the vast difference in price levels between the US and Mexico and that Mexican goods simply could not compete with cheaper US ones. As a result of the consequent increase in

⁶⁴ Mexico's Budgetary Situation, 28 December 1937, Morgenthau Diary, p. 104.

imports, Mexico had been losing foreign exchange heavily. People's loss of confidence in the peso also contributed to the crippling flight of capital from Mexico. Because of these economic problems, Suarez announced, the Mexican government was contemplating raising tariffs on imports.⁶⁵

Morgenthau was alarmed at Mexico's position. He shared Roosevelt's view of the world as a bipolar one with totalitarian forces threatening democracy. He also shared Roosevelt's belief that if the United States failed to keep Mexico strong economically it might fall under German, Italian or Japanese domination. He wanted to continue the silver purchases and told Roosevelt:

Mexico was busted and that if we did not do something to help [it] within a year...Italy, Germany and Japan would walk in there and treat Mexico the way they did Spain.[SIC]⁶⁶

He believed Mexico to be, 'the...greatest store of natural resources close to the shores of any country in the world' with 'everything that those three countries need'.⁶⁷

While Morgenthau saw the desperate need to help Mexico immediately, the fact that Mexico City had failed to pay their long-standing debt to the

⁶⁵ Conversation with Nájera, Suarez, White, Morgenthau, Feis, 13 December 1937, 11 a.m., Morgenthau Diary, p. 101.

⁶⁶ Morgenthau, Diary entry, 15 December 1937, Morgenthau Diary, p. 101.

⁶⁷ Meeting with Taylor, Oliphant, Gaston, Haas, Lochhead, Upham, McReynolds and Magill, 16 December 1937, Morgenthau Diary, p. 101.

United States made him hesitate to make aid to Mexico appear automatic. He was also appalled at Mexico's confiscation of American agrarian lands from 1915 and National Railways on 23 June 1937, and the prospect of Mexico City increasing tariffs further angered him. His plan, therefore, was to help Mexico as much as possible while not appearing too obliging.⁶⁸

Although Welles shared Morgenthau's concerns about Mexico's economy, he devised a plan to use Mexico's position of weakness to help the oil companies.⁶⁹ On 30 December, the day after talking to Lindsay, Welles arranged for Morgenthau to withhold announcement of his plans to purchase Mexican silver until Welles, at the request of an oil company representative, persuaded the Mexican government to agree to postpone all other proceedings until the companies could appeal the matter in the Mexican supreme court.⁷⁰ Morgenthau willingly gave his cooperation to the plan because it coincided with his desire to teach Mexico fiscal responsibility and not to take US aid for granted.

⁶⁸ Conversation with Oliphant, Taylor Magill, Gaston, Haas, Lochhead, McReynolds, 17 December 1937, Morgenthau Diary, p. 102.

⁶⁹ Conversation with Morgenthau, Welles, Feis, Lochhead and White, 30 December 1937, 10:45 a.m., Morgenthau Diary, p. 104.

⁷⁰ The Ambassador in Mexico (Daniels) to the Secretary of State, 30 December 1937, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5, 1937 (Washington, D.C.: United States Government Printing Office, 1954), pp. 675-6; Adviser on International Economic Affairs to Welles, 30 December 1937, RG 59, Records of the Department of State [812.5045/622].

Welles never revealed to the British the desire of the state department to put economic pressure on Mexico in this way, and the fact that he arranged for this delay in announcing silver plans shows that he was much more willing to support the oil companies than he wanted to let on to the British. While the state department did not want official intervention, it was willing to help the oil companies subtly behind the scenes. Welles' statement that the US government had adopted no attitude and would only intervene if there were a denial of justice was clearly designed to keep US actions and attitudes secret from the British.

WHITEHALL'S INCREASED RESENTMENT AT THE LACK OF US
SUPPORT

Although Welles had arranged for the US oil companies to await the supreme court's decision, the federal board of conciliation and arbitration felt the need to assert itself in the face of what it perceived as the growing power of the supreme court and on 20 January it ordered the companies to comply with the decision of 18 December 1937.⁷¹ Alarmed at this news, the foreign office wanted to

⁷¹ Daniels to Secretary of State, 20 January 1938, RG 59, Records of the Department of State [812/5045/629:telegram].

determine informally whether the state department planned to intervene.⁷² When on 25 February Lindsay approached Welles, the undersecretary said he doubted his government would intervene. This response omitted the state department's plans to get involved if there were a denial of justice, which he reiterated to Thomas Armstrong on the same day.⁷³ After hearing Welles' statement, Adrian Holman described the United States government as 'to put it mildly, supine'.⁷⁴ Welles was clearly trying to give the British a different impression from that which he was giving American oil interests.

A few days after Lindsay spoke to Welles, O'Malley asked Daniels if the two countries should act together in their representations to the Mexican government and got an equally unhelpful response. Daniels replied that it was better for each government to act alone so the Mexicans would not think two English-speaking nations were conspiring against them. Daniels believed that the Mexican government would be more inclined to take

⁷² O'Malley to Foreign Office, 21 February 1938, FO 371 21462 [A1393/10/26].

⁷³ O'Malley to Foreign Office, 25 February 1938, FO 371 21462 [A1486/10/26]; Starling to Balfour, 1 March 1938, 371 21462 [A1625/10/26].

⁷⁴ O'Malley to Foreign Office, 25 February 1938, FO 371 21462 [A1486/10/26]; Memorandum of a Conversation between Lindsay and Welles, 25 February 1938, RG 59, Records of the Department of State [812.5045/707].

two separate suggestions well rather than one with the two countries working together.⁷⁵

After the federal board's decision, the Mexican supreme court also upheld the demands of the oil workers including the figure of 26,000,000 pesos on wage increases. The Mexican government informed the oil companies of this decision on 1 March and gave them seven days to comply with it.⁷⁶ The companies, while offering higher wages, refused to agree to the other demands. The oil men still maintained that they could not afford the extra expense the demands would require and believed that the Mexican government was intentionally making excessive demands so they could later confiscate the oil companies' property.⁷⁷

John Balfour and Frederick Starling agreed that the supreme court's verdict created a very urgent situation. Balfour, therefore, authorised O'Malley to go directly to the Mexican government and express strong dissatisfaction at 'the probable consequences to established British interests should the findings of the Arbitration Board be

⁷⁵ Daniels, Notes, 29 February 1938, Papers of Josephus Daniels; Daniels to the Secretary of State, 28 February 1938, RG 59, Records of the Department of State [812.5045/664].

⁷⁶ The Ambassador in Mexico (Daniels) to the Secretary of State, 4 March 1938, US Department of State: Foreign Relations of the United States, 1938, Vol 5 (Washington, D.C.: United States Government Printing Office, 1956), p 723.

⁷⁷ Josephus Daniels, Diary entry, 5 March 1938, Papers of Josephus Daniels.

made effective.' Balfour also told him to convey the hope that a solution would be reached which would be satisfactory to Mexico City and fair to the oil interests, 'which have invested very large capital in Mexico and have rendered great service to the oil industry'.⁷⁸ On 8 March O'Malley delivered a note to Mexican Foreign Minister Eduardo Hay both expressing Whitehall's hope of a mutually satisfactory solution and expressing concern for the interests of British shareholders in Mexican Eagle.⁷⁹

Whitehall also had O'Malley and Lindsay try to secure Washington's cooperation and to 'dislodge the United States government from its seemingly passive attitude'. Starling wanted O'Malley and Lindsay specifically to mention the danger of the oil nationalisation in Mexico spreading to other South American countries and the fact that the timing of the crisis was particularly serious because problems in Europe threatened Britain with a war that would limit or even block access to British oil supplies in the Near East and Far East and leave the country dependent on oil from the western hemisphere. The British government hoped that because US interests in Venezuela, Colombia and Peru were much greater than in Mexico, the

⁷⁸ Balfour, Minute, 1 March 1938, FO 371 21462 [A1682/10/260].

⁷⁹ O'Malley to Eduardo Hay, 8 March 1938, RG 59, Records of the Department of State [A812.6363/3135].

state department would take action upon hearing that the Mexican government was encouraging other Latin American countries to adopt a common policy with regard to foreign domination of their oil industries.⁸⁰

When O'Malley suggested to Daniels that the state department should issue a note to the Mexican government similar to the British one of 8 March, Daniels replied that the American companies had not yet asked the state department for assistance and implied that his instructions did not allow him to do more than show a personal interest in solving the matter. Balfour knew what he said was untrue and wrote that Daniels was 'talking nonsense' because representatives of the oil companies had spoken to the state department on 3 March.⁸¹

Similarly, Lindsay failed to get a helpful response from Welles, who replied that for the time being Washington did not plan to make any representations.⁸² He then criticised the oil companies in Mexico most of which had obtained valuable concessions and had 'always extracted maximum profit with minimum consideration for

⁸⁰ O'Malley to the Foreign Office, 10 March 1938, FO 371 21463 [A1899/10/26]; O'Malley to Foreign Office, 9 March 1938, FO 371 21463 [A1865/10/26].

⁸¹ O'Malley to Foreign Office, 10 March 1938, FO 371 21463 [A1899/10/26].

⁸² Memorandum of a Conversation between Lindsay and Welles, 14 March 1938, RG 59, Records of the Department of State, [812.5045/695].

labour or any other interests'.⁸³ The British government was particularly upset at Welles' reaction this time. Balfour called it 'a douche of cold water',⁸⁴ and Gerald Gray Fitzmaurice, acting first secretary in the diplomatic service, called Washington's response 'heartbreaking' because of the superior position of the United States with regard to oil:

I fear that what Welles had in mind was in fact that in time of war, Britain would be largely dependent on foreign supplies of oil whereas the United States owing to their big home production would not. They could therefore afford to look with comparative equanimity on this sort of thing whereas it is vital to Britain that our foreign sources of supply should remain under British-owned control.⁸⁵

In a final attempt to resolve the Mexican oil matter, the companies at the initiative of Royal Dutch/Shell, offered the Mexican government to pay the wage increase of up to 26,000,000 pesos provided that the Mexican government agreed to revise some of the more objectionable of the administrative clauses.⁸⁶ Both O'Malley and Daniels talked to the Mexican government to try to get a last minute agreement. Specifically Daniels

⁸³ Lindsay to Foreign Office, 14 March 1938, FO 371 21364 [A2004/10/26].

⁸⁴ Balfour, Minute, 16 March 38, FO 371 21463 [A2004/10/26].

⁸⁵ Fitzmaurice, Minute, 16 March 1938, FO 371 21463 [A2004/10/26].

⁸⁶ O'Malley to Foreign Office, 16 March 1938, FO 371 21463 [A2086/10/26].

wanted the Mexican government to induce the workers to withdraw the objectionable provisions.⁸⁷ Despite last minute negotiations, President Cárdenas on 18 March 1938 issued a decree expropriating the oil properties of certain named companies: subsidiaries of Shell,⁸⁸ and the American companies Standard Oil of New Jersey, Standard Oil of California, and the Sinclair Group. In the decree Cárdenas promised to have the minister of finance compensate the oil companies in cash within 10 years. The decree was effective immediately, and the army started seizing everything possible such as derricks and refineries as well as personal property.⁸⁹

In conclusion, several themes of this chapter will become important to the story and analysis later in this thesis. First, Welles' inability to act consistently on this matter is evident as he refused to intervene to defend them from the challenges put forward by Mexico one minute and then tried to manipulate events in their favour the next. A second important theme is Britain's reliance on Washington which continued to frustrate

⁸⁷ Daniels to Roosevelt, 22 March 1938, President's Secretary's File, Papers of Franklin D. Roosevelt.

⁸⁸ The subsidiary of Shell, Mexican Eagle, is often referred to in documents by its Spanish name, 'Aguila'.

⁸⁹ The Ambassador in Mexico (Daniels) to the Secretary of State, 19 March 1938, Foreign Relations of the United States, 1938, Vol 5 (Washington, D.C.: United States Government Printing Office, 1956), pp.725-7.

officials in Whitehall and became worse after the severance of Anglo-Mexican relations in May 1938. Third, in this chapter a pattern emerges which becomes more pronounced after the expropriation whereby London and the Anglo-American oil interests agreed that Washington should take active and strong measures to ensure the rights of the oil companies in Mexico. Each tried in turn without success to persuade Washington to do so. Last, while London and Washington harboured resentment toward one another, the major Anglo-American oil interests, despite the brief threat to their united front in November 1937, worked together throughout the crisis until November 1941.

CHAPTER THREE

WASHINGTON'S REACTION: MARCH 1938-NOVEMBER 1938

*If bad feelings should result in Central and South America as a result of the oil situation that exists just now with Mexico, it would be more expensive for us than the cost of all the oil in Mexico.*¹

Harold Ickes

*My dear friend, Cordell Hull, let his Tennessee temper lead him into undue sharpness in a message to Mexico.*²

Josephus Daniels

Washington's reaction to the expropriation reflected the dilemma which divided policy-makers. On the one hand, Hull recognised the need to send an unequivocal message to Mexico that Washington refused to condone the expropriation. If President Cárdenas were to carry out his oil policy with impunity it would possibly encourage other countries which might be contemplating similar programmes and also impede reciprocal trade agreements. The day before the expropriation, Hull had delivered a speech before the National Press Club in Washington, D.C., which received Roosevelt's enthusiastic support. In the speech he had asserted that Washington needed to

¹ Ickes, Harold L.: The Secret Diary of Harold Ickes, Vol. 2 (London: Weidenfeld and Nicolson, 1955), p. 352.

² Wood, Bryce: The Making of the Good Neighbor Policy (New York: Columbia University Press, 1961) p. 211.

insist on the 'universal observance of the principles of international law' and mutual respect between nations of one another's rights.³ On the other hand Secretary of the Interior Harold Ickes and even Hull himself could not whole-heartedly defend the oil companies' interests for fear of alienating Mexico City and driving Cárdenas into close relations with potentially hostile countries. The perceived need to adhere to the Good Neighbor policy to keep fascist and communist influences out of Mexico, therefore, made good relations with America's southern neighbour a priority. As Ickes wrote shortly after the expropriation:

If bad feelings should result in Central and South America as a result of the oil situation that exists just now with Mexico, it would be more expensive for us than the cost of all the oil in Mexico.⁴

The purpose of this chapter is to analyse how different individuals in Washington responded to the expropriation in the context of this dilemma. It is shown that the state department did not whole-heartedly support the oil companies, as E. David Cronon suggests in Josephus Daniels in Mexico.⁵

³ Hull, Cordell: The Memoirs of Cordell Hull, vol 1 (London: Hodder & Stoughton, 1948), pp. 576-7.

⁴ Ickes, Harold L.: The Secret Diary of Harold Ickes, Vol. 2 (London: Weidenfeld and Nicolson, 1955), p. 352.

⁵ Cronon, E. David: Josephus Daniels in Mexico (Madison: University of Wisconsin Press, 1960).

Despite Hull's attempts to punish Mexico economically in the aftermath of the oil expropriation, he did not favour oil companies over other American businesses that had lost properties in the expropriation of agrarian and railroad lands. Hull's priority was getting a reciprocal trade agreement, and the timing of the oil expropriation just after Mexico increased tariff rates in early 1938 influenced Hull's reaction more than anything. Higher tariff rates were an obvious impediment to a trade agreement, a component of the reciprocal trade agreement programme on which Hull had spent most of his political life in Washington.⁶ He, therefore, felt the need to punish Mexico economically to gain its respect for American business interests operating in Mexico before closer economic ties with the country could be achieved.

It is also the purpose of this chapter to show how Daniels and Roosevelt were able to temper Hull's angry reaction to Mexico and how Roosevelt's involvement in the matter had a significant impact on Welles' attitude toward Mexico. In addition, Hull linked peace and close trade relations, and he himself often had to temper his own desires to stand up for US business in Mexico which he believed would foster

⁶ Wood, pp. 210-211.

closer economic relations with Mexico in order to placate Mexico for more immediate defence needs.

This chapter will in turn show that the state department's initial reaction was a compromise between upholding the Good Neighbor policy and supporting the interests of US investors in Mexico. Second it is seen that the picture of Secretary of the Treasury Henry Morgenthau in the secondary sources is inaccurate. While the literature claims that Morgenthau with his execution of the Silver Purchase Act did his best to temper Hull's harsh reaction, Morgenthau's unpublished Diaries indicate that Harry Dexter White, his adviser, rather than Morgenthau, deserves the credit for trying to help Mexico.⁷

Third it will be seen how both Roosevelt and Daniels, contemptuous of big business and sympathetic to Cárdenas' efforts to champion the cause of repressed peoples, softened the impact of Hull's policy. Like Hull, Daniels was concerned about maintaining peace and wanted increased trade and improved relations with Mexico; however, he had little sympathy for the oil companies whom he accused of exploiting Mexican workers. He strongly opposed

⁷ Alan Seymour Everest's Morgenthau, the New Deal and Silver (New York: King's Crown Press of Columbia University, 1950) is based on interviews with Morgenthau and gives him credit for policies that Morgenthau's Diaries indicate that White was responsible for.

economic sanctions or a hard line toward Mexico. Instead, he believed, Washington should do everything possible to help make Mexico strong economically and foster good will to make Mexicans 'our best neighbors and best customers'.⁸ Daniels felt so strongly that he secretly initiated his own policy from the embassy in Mexico to temper Hull's angry response to the expropriation. The fact that the president held his former boss in the navy in such high esteem allowed him to change policy without Hull recalling him. Daniels' diplomacy in Mexico and Roosevelt's casual encounter with a reporter in Warm Springs, Georgia, in which he revealed his lack of sympathy for the oil companies, both made a contribution to Cárdenas' and the Mexican people's impression that Washington approved of the expropriation. Fourth, the effect of Roosevelt's and Daniels' intervention on Welles' policy is seen.

Fifth, it is shown that Hull soon gave up hope that the oil companies would get their properties returned, and increasing defence concerns led him to diverge more and more from their interests. Concerned about the implications of the internal situation in Mexico, Hull tried to get the oil companies to compromise with Mexico much to their anger. Sixth, it

⁸ Daniels to Roosevelt, 31 August 1938, Papers of Josephus Daniels.

is seen that Hull turned to settling the matter of Mexico's expropriation of agrarian lands belonging to US citizens and initially tried to set a helpful precedent for the oil companies; however, concerns to get Mexico City's support in the upcoming Lima conference in December caused Hull to make concessions to Mexico on agrarian matters.

THE OIL COMPANIES AND WASHINGTON

The most pressing concern for the oil companies was the possibility of other countries following in Mexico's footsteps. The Mexican Petroleum Law of 1925, which exchanged private property rights for government concessions, the Morrow-Calles agreement of 1928, which recognised the Mexican government's authority over oil resources, as well as the exhaustion of older fields in Mexico had caused British and American oil interests to shift much of their production from Mexico to Venezuela and Colombia during the 1920's. The oil companies, therefore, were especially concerned to set an example that would protect their investments in Venezuela, at that time

the third largest oil producer in the world, as well as in other countries.⁹

The companies hoped to secure the return of their properties by demanding compensation they knew Mexico could not pay, proving the expropriation's illegality and getting the state department to demand the return of the properties.¹⁰ It had been the policy of the state department before the expropriation to insist that the companies go through legal channels in Mexico before Washington intervened on their behalf. Assuming this policy still applied, the companies on 4 April started proceedings in Mexico City to get an injunction against the expropriation.¹¹ The Mexican constitution stated that in cases of expropriation, Mexico must compensate at the time of the taking.¹² The Expropriation Law of 23 November 1936, however, provided for payment within a period of ten years.¹³ The companies sought to hold the Mexican government to the constitution's requirement for immediate compensation, and both Whitehall and the oil companies stated that because of Mexico's inability to

⁹ Jonathan Brown explains this shift in his article, 'Why Foreign Oil Companies Shifted their Production from Mexico to Venezuela during the 1920's' American Historical Review, April 1985, v.90 (2).

¹⁰ Armstrong to Hull, 21 July 1938, RG 59, Records of the Department of State [812.6363/4450].

¹¹ Cronon, p. 201.

¹² Gaither, Roscoe B.: Expropriation in Mexico. The Facts and the Law (New York: William Morrow and Company, 1940) p. 9.

¹³ Ibid., pp. 9-10.

pay adequate compensation early enough the expropriation was illegal.¹⁴

In its pamphlet 'Empty Promises', written to give publicity to the oil companies' case against Mexico, Standard Oil of New Jersey called attention to Mexico's unpaid foreign debts which had been in default since 1927 and earlier in some cases.¹⁵ In April the Anglo-American oil interests confidently asserted that their former properties were worth \$450 million, a figure which included lost profits on oil still in the ground despite the absurdity of making calculations on future profits on estimated sizes of oil reserves.¹⁶ The Mexican government disagreed strongly with the claim citing the Mexican constitution which only required that Mexico pay for the cadastral value of the property which excluded future profits on oil still in the ground but included any money spent on implements less depreciation.¹⁷ Although the mining code of November 1884 in Mexico had stated that whoever owned the surface land owned the rights to petroleum in the subsoil, the constitution of 1917 vested the subsoil in the nation,

¹⁴ Armstrong to Hull, 21 July 1938, RG 59, Records of the Department of State [812.6363/4450]

¹⁵ Standard Oil of New Jersey: Empty Promises (New York: Standard Oil Company, 1940)

¹⁶ State Department, Chronology, n.d., RG 59, Records of the Department of State [812.6363/7104 1/2].

¹⁷ Gaither, p. 114.

making the oil companies' claim of ownership difficult to uphold.¹⁸

After starting the legal proceedings in Mexico the oil companies urged the state department to make representations to Mexico City. Although Hull and Welles initially responded in a promising manner, they later failed to give strong support to the oil companies.¹⁹ Welles was at first furious and told Mexican Ambassador Francisco Castillo Nájera on March 21 that the oil expropriation put Mexican-American relations in a critical state. He complained that shortly after the United States treasury had bought a large amount of Mexican silver in January to help Mexico out of a financial crisis, Cárdenas launched a policy which Welles bluntly described as 'suicidal'. Welles clearly was supporting the oil companies when he also told Castillo Nájera that the oil properties were worth 'many hundreds of millions of dollars', a figure which was consistent with the oil companies' view that they deserved to be compensated for lost profits on oil still in the ground. He reacted to the Mexican promise to pay compensation by bluntly telling the Mexican ambassador that because the government was

¹⁸ Ibid., pp. 2-3.

¹⁹ State Department, Chronology, n.d., RG 59, Records of the Department of State [812.5045/702-3169]

not financially capable of paying cash for the properties:

the mere assertion by the Mexican authorities that ... cash would be given for these equities within a period of ten years carried no conviction whatever.²⁰

He continued that the Mexican government was alienating American public opinion to the point that if it persisted with confiscatory policies, Washington would not be able to negotiate a solution to the outstanding issues between the two countries.²¹

His blunt treatment of Castillo Nájera contrasts with the sentiments he expressed in a letter to Daniels the previous November in which he stated that the time for threats and 'high-handed and domineering attitudes on our part with regard to the other American republics is past.'²² It also contrasts with the statements he made to Laurence Duggan, chief of the division of American republics, a week after he spoke to Castillo Nájera that the question of the decree of expropriation 'cannot be passed upon until the American companies have resorted to all legal recourse in Mexico.' In addition, 'we have not yet

²⁰ Memorandum of a Conversation by the Under Secretary of State (Welles), 21 March 1938, US Department of State: Foreign Relations of the United States, 1938, Vol. 5 (Washington, D.C.: United States Government Printing Office, 1956), pp.729-33.

²¹ Ibid.

²² Welles to Daniels, 8 November 1937, Papers of Josephus Daniels.

had time to determine whether in our judgement the proceedings against the American companies involved a denial of justice.^{23*}

Hull was also furious with President Cárdenas and regarded Mexico's expropriation as 'hari kari in its commercial relations with us.' Before protecting the interests of the oil companies, Hull wanted to punish Mexico both to show United States citizens who had contemplated making investments in Mexico that the state department was not passive when presented with challenges to US business interests. He also wanted to discourage other countries who might try to follow Mexico's example.²⁴ Despite Hull's anger, however, he could not overtly intervene in Mexico or demand that Cárdenas return the properties. The US's pledges of

²³ Welles to Duggan, 28 March 1938, RG 59, Records of the Department of State [812.6363/3311].

*Realising the emphasis the state department put on using Mexican legal channels the oil companies tried to get the courts to declare the expropriation decree illegal or to establish a denial of justice so the state department would become more involved in supporting their interests. First, in April, they filed for an injunction against both the expropriation law of November 1936 and the decree of March 1938 on the grounds that both were unconstitutional. In addition they claimed that seizing the oil properties without compensation was illegal. Unsurprisingly the Mexican courts withheld the legality of what Cárdenas had done including his promise to pay compensation within 10 years. In December 1939 the supreme court upheld the rulings by the lower courts and ruled that compensation needed to be paid on the surface properties only rather than on oil still in the ground. [Meyer, Lorenzo: Mexico and the United States in the Oil Controversy 1918-1942 (Austin: University of Texas Press, 1972), pp. 179-80].

²⁴ Telephone Conversation between Hull and Daniels, 21 March 1938, Papers of Cordell Hull.

non-intervention at the pan-American conferences at Montevideo in 1933 and Buenos Aires in 1936 prevented Washington from intervening in the matter which Mexico regarded as strictly an internal matter.²⁵

Hull came up with a plan which was consistent with international law and non-intervention but at the same time greatly damaged Mexico's economy to coerce Cárdenas into conducting policy according to his wishes.²⁶ The first part of the plan was to ask Daniels to deliver a note to Mexico dated 26 March 1938, which emphasized the dedication of the United States to the Good Neighbor policy while at the same time stressing its reciprocal nature. The note denounced expropriations without compensation such as the ones that had occurred under the agrarian policy. It, however, stayed within the bounds of international law by admitting that the government of the United States did not question Mexico City's right to take over property as long as it paid prompt, just and adequate compensation to the former owners. The note expressed a desire to settle American claims against Mexico which had been accumulating throughout the years and demanded of the Mexican government a specific plan for payment for the properties in question and assurances that they would be made. The

²⁵ Cronon, pp. 217-18.

²⁶ Meyer, p. 188.

note closed with a sharp request for a 'prompt reply'.²⁷

Hull believed that insisting upon compensation would lead to the return of the properties and at least give the appearance of Mexico's renewed respect for US investments. He knew that Mexico was incapable of paying what the oil companies considered adequate compensation due to its worsening economic problems and showed his contempt for Mexico City's promise of compensation by dismissing it as 'utterly unimportant'.²⁸ Assistant Secretary of State Adolf Berle, who tended to agree with Hull on Mexican matters, said that compensation would 'not solve the situation.'²⁹

The second part of the plan was to harm Mexico's economy both to make Cárdenas realise the importance of American good will and to diminish further Mexico's ability to pay compensation. Like the companies, Hull wanted to increase the chances of Cárdenas returning the oil companies' former properties due to Mexico's inability to pay adequate compensation. At the same time Hull wanted Daniels to deliver the note to Mexico City on 27 March, Hull secured Morgenthau's

²⁷ Hull to Daniels, 26 March 1938, RG 59, Records of the Department of State [812.6363/3190A].

²⁸ Telephone Conversation between Secretary Hull and Daniels, 21 March 1938, Papers of Cordell Hull.

²⁹ Berle, Diary entry, 23 March 1938, Diary, Papers of Adolf Berle.

cooperation in announcing the suspension of special monthly purchases of Mexican silver.³⁰ In 1937 Mexico had earned \$30 million from silver exports, which provided the country with both needed revenue and dollar exchange. Hull also persuaded Morgenthau to decrease the price of silver on the world market so that Mexico would earn less when it tried to sell stocks of silver,³¹ and by 29 March Morgenthau had lowered the price of silver per ounce from 45 cents to 43 cents.³²

Although Morgenthau purchased the metal on the world market without prejudice to Mexican silver, the lower price caused Mexico to suffer economically for two reasons.³³ First, the Bank of Mexico controlled the silver purchases to the US, and the change in Washington's policy largely stopped the Mexican government's revenue from silver purchases, which in 1936 amounted to a value of \$30.5 million. Second although the peso was not backed by silver, Washington's announcement that it would suspend

³⁰ Everest, pp. 88-89.

³¹ Gardner, Lloyd: Economic Aspects of the New Deal Diplomacy (Boston: Houghton Mifflin Co., 1959), pp. 116-19; Chester, Edward W.: United States Oil Policy and Diplomacy (Westport, Connecticut: Greenwood Press, 1983), p. 125.

³² McMahon, William E.: Two Strikes and Out (Garden City: Country Life, 1939), pp. 124-5.; Conversation with Taylor, Lochhead and Morgenthau, 28 March, 11:54 a.m., Morgenthau Diary #117.

³³ Daniels to Hull, 9 April 1938, RG 59, Records of the Department of State [812.6363/3388].

special purchases of Mexican silver caused holders of pesos in Mexico to lose confidence in the currency and sell them for dollars, thus contributing to the peso's depreciation. The Bank of Mexico, which for some time had been struggling to keep the exchange rate stable, had to take the peso off the foreign exchange market out of fear that the public might withdraw all of its reserves.³⁴ Following the expropriation of the petroleum industry in March 1938, the peso declined from 3.60 to 5 to the dollar.³⁵

In early April, Eduardo Hay, the Mexican foreign minister, expressed his hope that the United States treasury would resume special purchases of Mexican silver and said that the discontinuation of purchases of the metal had hurt Mexico 'psychologically, economically and financially'. Concerned about Mexico, Daniels informed the secretary of state, 'It is generally recognised that the discontinuation of silver purchases lessens Mexico's ability to pay,'³⁶ an argument which, unbeknownst to Daniels, probably encouraged Hull to persist with such a policy.

E. David Cronon has noted that the state department resorted to economic retaliation against

³⁴ Meyer, pp. 204-5.

³⁵ Robert G. McGregor, American Consulate General in Mexico, Analysis of the Mexican Silver Industry, 30 January 1939, RG 59, Records of the Department of State [812.6342/36].

³⁶ Daniels to Hull, 7 April 1938, RG 59, Records of the Department of State [811.515 Silver/162].

Mexico only after the oil expropriation. By contrast, it had opted for mere diplomatic protests to solve the matter of agrarian lands which had been expropriated following several decrees and laws since 1915, the debt from which remained unpaid, as well as the expropriation of the partly US-owned Mexican National Railways Company on 23 June 1937. Cronon believes that the fact that the state department reacted far more strongly to the oil expropriation, despite the fact that comparable amounts of foreign capital were invested in the rail and oil industries, points to Washington's favouritism towards the oil companies.³⁷ Hull's humble background, however, gave him no reason to show the oil companies such loyalty. The timing of the oil expropriation just after the increase in Mexican tariffs no doubt influenced his reaction more than anything. He called the expropriation of the oil properties, 'but one incident in a long series of incidents of this character'.³⁸ The ambivalence exhibited by Sumner Welles towards the oil problem shows that, like Hull, he had no special loyalty to oil interests.

37 Cronon, pp. 127-8.

38 Rippy, Merrill: Oil and the Mexican Revolution (Leiden: E.J. Brill, 1972), p. 97.

MORGENTHAU AND SILVER

Much of the secondary literature indicates that Morgenthau, because of his belief in the need to keep Mexico economically strong enough to avoid fascist or communist influences, only reluctantly agreed to Hull's plan;³⁹ however, Morgenthau's Diary shows his willingness. His motives, however, were entirely different from those of Hull. Morgenthau was still highly concerned about the state of the Mexican economy and the need to keep communist and fascist elements from gaining influence in Mexico, but, at the time, he had become tired of executing the terms of the Silver Purchase Act and had lost his temper for reasons that had nothing to do with Mexico.

First, Morgenthau wanted to put an end to the act because he was tired of taking the blame for Washington's policies involving silver. With the exception of Welles and Dr. Herbert Feis, economic adviser to the state department, Morgenthau disliked working with officials in the state department especially Cordell Hull. When Morgenthau discovered

³⁹ For example see: Chester, Edward W.: United States Oil Policy and Diplomacy ; Cronon, E. David: Josephus Daniels in Mexico ; Everest, Allan Seymour: Morgenthau, the New Deal and Silver ; Gardner, Lloyd C.: Economic Aspects of New Deal Diplomacy .

that the state department had informed Mexico City of the treasury's plan to stop buying Mexican silver directly he fumed. Not only had the state department informed Cárdenas well before the treasury's own announcement,⁴⁰ but it had also blamed the new policy entirely on Morgenthau.⁴¹

Second, Morgenthau also considered the Silver Purchase Act to be a costly waste which many countries used for profit and which Washington could not afford to continue. He predicted that after the announcement about stopping the special purchases from Mexico, countries would try to sell their silver immediately in case the US treasury lowered the world price to punish Mexico.⁴² The Spanish ambassador confirmed his fears when he made an offer, which Morgenthau called 'the last straw', to sell the treasury 56 million ounces of the metal. This silver, the ambassador explained, could not be delivered for one to three months and would probably have to remain unrefined for a year because of the heavy demand on refineries. Morgenthau realised that the United States could not make such an absurd commitment to Spain and contemplated allowing the price of silver on the world

⁴⁰ Cronon, p. 192.

⁴¹ Conversation with Taylor and Lochhead and Morgenthau, 28 March 1938, 11:54 a.m., Morgenthau Diary, #117.

⁴² Conversation with Taylor and Lochhead, and Morgenthau, 28 March 1938, 9:07 a.m., Morgenthau Diary, #117.

market to reach its own level. Morgenthau also realised that the architect of the act, Chairman of the Senate Foreign Relations Committee Key Pittman from the silver mining state of Nevada, only cared about the domestic price of silver which affected his constituents, rather than the price of the metal on the world market.⁴³

His communication to Roosevelt on 25 March about Hull's plan contrasts with the communications he had sent Roosevelt the previous December and January and reflected his feelings of exasperation with the silver policy. Instead of telling Roosevelt that Mexico was suffering economically and saying that he wanted to continue purchases of silver as he had in December 1937, Morgenthau sent a letter with a very different message to the president who was on one of his many visits to the reputedly therapeutic natural springs in Warm Springs, Georgia. Morgenthau informed Roosevelt that he had decided to cooperate with Hull's plan and told him that he would interpret a lack of reply from him as consent.⁴⁴ If Morgenthau had been in the least hesitant about stopping the silver purchases he would have sought Roosevelt's opinion. Instead he made it more convenient for the president to agree than to

⁴³ Conversation with Taylor, Morgenthau and Lochhead, 28 March 1938, 11:54 a.m., Morgenthau Diary, #117.

⁴⁴ Morgenthau to Roosevelt, 25 March 1938, Office Files, Papers of Franklin Roosevelt.

intervene. He called this technique of securing the president's passive support the 'Warm Springs technique'.⁴⁵

While Assistant Secretary of the Treasury Harry Dexter White sympathised with Morgenthau's frustration at the state department and the excessive purchases of silver,⁴⁶ he emphasised that 'the elements for serious political and economic disintegration in Mexico definitely exist'. Whether the situation would get bad enough to create serious problems, he believed, depended on foreign governments and whether they wanted to retaliate economically against Mexico. White also believed that Washington and the American oil companies would have much to gain if they helped Mexico financially and warned that forceful tactics with Mexico City might drive the country to fascist or communist countries for help.⁴⁷ After careful consideration of White's arguments, Morgenthau decided to form policy on a day to day basis rather than let silver find its natural price.⁴⁸

⁴⁵ Meeting with Magill, Oliphant, Taylor, Klotz, Gaston, Bell, McReynolds, Gibbons, Upham, Lochhead, White, Haas, 25 March 1938, Morgenthau Diary, #117.

⁴⁶ Conversation with Taylor and Lochhead and Morgenthau, 28 March 1938, 11:54 a.m., Morgenthau Diary, #117.

⁴⁷ White to Morgenthau, 1 April 1938, Morgenthau Diary, #118.

⁴⁸ Memorandum of a Conversation, 5 April 1938, RG 59, Records of the Department of State [812.6363/3450].

DANIELS' AND ROOSEVELT'S EFFECT ON HULL'S POLICY

The third part of Hull's plan was to instruct Daniels to return to Washington directly after he delivered the note dated 26 March in order to confer with the state department. Daniels disobeyed the instructions because he considered the note a threat to Mexican-American relations and believed that Hull had let his 'Tennessee temper lead him into undue sharpness to Mexico'.⁴⁹ Daniels wanted the United States to help the Mexican government in its reforms in every way possible because he believed that Mexico's programs including the oil expropriation would provide the masses with more wealth and more purchasing power which would make Mexico a better market for goods from the United States and combat the spread of communism and fascism.⁵⁰ Disappointed that he was only able to persuade Hull to make an insignificant change in the note and to agree temporarily to refrain from printing it,⁵¹ Daniels decided to soften the impact of the note without informing Hull by telling Foreign Minister Eduardo Hay to consider it 'not received'. Suspicious of Hull's

⁴⁹ Wood, p. 211.

⁵⁰ Meyer, p. 185.

⁵¹ Daniels to Roosevelt, 22 March 1938, President's Secretary's File, Papers of Franklin Roosevelt.

orders for him to return to Washington, he remained in Mexico to ensure Hull would not threaten to break relations during his absence.⁵²

For many weeks, Hull had no idea that Daniels had done anything other than deliver the note in the normal way.⁵³ When Hull found out about the fate of the note almost four months later by Cárdenas' comments in a press conference, he was furious, but could not recall Daniels because of his relationship with Roosevelt.⁵⁴ Instead, Hull insisted that Daniels inform Cárdenas that Washington had always considered the note as valid and received in the normal way. Hull did, however, agree to keep the note from being published in order to avoid further embarrassment.⁵⁵ However, when Hull wanted to send a note to Mexico City on the agrarian expropriations a few days later, he sent it via Castillo Nájera rather than Daniels.⁵⁶

⁵² Koppes, Clayton: 'The Good Neighbor Policy and the Nationalization of Mexican Oil' Journal of American History (June, 1982), p. 70.

⁵³ 23 July 1938, Diary of Josephus Daniels.

⁵⁴ Wood, pp. 217-19.

⁵⁵ Memorandum of a Conversation, 21 July 1938, RG 59, Records of the Department of State [812.6363/4490]; The Ambassador in Mexico (Daniels) to the Secretary of State, 21 July 1938, US Department of State: Foreign Relations of the United States, 1938, Vol. 5 (Washington, D.C.: United States Government Printing Office, 1956), p.756.; The Secretary of State to the Ambassador in Mexico (Daniels), 21 July 1938, US Department of State: Foreign Relations of the United States, 1938, Vol. 5 (Washington, D.C.: United States Government Printing Office, 1956), pp. 756-7.

⁵⁶ Wood, p. 218.

Before the state department was aware of the note's fate, the Mexican government expressed its appreciation for Washington's understanding attitude. Cárdenas even informed Washington it had 'won the esteem of the people of Mexico', and reiterated his promise to compensate the companies without specifying, as the note of 26 March had requested, how and giving any guarantees.⁵⁷ Washington's reactions to Mexico's responses were highly inconsistent. On 31 March Welles appeared to support the oil companies by telling Castillo Nájera bluntly that the Mexican reply had not specified, as the note of 26 March had requested, how the Mexican government planned to pay compensation to the oil properties.⁵⁸

However, Roosevelt's comments the following day in an informal interview with a reporter in Warm Springs, Georgia, which received much publicity in American and Mexican newspapers, contradicted what Hull and Welles had told Mexican officials. Roosevelt revealed that he was content with Cárdenas' general promise to compensate the oil companies for the value of their original investment. He agreed with Cárdenas

⁵⁷ The Ambassador in Mexico (Daniels) to the Secretary of State, 31 March 1938, US Department of State: Foreign Relations of the United States, 1938, Vol. 5 (Washington, D.C.: United States Government Printing Office, 1956), pp. 739-41.

⁵⁸ Memorandum of a Conversation by the Under Secretary of State (Welles), 31 March 1938, US Department of State: Foreign Relations of the United States, 1938, Vol. 5 (Washington, D.C.: United States Government Printing Office, 1956), pp. 736-9.

that Mexico only needed to compensate the oil companies for money invested in the land, drilling, pumping and refining and other necessary processes less depreciation rather than for profits on oil not yet extracted from the subsoil.⁵⁹ In the interview, the president negated both Welles' comment that the properties were worth a lot of money and Welles' insistence that the Mexican government assure Washington it would pay prompt compensation. Having disregarded Hull's note of 26 March, Mexico City paid much more attention to Roosevelt's comments than to those of Welles and gave much publicity to the belief that Washington approved of the expropriation.⁶⁰

DANIELS AND ROOSEVELT'S EFFECT ON WELLES

Most likely due to the president's attitude and perhaps in an effort to undermine Hull who had written the note of 26 March, Welles appeared to change his attitude toward the matter and praised Daniels' failure to return home after delivering the note as Hull had requested:

⁵⁹ New York Times, 2 April 1938, page 4, columns 3,4.

⁶⁰ Daniels to Secretary of State, 9 April 1938, RG 59, Records of the Department of State [812.6363/3388]; Holman to Duggan, 4 April 1938, RG 59 Records of the Department of State [812.6363/3391].

So far the policy which we have adopted and the friendly and understanding attitude which you yourself have displayed have fortunately averted any change in our friendly and understanding relationship with the Mexican government.⁶¹

He also responded to Daniels' requests that he persuade the oil companies to participate in Mexico's efforts to evaluate their former properties. Although Welles had appeared supportive of the companies only days earlier, he told the oil companies that 'an attitude of intransigence on their part, should the Mexican government indicate a practical and satisfactory means of offering compensation, would only redound to their own disadvantage as well as to the disadvantage of this government.'⁶²

Welles clearly vacillated between supporting the oil companies and agreeing with Daniels' conciliatory point of view. Welles most likely took the opportunity of the president's involvement in the oil issue to endear himself to Daniels, whom Roosevelt held in high esteem, even if it meant going back on his efforts to support the oil companies. Although he did not yet know how far Daniels had taken matters into his own hands with the note of 26 March, he was thoroughly familiar with Daniels' sympathy for the

⁶¹ Welles to Daniels, 11 April 1938, Papers of Josephus Daniels.

⁶² Daniels to Welles, 10 April 1938, Papers of Josephus Daniels.

expropriation, and his praise of Daniels' actions contrasts with his own blunt statements to Castillo Nájera earlier which showed his support of the oil companies.

THE FADING HOPES OF THE OIL COMPANIES

The reaction of the state department to Mexico's plans to compensate the oil companies attests to the fact that the department did not fully support the oil companies. Between April and May, Mexico City's proposals for compensation ranged from Ramón Beteta's scheme providing payment in oil based on the value of the companies' installations in addition to the companies' expenditure in exploration. Furthermore, Eduardo Suarez suggested that the companies return to operating their former installations under a contract with the Mexican government.⁶³ Alternatively, the Mexican government was prepared to give the oil companies 60 percent of Mexican oil at below market prices.⁶⁴

These offers infuriated the oil companies mainly because they took no account of their rights to oil in

⁶³ Meyer, p. 94.

⁶⁴ Armstrong to Welles, 9 May 1938, RG 59, Records of the Department of State [812.6363/4003].

the subsoil. They also refused to abandon hope that the Mexican government would return the oil properties after facing increasing economic difficulty due to the silver purchasing policy, the predicted low output of oil due to what they relied on being incompetent Mexican management, and the companies' boycott of Mexican oil described in chapter five. In addition, Thomas Armstrong, a manager of Standard oil of New Jersey, was particularly adamant that the oil companies must not be compensated from oil they believed was rightfully theirs. They even refused to discuss the matter with the Mexican government because they were afraid that discussing compensation might give the Mexican government the impression that Washington and the oil companies accepted the expropriation and were no longer going to contest it.⁶⁵

Because of the support in Mexico for the expropriation, Feis realised that the chances of the Mexican government returning the properties were almost nonexistent. After the refusal of the oil companies to negotiate a compromise solution with the Mexican government he warned them in April that the Mexican government might not return the properties and suggested an international trusteeship whereby the

65 Ibid.

Mexican government would retain ownership of the properties and let the companies operate them and distribute the products.⁶⁶

The companies, however, refused to give up hope of having their properties returned and rejected Feis' plan. Instead they suggested submitting to arbitration by a group selected from the permanent court of arbitration in The Hague both the legality of the decree of 18 March in international law and whether the Mexican government had caused a denial of justice. They were fairly confident that such arbitration would result in a decision that would lead to the return of the properties.⁶⁷ The state department, however, did not act on the oil companies' suggestion. Perhaps Hull and other officials believed that such a drastic measure outside inter-American arbitration treaties at such an early stage would have antagonized Mexico by suggesting Mexican-American relations had broken down quite severely.

The oil companies still did not yet know how Daniels had delivered the note of 26 March, but they had recently learned that the state department had not made the note public. The companies were furious about the lack of publicity, and they tried to

⁶⁶ Memorandum of a Conversation, 21 April 1938, RG 59, Records of the Department of State [812.6363/3733].

⁶⁷ Ibid.

persuade the state department to publicise the note to convey their disapproval.⁶⁸ They believed that 'any hesitation to insist on the rules of international law' would be 'misconstrued in Mexico as a condonation of confiscation.' Armstrong insisted that the state department ask the Mexican government 'not to persist in a confiscatory act'- a position, he pointed out, that the British government had taken.⁶⁹

The activities of General Saturnino Cedillo, governor of the state of San Luis Potosi, which developed into a full scale rebellion against Cárdenas on 15 May, tempered any desires of officials in Washington to support the oil companies. Hull feared that revolution in Mexico might compromise defence by bringing someone to power who might not wish to cooperate with Washington. Hull told the oil companies that 'he saw little possibility of the properties being returned unless the United States was to take military action', which was not possible due to the Good Neighbor policy. He tried, therefore, to persuade the oil companies to agree to compromise with Mexico. William S. Farish acted as the spokesman for the major companies and said that the companies insisted that compensation must be paid at the time of

⁶⁸ Ibid.

⁶⁹ Armstrong to Welles, 9 May 1938, RG 59, Records of the Department of State [812.6363/4003].

taking. He believed that any retreat from this principle would be a victory for Mexico and set an example to the rest of the world and, therefore, have a potentially disfavoured effect on his company, 'a world trade enterprise, doing more than one half of its business in foreign trade'. Exasperated by the companies' intransigence, Hull proposed that the companies either prepare themselves temporarily to stop trying to get a settlement until they found circumstances more favourable or to negotiate an agreement with Mexico straight away.⁷⁰

Adamant about the position he had been articulating, Farish said he would prefer to wait.⁷¹ A few months later, representatives of Sinclair believed that the major companies had purposely excluded them from this meeting and had made this decision without their consent.⁷² Sinclair's competition with Standard Oil of New Jersey for control of the northern Persian oil fields in the early 1920's is a likely explanation for Jersey Standard excluding Sinclair from this important

⁷⁰ Memorandum of a Conversation by the Chief of the Division of American Republics (Duggan), 31 May 1938, US Department of State: Foreign Relations of the United States, 1938, Vol. 5 (Washington, D.C.: United States Government Printing Office, 1956), pp.752-55.

⁷¹ Ibid.

⁷² Memorandum of Laurence Duggan, 31 May 1938, RG 59, Records of the Department of State [812.6363/4090].

decision over Mexico,⁷³ and Sinclair's exclusion led it to eventually negotiate a separate agreement with Mexico as chapter six describes.

For more than three years, the companies watched the situation and waited for what they thought were advantageous conditions under which to try to negotiate a settlement. While they were waiting they decided to give some of the plans they were pursuing apart from negotiations with the state department a chance to work. As will be seen in chapter five, they did everything possible to sabotage the efforts of the Mexican government to run the oil industry, so Cárdenas would realise that he needed the foreign oil companies. The companies believed that the economic situation might worsen and cause the downfall of the Mexican president, bringing to power someone who would be prepared to restore their oil properties.⁷⁴ Without blatantly expressing disapproval of the expropriation, which would have run counter to the strong nationalist sentiment in the country, Cedillo led the companies to believe he was sympathetic to their interests. Even after the Mexican government quelled the rebel forces and Cedillo fled, the

⁷³ Venn, Fiona M.: Oil Diplomacy in the Twentieth Century (Basingstoke: Macmillan Press, 1986), p. 59.

⁷⁴ Daniels to Roosevelt, 4 June 1938, Papers of Josephus Daniels.

companies remained hopeful until his death in January 1939 that he would take power.⁷⁵

Although no concrete evidence exists about any plans the companies may have made to organise a revolution in Mexico, the companies were most probably actively planning for the fall of the Cárdenas government. In his diary Adolf Berle recounted that representatives of major oil interests asked him in the spring of 1939 what the attitude of the state department would be if they financed a revolution in Mexico to install former president Plutarco Elias Calles. The oil companies believed that Calles, whom Cárdenas had exiled, would return foreign properties that had been expropriated and encourage the entry of American capital into Mexico. Berle, who feared the prospect of an unknown regime coming to power in Mexico, strongly dissuaded them and said that the matter would not only infuriate Cárdenas and governments of South America but also go against Washington's pledge of non-intervention in Mexico's internal affairs.⁷⁶

⁷⁵ Meyer, pp. 173-76, p. 80.

⁷⁶ Berle, Diary entry, 13 April 1939, Diary, Papers of Adolf Berle.

THE AGRARIAN NEGOTIATIONS

While the oil negotiations were suspended, Welles and Hull tried initially to solve the outstanding agrarian matters with Mexico in a manner that would be conducive to a future reciprocal trade agreement. The hope was that if the state department could get a commitment from the Mexican government to make the highest agrarian payments possible on a regular schedule, the Mexican government would have great difficulty refusing the idea of a similar settlement for the oil properties. Since Mexico's financial situation would preclude the payment of adequate compensation to the oil companies, the Mexican government, Welles and Hull hoped, would have no choice but to return the oil properties to American oil interests.⁷⁷ They perhaps also wanted to pre-empt possible criticism from the Republican party in the November election that the administration was not doing enough to solve the outstanding issues between Mexico and the United States.

After the oil expropriation, Cárdenas realised that in order for the United States government to take

⁷⁷ Cronon, pp. 212-13.

Mexico's promises to compensate the oil companies seriously, the Mexican government would have to heed Washington's request for a settlement on agrarian matters. Both governments had agreed at the Bucareli conference in 1923 to settle claims on agrarian lands confiscated from Americans by referring the matter to a general claims commission comprised of one representative chosen by the Mexican government, another chosen by Washington and a neutral person selected by both governments. By the time of the oil expropriation, Mexico had not paid any compensation on expropriated farm lands or for other claims because the general claims commission had not come to an agreement on matters of any importance. The commission did, however, agree to make decisions only affecting agrarian properties the Mexican government had expropriated before 30 August 1927.⁷⁸

A few weeks after the oil expropriation Cárdenas offered to set aside 120,000 pesos each month in order to pay for the lands in the Yaqui Valley for which the state department had expressed great concern. While the American farms in the Yaqui Valley were not small by American standards they were when compared to the Mexican hacienda. As Daniels wrote:

⁷⁸ The Secretary of State to the Mexican Ambassador (Castillo Nájera), 21 July 1938, US Department of State: Foreign Relations of the United States, 1938, Vol. 5 (Washington, D.C.: United States Government Printing Office, 1956), pp. 674-8.

In most cases practically all of the financial resources of the American farmers in the Yaqui Valley are tied up in their lands, their equipment, and the preparations already made for sowing wheat.⁷⁹

In addition Cárdenas promised to compensate small landowners before 1940 and offered agrarian bonds to large landowners whose properties had been confiscated.⁸⁰

Welles, however, objected to such a plan which gave some American citizens more satisfactory treatment than others and insisted on compensation based on 'fair equality' for all whose agricultural property the Mexican government had taken. Welles' specific plan was for the Mexican government to pay \$10 million in monthly instalments over the next two and one-half years to compensate Americans for agrarian claims by the time Cárdenas' term of office expired. The Mexican government rejected the proposal because Mexico could not afford to pay such a large sum in so little time.⁸¹ Because he had great sympathy for the Yaqui Valley claimants, Daniels was irate with Welles for having refused the Mexican offer

⁷⁹ Daniels to Welles, 7 July 1938, Papers of Josephus Daniels.

⁸⁰ Cronon, pp. 212-13.

⁸¹ The Under Secretary of State to the Mexican Ambassador (Castillo Nájera), June 29, 1938, US Department of State: Foreign Relations of the United States, 1938, Vol. 5 (Washington, D.C.: United States Government Printing Office, 1956), pp. 667-72.

and making such an unrealistic counter-proposal in response.⁸² At this time, Welles perhaps felt able to articulate such views because Roosevelt was not involved. As the editor of a newspaper in North Carolina, Daniels had championed the cause of indigent farmers and believed strongly in the Jeffersonian ideal of the importance of small landholders in a democracy.⁸³

In July Cordell Hull formally reiterated to the Mexican government that the United States would only be satisfied with an overall agrarian settlement rather than one involving cash to small landowners and bonds to larger ones. He also reiterated his strong disapproval of the Mexican government's repeated seizure of American-owned property in Mexico without making prompt, adequate and effective compensation, which was necessary under international law.⁸⁴

Most importantly, Hull wanted to use the agrarian issue to establish a norm whereby close commercial relations between the US and Mexico could develop. His note reminded the Mexican government that the United States had been striving for increased economic cooperation and that the government wanted

⁸² Cronon, pp. 214-15.

⁸³ Ibid., p. 135.

⁸⁴ The Secretary of State to the Mexican Ambassador, 21 July 1938, US Department of State: Foreign Relations of the United States, 1938, Vol. 5 (Washington, D.C.: United States Government Printing Office, 1956), pp. 674-678.

continued cooperation with the Mexican government.

Hull added,

The whole structure of friendly intercourse, of international trade and commerce and many other vital and mutually desirable relations between nations indispensable to their progress rest upon the single and hitherto solid foundation of respect on the part of governments and of peoples for each other's rights under international justice.⁸⁵

The oil companies who were following the negotiations closely were pleased with this line, and Armstrong voiced his determination that Mexico would not get away with some 'paper credit calling for some indefinite future payments'.⁸⁶ Hull also took another step that the oil companies had hoped for by asking the Mexican government to agree to arbitrate under the terms of the General Treaty of Inter-American Arbitration⁸⁷ the question of whether the Mexican government had complied with the procedure of international law regarding compensation when dealing with those American citizens who lost their farms and agrarian properties to the Mexican government after 30

⁸⁵ Ibid.

⁸⁶ Cronon, pp. 217-18; Armstrong to Hull, 28 July 1938, RG 59, Records of the Department of State [812.6363/4548].

⁸⁷ The General Treaty of Inter-American Arbitration was signed at Washington on 5 January 1929 by the United States, Mexico and other Latin American and South American nations, to keep peace, to interpret treaties and questions of international law and the nature and extent of reparations to be made for the breach of an international obligation.

August 1927. The US, Mexico and other Latin American and South American nations had signed this treaty at Washington on 5 January 1929 to resolve disagreements between the American states. If the arbitrators were to find that the Mexican government had not paid adequate and prompt compensation, they were to determine the amount and terms of payment.⁸⁸

The companies believed that if the Mexican government rejected a solution by an international treaty, the state department might start to believe their claim that the Mexican government was unreasonable and, therefore, realise the situation required stronger action. Armstrong was pleased because use of the process of selecting arbitrators outlined by the General Treaty of Inter-American Arbitration meant that Latin Americans were less likely to have a majority among the group of arbitrators.⁸⁹

In his blunt reply to Hull, General Hay stated that the Mexican land redistribution programme which had led to the agrarian expropriation was necessary to the political, social and economic stability of the country. Although he realised Washington was insisting on immediate compensation, he emphasised

⁸⁸ Daniels, Diary entry, 30 January 1938, Diary, Papers of Josephus Daniels.

⁸⁹ Armstrong to Hull, 6 August 1938, RG 59, Records of the Department of State [812.6363/4548].

that Mexico's future 'could not be halted by the impossibility of paying immediately [compensation] to a small number of foreign owners who seek only a lucrative end.' Hay did state, however, that Mexico's own laws required payment of compensation but 'the time and manner of such payment must be determined by her own laws.' He also rejected the idea of arbitration because Mexico City believed arbitration was only appropriate for 'cases of irreducible differences' and might violate Mexican sovereignty by imposing 'a certain economic organisation upon Mexico'.⁹⁰ He suggested that the two sides allow a mixed claims commission to determine the amount of compensation owed.⁹¹

Reactions to Hay's reply were extreme. On the one hand, Armstrong called Hay's reply 'the precise reverse of the established rule of international law' and was furious. Extremely concerned about the effect the negotiations would have on the oil companies' situation, he re-emphasised that Mexico was not capable of paying adequate compensation and urged Hull to demand the return of the oil properties the way the

⁹⁰ Mexican Minister for Foreign Affairs to Daniels, 3 August 1938, US Department of State: Foreign Relations of the United States, 1938, Vol. 5 (Washington, D.C.: United States Government Printing Office, 1956), pp. 679-84.

⁹¹ Long Distance Telephone Conversation between Mr. Duggan in Washington, D.C. and Ambassador Daniels in Mexico City, 3 August 1938, 1:05 p.m., Papers of Cordell Hull.

British government had done. He also reiterated that any discussion with the Mexican government about compensation would condone what Mexico had done and 'would result in the exchange of real properties and values for a paper credit which Mexico is unable to liquidate.'⁹²

Daniels in contrast found Hay's reply encouraging and wanted Washington to accept the Mexican government's offer to start compensating former small holders while a mixed claims commission started to evaluate the amount of compensation.⁹³ Daniels believed that the Mexican government was more likely to agree to large payments then than at any other time and that, if the United States government were to refuse Mexico's offer, an impasse would almost certainly occur which would badly damage Mexican-American relations. He believed it was important to further the Good Neighbor policy by 'conceding more to a poor neighbor than we would think of conceding to a great country'. For Daniels, the Good Neighbor policy necessitated sacrifices to strengthen it as it was, next to the Monroe Doctrine, one of the most important principles of foreign policy.⁹⁴

⁹² Armstrong to Hull, 5 August 1938, RG 59, Records of the Department of State [812.6363/4548].

⁹³ Cronon, p. 220.

⁹⁴ Daniels to Hull, 7 August 1938, Papers of Josephus Daniels.

Hull's reaction was somewhere between the two extremes. Because of the Good Neighbor policy, the United States government could not ask for the restoration of the properties without giving Mexico a reasonable chance to compensate according to international law. To do otherwise might appear to the Mexican public that the United States government was meddling in Mexico's internal affairs which it promised not to do at the Buenos Aires conference. For the Mexican government to restore the properties after a request from the United States government would not have been politically possible because of strong nationalist sentiment among the population. It seems that Washington still wanted to use the strategy of getting the Mexican government to agree to compensation and then decide to return the properties after discovering that it could not pay the required amount. Above all Hull wanted the Mexican government to agree to cease its policy of taking property without prompt, adequate compensation and stated that Mexico was setting a bad example for other countries to follow. He emphasised that Washington wanted a satisfactory response to avoid prolonged discussions.⁹⁵

⁹⁵ The Secretary of State to the Mexican Ambassador (Castillo Nájera), 22 August 1938, Foreign Relations of the United States, 1938, Vol. 5 (Washington, D.C.: United States Government Printing Office, 1956), pp. 685-696.

Daniels believed Hull's attitude was 'unduly severe' in its insistence on payments which he believed the Mexicans would find impossible to make. Well aware of the potential political power of his relationship with Roosevelt, he, therefore, made an abortive attempt to involve the president in the matter in order to temper Welles and Hull.⁹⁶ He explained to Roosevelt his concern that because of the precarious world situation, the security of the United States and the success of its foreign policy depended on pan-American solidarity and cooperation. He believed that previous efforts of the United States to get rid of its reputation for using threats against Mexico and taking advantage of Mexican resources had been beneficial for the US. The fact that the American and British oil companies were demanding the return of their oil fields, which Daniels was convinced required force to achieve, was a potential threat to the Good Neighbor policy.⁹⁷ Occupied with growing hostilities in Europe and the imminent congressional elections Roosevelt did not yet become involved as Daniels had no doubt hoped.

In late September Castillo Nájera proposed a plan to Washington involving a commission which would

⁹⁶ Daniels, Diary entry, 27 August 1938, Diary, Papers of Josephus Daniels; Daniels to Roosevelt, 31 August 1938, Papers of Josephus Daniels

⁹⁷ Daniels to Roosevelt, 31 August 1938, Papers of Josephus Daniels.

determine the value of the land in question, the time and amount of payment within six months. He also said that Cárdenas would put in Mexico's budget a minimum of \$500,000 annually starting the following year to go toward land payments. Hull, however, articulated his disappointment with the Mexican reply and said that at the rate of \$500,000 per year the compensation would take decades to pay. After the steady expropriation of agrarian properties since 1915 as well as the recent expropriation of oil properties and the railways, Hull also expressed his fear that the Mexican government might seize additional properties more rapidly than it would pay off the amount due. Castillo Nájera's reply to Hull's concerns were far from comforting; he believed the lands were probably only worth between \$2 and \$3 million and reiterated that the Mexican government refused to cease further land seizures.⁹⁸

⁹⁸ Memorandum of a Conversation by the Secretary of State, 26 Sept 1938, Foreign Relations of the United States, 1938, Vol. 5 (Washington, D.C.: United States Government Printing Office, 1956), pp. 709-710.

THE AGRARIAN SETTLEMENT AND WASHINGTON'S REACTION TO
THE WORLD SITUATION

Although Hull was exasperated with what he felt was intransigence on the part of the Mexican government, his increasing concerns about the world situation caused him to change his attitude toward the settlement of the agrarian lands. He believed that in his action toward Czechoslovakia, Hitler was already showing signs of 'the Nazi pattern of pre-conquest' which had happened before the *Anschluss* of Austria.⁹⁹ He became increasingly concerned about hemispheric defence and fostering Mexican good will to guarantee Mexico's support for a pan-American declaration of solidarity against external threats at the pan-American conference in Lima scheduled for 9 December.¹⁰⁰ National socialist parties that had sprung up in Latin American republics, the anti-American propaganda campaigns operating there and the aski system whereby Germany would pay for goods with aski, trade credits not redeemable in currency, to monopolize markets all seemed to threaten Washington's relations with countries in the region, and Hull did

⁹⁹ Hull, Cordell: The Memoirs of Cordell Hull, Vol. 1 (London: Hodder & Stoughton, 1948), p. 582.

¹⁰⁰ *Ibid.*, p. 610.

not rule out a Nazi military invasion of the South American continent.¹⁰¹ Despite his anger at Mexico, therefore, he believed it vital to give concessions on the agrarian arrangement to foster goodwill in order to win Mexico's support at the Lima conference for a declaration of American solidarity to resist any threat to the territorial integrity and safety of the pan-American nations. He wrote in his memoirs, 'Nothing could have been more unhappy for the forthcoming Lima conference than an acrimonious diplomatic battle between our southern neighbor and ourselves.'¹⁰²

Adolf Berle, with whom Hull worked closely, shared Hull's concerns: 'A pretty continuous conference has been going on in the department here, which might almost be called the "death watch" of Europe.' He then mentioned with great concern that 'the Mexican situation is in a mess' and expressed alarm at the trading of Mexican oil for German planes and 'undoubtedly German instructors as well', which made a solution to outstanding Mexican-American problems all the more urgent. He was also concerned about communist influences in Mexico, especially through the *Confederación de Trabajadores Mexicanos*,

¹⁰¹ Ibid., pp. 601-2.

¹⁰² Ibid., p.610.

the general Mexican trade union, which he believed was 'frequently under Communist control' and armed.¹⁰³

Roosevelt and Morgenthau were gravely concerned that the US was ill-prepared for imminent hostilities and believed in the importance of winning the solidarity of Latin and South America against possible outside threats. Morgenthau wrote to Roosevelt that the US must 'while we can peacefully do so' check the aggression of Italy, Japan and Germany which after Munich he believed would become 'bolder and more effective in their attempts to establish areas of economic and political support to the south of us.'¹⁰⁴ At a press conference on 15 November the president equated national defence with securing the South American continent because he believed that with advances in aircraft technology, German bases in Latin and South America could be used for military threats to the US. Advanced technology, he explained, 'had changed the whole orientation of this country with relations to the continent on which we lived- from Canada to Tierra del Fuego'. It was vital to increase hemispheric solidarity among the 21 American republics

¹⁰³ Memorandum of Assistant Secretary of State, 19 September 1938, Diary of Adolf Berle.

¹⁰⁴ Morgenthau to President, 17 October 1938, Morgenthau Presidential Diaries.

and Canada by expanding on what had been achieved at the Buenos Aires conference.¹⁰⁵

In November Washington, therefore, accepted Mexico's latest offer but insisted that Mexico City pay \$1 million within six months after the experts started their valuation of agrarian lands. Mexico was then to make annual payments of at least \$1 million from the time the experts finished their work until the total amount owed was paid. Mexico City did not have to pledge that it would stop its taking over foreign properties in the execution of its land redistribution program, and it also insisted that the agrarian settlement would not serve as a precedent to settle any other outstanding matters between the two countries, a certain reference to the oil situation. Although \$1 million was a terribly large sum for Mexico, the Mexican government successfully completed the agreed payments for three years until the two countries reached a broader settlement in 1941.¹⁰⁶

Hull's decision on the agrarian matter was vindicated by the fact that on 10 December Daniels informed Hull that Cárdenas had instructed the Mexican

¹⁰⁵ White House Press Conference, 15 November 1938, RG 59 Records of the Department of State [710.H Continental Solidarity/2].

¹⁰⁶ Cronon, p. 228; The Mexican Minister for Foreign Affairs (Hay) to the American Ambassador (Daniels), 12 November 1938, Foreign Relations of the United States, 1938, Vol. 5 (Washington, D.C.: United States Government Printing Office, 1956), pp. 717-9.

delegation at Lima to cooperate with Washington. In addition Hull was able to secure enough support for the declaration of Lima. Although it did not go quite far enough for Hull in the direction of pan-American cooperation, it marked an important step in the direction of closer hemispheric solidarity, by securing the pledge that in the case of a military attack or infiltration by foreign underground movements, the signatories would immediately consult one another to decide what joint action to take.¹⁰⁷

The oil companies were alarmed at the agrarian settlement. An attorney for Standard Oil of New Jersey nervously asked the state department what it planned to do with regard to the oil situation in the aftermath of the agrarian agreement.¹⁰⁸ Having the agrarian situation outstanding had given credibility to the companies' refusal to negotiate compensation directly with the Mexican government. The agrarian settlement set a harmful precedent for them. Their hopes both that Washington would at least uphold the principle of prompt compensation and that the Mexican government would eventually return the oil properties after admitting their inability to make payments had been dashed. Daniels, on the other hand, was

¹⁰⁷ Hull, vol. 1, pp. 607-8, p. 610.

¹⁰⁸ Memorandum of a Conversation, 14 November 1938, RG 59, Records of the Department of State [812.6363/5149].

extremely pleased at the prospect of the agrarian settlement setting a precedent for the negotiations about the oil properties. He wrote, 'I think this will have a good effect as regards a future understanding on oil.'¹⁰⁹ Daniels was indeed correct because the final settlement of the oil problem in 1941 was very similar to the agrarian one of November 1938 and a tremendous disappointment for the oil companies. As will be seen in chapter six, it was also a decisive factor in causing Sinclair to abandon all hope of getting the Mexican government to return its former properties.

In conclusion, in two ways the events of 1938 were a dress rehearsal for the events leading up to the state department's agreement with Mexico on the oil matter in November 1941. First, in both cases the state department was willing to pursue a relatively hard line toward Mexico as long as possible until defence concerns made it disadvantageous. Hull giving in to Mexico in the agricultural negotiation just before the Lima conference foreshadowed what the state department eventually did in 1941. Second, just as Daniels softened the impact of Hull's policy on Mexico by his handling of the note of 26 March, Daniels in

¹⁰⁹ Daniels, Diary entry, 14 November 1938, Diary, Papers of Josephus Daniels.

1941 also intervened after he had resigned as ambassador to prevent the state department from offending Mexico. In both cases Roosevelt's approval was what enabled Daniels to influence policy. As Daniels' intervention shows, those closest to Roosevelt rather than those with the most seniority were usually most able to influence policy.

CHAPTER FOUR
THE REACTION OF WHITEHALL AND THE OIL
COMPANIES: MARCH 1938-NOVEMBER 1938

*The only thing that will really help is joint pressure with the United States.*¹

Gerald Gray Fitzmaurice

*In view of the wide divergence between the notes of the British and of Secretary Hull, there seems no basis for a parallel appeal.*²

Josephus Daniels

The British government, blaming the conciliatory US attitude for the expropriation, became even more frustrated when Washington refused to form a united front between the two governments and take a firm stand against Mexico. Washington's disapproval of London's treatment of Mexico in addition to its resentment of British economic presence in the western hemisphere ruled out any association with Whitehall's policy. Both governments, however, wanted to secure a return to the status quo ante. Hull acknowledged the Mexican government's right to expropriate under international law provided Mexico City paid

¹ Fitzmaurice, Minute, 20 March 1938, FO 371 21463 [A2121/10/26].

² Josephus Daniels, Memorandum, 21 April 1938, Papers of Josephus Daniels.

compensation. At the same time, however, he tried to exacerbate Mexico's economic problems in order to prevent Mexico from making payments to the oil companies. Hull hoped that Mexico City would soon realise its inability to make payments and return the properties. Whitehall, however, was more direct, stating bluntly that the expropriation was illegal because Mexico City was incapable of paying compensation and that President Cárdenas, therefore, must return the properties.

The expropriation greatly worried British officials responsible for oil matters, yet John Balfour narrowed Britain's options in dealing with the problem by allowing Minister O'Malley and Ambassador Lindsay to influence policy in incompatible directions. On the one hand, Lindsay showed great reluctance to be too assertive with Washington in trying to secure US cooperation because he knew Washington resented Whitehall's requests to salvage British interests. The best approach to Washington, he believed, was a subtle one accompanied by a display of independence in handling the matter with Mexico. Such was his method, and no one in Whitehall made any real effort to change it.

On the other hand, O'Malley made independence from Washington nearly impossible. After failing to persuade the foreign office to call him home from a

posting he loathed, he, with Whitehall's approval, pursued a provocative policy which resulted in the Mexican government severing diplomatic relations with Britain. After O'Malley returned home, Whitehall was unable to make direct representations to Mexico City and, therefore, was all the more reliant on Mexico's northern neighbour to take the lead. This dependence on Washington, whose cooperation would probably not have been forthcoming even in the most favourable of circumstances, made Lindsay's plan difficult to execute. It also caused Whitehall much anxiety because Washington never told British officials in advance the direction US policy would take. Apart from the Danish legation in Mexico which agreed to look after British interests after the severance of relations,³ Britain had no direct channel to Mexico to counteract the possible ill effects of Washington's actions, which British officials suspected would aim to remove British interests from Mexico.

It is the purpose of this chapter first to analyse the formation of British policy in reaction to the expropriation. It will be seen that officials responsible for policy in Whitehall were mainly influenced by the fact that Britain had no significant known indigenous supplies of oil and systematically

³ Cleugh to the Foreign Office, 19 July 1938, FO 371 21474 [A6244/10/26].

thought of worst case scenarios in terms of oil supplies during wartime. They concluded that the failure to prevent other countries from following Mexico's example would have a devastating effect on Britain's oil supplies. Whitehall's priority, therefore, was to conduct policy in such a manner that Mexico would appear to have failed miserably in their attempts both to expropriate foreign oil properties and to have the Mexican government effectively run the oil industry. The methods open to Britain to ensure the failure of Mexico's policy and prevent expropriations elsewhere were securing Washington's cooperation to denounce the expropriation, participating in a boycott of Mexican oil started by the oil companies who had lost properties in Mexico, carefully watching events in countries which might be tempted to expropriate foreign properties and having the navy make frequent visits to Mexican harbours. That Mexican Eagle was technically a Mexican company prevented Britain from referring the matter to the League of Nations as it had in 1931 when the Persian government cancelled the concession of the Anglo-Persian Oil company and the League ruled that the Persian government had been guilty of breach of contract.⁴

⁴ Balfour, Minute, 7 May 1940, FO 371 24215 [A3198/57/26]; Confidential Print, South and Central America, 1 December 1938, FO 371 20636 [A8808/10/26].

Second, it will be shown that Whitehall realised how desperate its need was for Washington's cooperation in dealing with the problem. Both Starling and Balfour were highly disappointed when Hull and Welles responded to Lindsay's representations by giving conflicting information. Whitehall's response was deep suspicion of Washington, which it believed to be trying to ease British interests out of Latin America. Third, O'Malley's actions in the period leading up to the breaking of relations will be analyzed. The fact that Washington's cooperation was not forthcoming was what made Balfour decide to conduct policy so that Mexico would think Washington and London were working in a united front. This decision about policy paved the way for O'Malley to provoke Mexico into severing relations with Britain.

Fourth it will be seen that without relations with Mexico, Whitehall made even greater efforts to secure Washington's help. In approaching the US, however, British officials realised the importance of not putting too much pressure on Washington for cooperation with regard to Mexico or any other matter at a time when Britain hoped for eventual US support in coping with imminent hostilities. Whitehall experienced great frustration because even subtle approaches to Washington failed to get a helpful response on the situation with Mexico. Finally, the

exact nature of the hostility between Washington and London over how to handle the expropriation is analysed.

WHITEHALL'S POLICY

After the expropriation, Whitehall became all the more concerned about the example Mexico might set to other more important oil producing countries if it were allowed to persist in such a radical policy. The petroleum department still hoped to rely on Mexico and small producers like Colombia and Peru, which had a combined output of about 5 million tons per annum, if the Mediterranean became blocked during wartime.⁵ Not only had Mexico been Britain's second largest supplier of oil during the First World War, but its potential importance had become even greater since Mexican Eagle had brought in the first well in Poza Rica in 1930, the second largest oil pool in the world which produced the best quality of Mexican crude oil. After the First World War the exhaustion of older oil fields and the reluctance of foreign oil companies to make substantial new investments in Mexico due to Mexico's economic nationalism had caused Mexico's oil output to

⁵ Starling to Balfour, 9 May 1938, FO 371 21469 [A3663/10/26].

plummet.⁶ While Mexico had supplied only five to ten percent of Britain's requirements in the previous three years, however, it had been regarded as potentially important in the recent past due to the fear of Italy blocking the Mediterranean, and Starling hoped that the country might once again become a major supplier of oil to Britain.⁷

The petroleum department, the oil board, the committee of imperial defence and the foreign office agreed that due to Mexican nationalism the chances of restoring the status quo ante in Mexico were slim. Unfortunately for Britain the situation elsewhere in terms of oil suppliers was equally unpromising. Of the eight largest producers in the world, Britain could only rely on Venezuela, which at the time of the expropriation supplied approximately 40 percent of British oil requirements including vitally important 100 octane fuel for the British air ministry.⁸ The

⁶ Cronon, E. David: Josephus Daniels in Mexico (Madison: University of Wisconsin Press, 1960), pp. 42-3.

⁷ Starling to Balfour, 9 May 1938, FO 371 21469 [A3663/10/26].

⁸ The eight largest oil producers in the world were the United States (60.6 per cent), Russia (11 per cent), Venezuela (9.3 per cent), Roumania (3.5 per cent), Iran (3.3 per cent), Dutch East Indies (2.5 per cent), Mexico (2.2 per cent) and Iraq (1.6 per cent). These percentages were based on crude production figures for 1936. For more information see CAB 50-6, OB 247, Memorandum by the Petroleum Department, 8 April 1938. Crude production in thousands of metric tons was as follows in 1936: United States (148,610), Russia (27,425), Venezuela (22,620), Roumania (8,705), Iran (8,330), Dutch East Indies (6,080), Mexico (5,870), Iraq (4,010); in 1937: United States (172,865), Russia (28,500), Venezuela (27,205), Roumania (7,155), Iran (10,330), Dutch East Indies (7,260), Mexico (6,710), Iraq (4,255); in 1938: United States (164,105), Russia (30,185),

uncertainty about the operation of the US neutrality legislation made Starling rule out the United States, the largest producer, as a supplier to Britain in an emergency. Exports of oil from Russia had decreased so dramatically that the British government expected them to cease altogether in the event of a war. In addition, because of the possibility of hostilities in the Mediterranean, it could not rely on oil from Iraq, Roumania, Iran or the Dutch East Indies.⁹ It was vital, therefore, to make an example of Mexico so that other oil exporting countries would not follow the same path of expropriation.

The oil board and foreign office became particularly alarmed at reports from the petroleum department that Mexico was trying to encourage other Latin American countries such as Venezuela, Colombia and Peru, to nationalize their oil industries.¹⁰ Whitehall's reaction was a mixture of subtle intimidation and diplomacy. The admiralty arranged for increased visits of the navy to ports in all three

Venezuela (27,485), Roumania (6,610), Iran (10,360), Dutch East Indies (7,400), Mexico (5,510), Iraq (4,300). For more information see Venn, Fiona M.: Oil Diplomacy in the Twentieth Century (London and Basingstoke: Macmillan, 1982), pp. 171-177.

⁹ CAB 50-7, OB 52, Note by the Oil Board, 11 April 1938; CAB 50-7, OB 260, Meeting of the Committee of Imperial Defense, 12 May 1938; Starling to Balfour, 24 March 1938, FO 371 21464 [A2266/10/26]; CAB 2-7, Minutes of the 322nd meeting of the Committee of Imperial Defense, 12 May 1938.

¹⁰ Starling to Balfour, 7 May 1938, FO 371 21469 [A3663/10/26].

countries.¹¹ At the request of the oil board, the foreign minister instructed the British ministers in Caracas, Lima and Bogotá to watch the situation in those countries, report any alarming developments, and suggest any possible course of action to foster good will.¹² The ministers reported to the foreign office that the conditions prevailing in Mexico were very different from those in Venezuela, Colombia and Peru. In addition, the governments of those three countries appeared to realise both their need for foreign expertise in the oil industries and the contribution of foreign oil concessionaires to their treasuries and the development of domestic resources. Although the danger of expropriations in these countries appeared minimal, officials responsible for oil policy, however, wanted to prepare for worst case scenarios and did not rule out the possibility of circumstances changing.¹³

Sir Robert Vansittart, who had become chief diplomatic adviser, summarised the opinion of the committee of imperial defence and the American department, which hoped that Mexico's worsening

¹¹ Confidential Print, South and Central America, 1 December 1938, FO 371 20636 [A8808/10/26].

¹² Memorandum of the Committee of Imperial Defence, 9 May 1938, FO 371 21469 [A3663/10/26].

¹³ Confidential Print, South and Central America, 1 December 1938, FO 371 20636 [A8808/10/26].

economic problems would help make an example of Mexico:

Mexico was in for a bad time in the near future, and if part of their misfortune were ascribed even if incorrectly to our action so much the better.¹⁴

Mexico had been suffering from sharp rises in commodity prices, the fall of the peso, and food shortages. Cárdenas' programmes to reform agriculture and organize public works had severely drained the treasury, and Mexico lacked the necessary foreign exchange to pay for needed foodstuffs from abroad.¹⁵ The flight of foreign exchange due to lack of confidence in the economy and the considerable decrease in private investment aggravated Mexico's problems.

The committee of imperial defence and the American department both realised that a British boycott of Mexican oil and oil products, which had amounted to more than 18 percent of Mexico's exports in 1937, would make matters even worse for Mexico.¹⁶ Whitehall, therefore, refused to allow Mexican oil to be a part of any government contract and secured the

¹⁴ CAB 2-7, Minutes of the 322nd Meeting of the Committee of Imperial Defense, 12 May 1938.

¹⁵ Scroggs, William O.: 'Mexican Oil in World Politics', Foreign Affairs Quarterly XVII (1938), p. 173.

¹⁶ Meyer, Lorenzo: Mexico and the United States in the Oil Controversy 1918-1942 (Austin: University of Texas Press, 1972), p. 201.

cooperation of banks and financial houses to refuse credits to individuals and companies dealing in Mexican oil. Whitehall also persuaded colonial governments to refuse to purchase Mexican oil.

In addition, both British and American oil interests which had been expropriated persuaded other companies not to supply the Mexican oil industry with tankers or spare parts. Although Washington refused to allow any government agency to purchase Mexican oil, it did not exercise the same amount of control over American businesses as Whitehall exercised over British ones. Maverick independent American oil companies, therefore, took advantage of the situation to sell Mexican oil in Germany and the United States. Italy also provided a market for Mexican oil.¹⁷ The boycott, which will be analyzed in chapter five, started to work well after the war started, however, when the Allied blockade prevented oil from reaching Germany and Italy. Mexican oil, however, was still being sold in the United States.

¹⁷ CAB 50-7, OB 294, 13th Annual Report, 24 January 1938.

WHITEHALL'S EFFORTS TO GET US COOPERATION

In addition to the boycott, Balfour and Starling, while not optimistic about Washington's helpfulness, were desperate for the state department's cooperation in voicing strong disapproval of what the Mexican government had done. Starling knew a stern statement from Britain would have little effect on Mexico in comparison with one from the United States. Because he realised that Washington was resentful of being asked to save the British from bad situations, he was hesitant about making a request that the United States alone voice strong disapproval.¹⁸ In order to avoid alienating Washington, Balfour decided to seek the cooperation of the state department in issuing a joint statement of disapproval. Although he realised it would be extremely difficult to persuade Washington to stray from what he called their 'passive attitude', he believed requesting cooperation was worth trying. Balfour firmly believed that Britain's only hope was to make an example of Mexico to demonstrate to other countries that the British government 'do not tamely submit' to the expropriation, and that working with

¹⁸ Starling to Balfour, 22 March 1938, FO 371 21463 [A2215/10/26].

the United States government was the most effective way to achieve this message.¹⁹

Balfour and Starling drafted an aide mémoire to Washington advocating a 'concerted or parallel appeal' to the Mexican government to negotiate a solution the United States and Britain could accept, and instructed Sir Ronald Lindsay to try to convince the state department to support it.²⁰ Lindsay approached both Hull and Welles and received conflicting information. Hull revealed that Washington's policy was a mixture of approval and punishment. In a press statement on 30 March Hull had adhered to both international law and the Good Neighbor policy by accepting in principle Mexico's expropriation as long as it paid adequate, effective and prompt compensation. At the same time, however, Washington suspended direct purchases of silver from the Mexican government to cripple Mexico's already ailing economy thereby making compensation virtually impossible. Lindsay also learned that in addition to changing its silver policy, Washington had sent a stern note of 26 March to the Mexican government demanding a 'prompt reply' to its demand for a specific plan of payments for the expropriated

¹⁹ Balfour, Minute, 23 March 1938, FO 371 21463 [A2164/10/26].

²⁰ British Aide Memoir, 25 March 1938, enclosed in Welles to Duggan, 28 March 1938, RG 59, Records of the Department of State [812.6363/3311].

oil properties and an assurance that the payments would be made.²¹

Lindsay left the meeting with the impression that Washington was far less conciliatory toward Mexico than he had thought, but Welles soon gave him an entirely different impression. Welles purposely tried to mislead him by saying that the true policy of the United States was that given by Hull in the statement to the press on 30 March, which was celebrated in Mexico as a sign that Washington was in agreement with the oil expropriation. Welles neglected to mention the much less lenient note of 26 March and the punitive silver policy.²² The conflicting comments of Welles and Hull baffled Whitehall. As Sir George Mounsey, superintending under secretary of the American department, wrote, 'The United States government's attitude is most puzzling. They seem to have taken a sledge hammer and now to be pretending that they didn't.'²³

Welles also took charge of replying to the aide mémoire. He instructed Duggan that the reply should be 'friendly and courteous' but insisted that he

²¹ Memorandum of a Conversation between Hull and Lindsay, 30 March 1938, RG 59, Records of the Department of State [812.6363/1321].

²² Memorandum of a Conversation between Lindsay and Welles, 1 April 1938, RG 59, Records of the Department of State [812.6363/3325].

²³ Mounsey, Minute, 1 April 1938, FO 371 21464 [A2482/10/26].

disregard the request for a parallel appeal.

Irritated by Britain's request, he continued, 'Our position on that matter has been made known by me to the British ambassador on several occasions.'²⁴

Ambassador Daniels shared Welles' feelings and on 21 April 1938 sent a memorandum to the state department saying that 'In view of the wide divergence between the notes of the British and of Secretary Hull, there seems no basis for a parallel appeal.'²⁵

While Balfour and Starling were pleased with the note of 26 March and the silver policy, they were nevertheless disappointed at the failure to secure Washington's cooperation in making a joint approach to Mexico. The petroleum department, which had always been suspicious of the United States, believed,

It is hard to ascertain what their policy is, but there are certain suspicions that they may not object to the removal of foreign interests in Latin American countries, which in the end may open up a possibility of the US interests getting back to the exclusion of the rest. ²⁶

The foreign office believed that in the case of Mexico, Washington owed Britain cooperation because of

²⁴ Welles to Duggan, 28 March 1938 RG 59, Records of the Department of State [812.6363/3311].

²⁵ Daniels, Memorandum, 21 April 1938, Papers of Josephus Daniels.

²⁶ Petroleum Department, Memorandum, 8 April 1938, FO 371 21469 [A3663/10/26].

the compromises the British had made in the Middle East by allowing the United States a half share in the Anglo-Iranian holding of the Iraq Petroleum Company in 1922, agreeing to the participation of US interests in the Bahrain Island petroleum concession in 1936 which eventually went completely to US interests, and deciding to allow US interests to participate in Kuwait in 1935 on an equal basis with the Anglo-Persian Oil Company. The British secretary of state for the colonies had also announced on 9 July 1936 that the British would extend the open door principle to their colonial empire.²⁷

O'MALLEY'S DIPLOMACY

Because of Washington's refusal to cooperate, Balfour decided to create the illusion of a united front between the two governments. The first British note to Mexico dated 21 March had stated simply that Britain reserved its full rights in the matter of the expropriation.²⁸ On news of Washington's note of 26 March, Balfour decided to instruct O'Malley to make a representation to the Mexican government similar to

²⁷ Foreign Office to Lindsay, 24 March 1938, FO 371 21463 [A2215/10/26].

²⁸ O'Malley to Foreign Office, 21 March 1938, FO 371 21464 [A2613/10/26].

Washington's in the hope that Mexico would conclude that the two countries were working together. Instead of a strictly parallel approach, however, Balfour wrote to O'Malley authorising him to take an attitude that was harsher than Washington's by informing Cárdenas bluntly that the British government believed the expropriation to be unjustified and requesting that the Mexican government restore the expropriated properties to the companies.²⁹ This policy met with the approval of Lord Newton in the house of lords. He commented:

Unless we can secure co-operation with the Americans, or unless we follow their example, whether they're acting with us or not, the chance of our doing any good is very remote.³⁰

O'Malley's suspicion of Washington initially made him hesitate to execute the foreign office's instructions. He feared that Washington might draw attention to the relatively uncompromising attitude of Whitehall in order to focus Mexican resentment on Britain in order to persuade the Mexicans to come to an agreement favouring American interests at Britain's expense.³¹ O'Malley also feared that Hull, who was

²⁹ Foreign Office to O'Malley, 30 March 1938, FO 371 21464 [A2482/10/26].

³⁰ House of Lords, Parliamentary Debates, (London: H.M.S.O., 1938), 30 March 1938.

³¹ O'Malley to Foreign Office, 30 March 1938, FO 371 21464 [A2487/10/26].

trying to secure Mexico as an export market for United States goods, might agree to a compromise solution of the oil problem in order to achieve the lowering of the Mexican tariff, which Cárdenas had recently increased in January. The fact that the Mexican government had paid an instalment to the United States on 1 January for the amount of compensation due for properties damaged during the revolutionary violence between 1910 and 1920 while it had left a similar British instalment unpaid made him all the more suspicious that the two countries were working together at the expense of British interests.³²

In addition, O'Malley knew that the Mexican government had manipulated publicity about the 26 March note and the press statement of 30 March to give the Mexican public the illusion of a favourable reaction from the United States government. He realised that 'Mexican exhilaration is probably at its peak' and that

to act while the president and public are still puffed up by the recent exchange of declarations with the US might lead to his treating our representation with contempt to which we would have no effective reply.³³

³² O'Malley to Foreign Office, 31 March 1938, FO 371 21464 [A2536/10/26].

³³ O'Malley to Foreign Office, 3 April 1938, FO 371 21465 [A2636/10/26].

He also believed that Washington's attitude would probably become increasingly harsh. When it did and the Mexican government realised the problems of running the oil industry, the excitement of the expropriation would have waned and it would be 'time for plain speaking'.³⁴

Managing Director of Royal/Dutch Shell Frederick Godber, as well as Frederick Starling and Balfour all disagreed with O'Malley's concern about Mexico City playing off British and American interests against one another. They assumed that the Mexican government would do so no matter what and that Britain had nothing to lose by taking a firm line.³⁵ Although Balfour saw some merit in the rest of O'Malley's arguments, he believed it was 'unwise to defer plain speaking'. Not only did he want to demonstrate to the Mexican public that the British government refused to accept the expropriation, but he also wanted to demonstrate to Washington that Britain was able to act independently. Balfour also predicted that criticism in the press and parliament would increase if the British government were to stay passive, and, therefore, instructed O'Malley to make representations

³⁴ Ibid.

³⁵ Balfour, Minute, 4 April 1938, FO 371 21465 [A2593/10/26].

to the Mexican government straight away along the lines of their initial request to him.³⁶

O'Malley's worries that Washington would play off one interest against another must have been rather limited because, without further protest, he drafted and delivered a very sharply worded note of accusation to Mexico. Like Washington's note of 26 March, O'Malley's note, dated 8 April 1938, said that Whitehall did not 'question the general right of the Government to expropriate in the public interest and on payment of adequate compensation', but, it added, 'this principle ... [did] not serve to justify expropriations essentially arbitrary in character.' Through O'Malley, Britain accused the Mexican government of 'confiscation carried out under a veil of legality' and 'a transgression of the principles of international law.' The note emphasised that the only way to remedy the situation was to return the oil companies' properties.³⁷

The Mexican government denied that the act was arbitrary and promised Whitehall it would pay adequate compensation. It asserted that the British government had no right to intervene on behalf of Mexican Eagle's

³⁶ Foreign Office to O'Malley, 6 April 1938, FO 371 21465 [A2636/10/26].

³⁷ His Majesty's Government to the Mexican Government, 8 April 1938, 'Correspondence with the Mexican Government regarding the Expropriation of the Oil Properties in Mexico', *PP*, 1938, XXXI, Cmd 5758 (London: H.M.S.O., 1976).

shareholders. Mexican Eagle, Cárdenas claimed, was a Mexican company, and a statement on the back of the share certificates indicated that shareholders in the company had at the time of acquiring shares renounced the right to invoke diplomatic support in any disagreement involving the company.³⁸

The Mexican arguments infuriated O'Malley. He believed that a firm approach to Mexico and a clear statement of policy would result in the return of the properties to Mexican Eagle. While O'Malley was angry at Washington's insistence on compensation and called it 'fundamentally disingenuous and prejudicial to British interests', he knew that the state department realised that Mexico could not fulfil its promise to pay. He suspected that the United States government was merely trying to come to an agreement with Mexico on compensation at the exclusion of British interests, and he strongly felt the need discreetly to stop the progress of Washington's plan without giving offence.³⁹

Rather than addressing Washington directly about his anxieties, O'Malley recommended that Whitehall expose the Mexican government's unfortunate financial situation, which he hoped would make its offer of

³⁸ Ibid.

³⁹ O'Malley to Foreign Office, 25 April 1938, FO 371 21468 [A3295/10/26].

compensation look completely absurd. He wrote, 'We have so far as I know no weapons but world opinion and must surely bid up to the full strength of this hand.' He also wanted to give publicity to the unpaid special claims instalment in light of the virtual emptiness of the Mexican treasury. He saw 'nothing to gain by understatement' and drafted a reply to the Mexican government which he himself admitted was 'fairly severe'.⁴⁰ As he told Balfour, who tacitly gave his approval, his aim was to refute the arguments of the Mexican government and discredit it in the eyes of as many people in Mexico as possible in hopes that it would be ousted.⁴¹

In addition to discrediting the Mexican government, O'Malley self-servingly suggested that the foreign secretary withdraw him from Mexico.⁴² As head of the southern department, O'Malley's professional interests before going to Mexico in October 1937 lay primarily with European affairs. After his abortive attempt to contest his dreaded diplomatic appointment, O'Malley, who came from a prominent Irish Catholic family, lost virtually all ability to influence matters involving Europe to become minister to a highly anti-Catholic government in a country he

⁴⁰ Ibid.

⁴¹ O'Malley to Balfour, 10 May 1938, FO 371 21471 [A4064/10/26].

⁴² Ibid.

loathed. In addition, the move to Mexico cost him about £1,000 out of his own pocket, and the expense of maintaining the legation in Mexico City made it impossible for him to continue the lease on the family home in Ockham.⁴³ It seems, therefore, that he was heavily influenced by his personal prejudices and desire to return to Britain at the expense of what would have been most beneficial to his country.

The reasons he presented for recalling him were, first, he believed that due to economic problems, a revolution was imminent in which Castillo Nájera would probably emerge as the new leader of Mexico, and he did not want the British in any way to be held responsible for having contributed to it.⁴⁴ Second, although he did not necessarily think an Anglo-Mexican oil partnership was likely in the near future, he hoped for an eventual one in petroleum production. After the predicted change of government, he hoped that Mexico City, would, as it had done when it encouraged Weetman Pearson to prospect for oil in Mexico before the Great War, seek British cooperation in oil matters to counter the influence of the United States.⁴⁵

⁴³ O'Malley, Owen: Phantom Caravan (London: John Murray, 1954), pp. 164-166.

⁴⁴ O'Malley to Foreign Office, 12 May 1938 FO 371 21469 [A3731/10/26].

⁴⁵ O'Malley to Balfour, 5 April 1938, FO 371 21468 [A3314/10/26].

While Balfour did not see the need to withdraw O'Malley, he believed that a note discrediting Mexico's offer of compensation would both help maintain British oil supplies in an emergency and satisfy its sense of resentment toward the United States. He bitterly resented what he thought were efforts of the United States government to help manoeuvre the oil companies into a disadvantageous arrangement involving compensation. Balfour was convinced that such an arrangement would allow the Mexican government to represent the result as a 'victory for themselves which would inevitably serve as an example to other Latin American countries to imitate at some later date.'⁴⁶

Balfour also shared O'Malley's feelings of disgust at the discussions of compensation between Mexico City and Washington. More than ever Balfour regarded it as unfortunate that the United States government had not taken the same firm line as the British. He bitterly resented what he thought were Washington's efforts to help manoeuvre the companies into a disadvantageous arrangement involving compensation which the Mexican government would be

At liberty to abuse whilst at the
same time representing the result
as a victory for themselves which

⁴⁶ American Department, Memorandum, 16 May 1938, FO 371 21470 [A3927/10/26].

would inevitably serve as an example to other Latin American countries to imitate at some later date.⁴⁷

While O'Malley failed to persuade the foreign office to recall him, the final letter he drafted to the Mexican government provoked Cárdenas to sever relations with Britain, which left him no choice but to return to Britain. The note, dated 11 May, reminded the Mexican government of the sum due to Britain from damages to British property during revolutionary activity between 20 November 1910 and 31 May 1920. Mexico had agreed to pay 3,795,697.53 pesos in December 1935 in 11 annual instalments starting 1 January 1936 and had paid the first two instalments on time. The third instalment, which had fallen due on 1 January 1938, remained unpaid, and O'Malley accused the Mexican government of discrimination, complaining that 'a similar debt to the United States government had been punctually discharged'. He also reminded Mexico City of its external debt, much of which was owed to British subjects. To embarrass the government more thoroughly, O'Malley commented on Mexico's internal debt and said:

His Majesty's Government...cannot but regard the failure of the Mexican Government to discharge even their existing obligations as in itself rendering unjustified an

⁴⁷ Ibid.

expropriation, an essential condition of the validity of which would be the payment of full and adequate compensation amounting in this case to a very large sum.⁴⁸

When the British minister presented the note to the Mexican government, Foreign Minister Eduardo Hay tried to convince him to omit the highly offensive section about Mexico's internal debt.⁴⁹ O'Malley, regarding it as an integral part of his plan, refused. Consistent with what Hay had told O'Malley, the Mexican government claimed Whitehall had no right to 'analyse the interior situation of Mexico, and ... the complex circumstances...which explain, and even justify, the attitude of [the Mexican government]'.⁵⁰ One of the Mexican newspapers, *Ultimas Noticias* described the note as 'malevolently intended', the purpose of which was 'nothing more than to humiliate us and justify in advance a hostile attitude towards our country with regard to the petroleum conflict.'⁵¹

O'Malley's note resulted in a cheque for the amount that had been due on 1 January, together with

⁴⁸ His Majesty's Government to the Mexican Government, 11 May 1938, 'Correspondence with the Mexican Government regarding the Expropriation of the Oil Properties in Mexico', *PP*, 1938, XXXI, Cmd 5758 (London: H.M.S.O., 1976).

⁴⁹ Boal to Secretary of State, 12 May 1938, RG 59, Records of the Department of State [712.41/74].

⁵⁰ The Mexican Government to His Majesty's Government, 13 May 1938, 'Correspondence with the Mexican Government regarding the Expropriation of the Oil Properties in Mexico', *PP*, 1938, XXXI, Cmd 5758 (London: H.M.S.O., 1976).

⁵¹ Boal to Secretary of State, 13 May 1938, RG 59, Records of the Department of State [712.41/45].

a statement confirming the withdrawal of the Mexican minister from London. Mexico also reminded the British government of an agreement of 31 December 1935 allowing Mexico to defer payments as long as it paid interest. Since Britain itself had defaulted on its war debts to the United States, the Mexican government reminded Whitehall that 'even the most powerful states cannot boast they are up to date in their payment of all their pecuniary obligations'.⁵²

Left with no graceful alternative, the British government instructed O'Malley to close the legation in Mexico in the hope that this action would accelerate the fall of the supposedly weak Cárdenas government.⁵³ The foreign office found nothing to criticise in O'Malley's handling of the matter and instead blamed Mexico for the breach in relations. Sir Alexander Cadogan, who had recently replaced Vansittart as permanent undersecretary at the foreign office, made no change of policy. When the Mexican chargé d'affaires expressed regret at the break in relations, Cadogan ignored the possibility that O'Malley's letter was even partially responsible and merely responded that 'it didn't seem that his

⁵² The Mexican Government to His Majesty's Government, 13 May 1938, 'Correspondence with the Mexican Government regarding the Expropriation of the Oil Properties in Mexico', *PP*, 1938, XXXI, Cmd 5758 (London: H.M.S.O., 1976).

⁵³ Foreign Office, Memorandum, 16 May 1938, FO 371 21470 [A3927/10/26].

government had chosen a terribly good way to go about it'.⁵⁴ The break in relations left the British government all the more reliant on the United States government, which heightened British fears of a US-Mexican deal made at the expense of British interests. Balfour for one believed that Cárdenas was pleased to get the British out of the way so he could come to a compromise settlement with Washington.⁵⁵

WHITEHALL'S INCREASED RELIANCE ON WASHINGTON AND
LINDSAY'S DIPLOMACY

After the break in relations between Mexico and the British government, the only hope of solving the oil problem to Britain's satisfaction was a *volte-face* by Cárdenas or the assumption of power by a moderate-minded government after a revolution. The British government recognised that both of these scenarios depended upon the action of the US government with regard to the expropriation.⁵⁶ Without a strong statement of disapproval from the United States, even economic hardships caused by the boycott would be

⁵⁴ Dilks, David, (ed.): The Diaries of Sir Alexander Cadogan (London: Cassell & Company, 1971), 14 May 1938, p. 77.

⁵⁵ Balfour, Minute, 16 May 1938, FO 371 21469 [A3743/10/26].

⁵⁶ Foreign Office, Memorandum, 14 June 1938, FO 371 21472 [A4728/10/26].

unlikely to change Mexico's attitude. David Scott, Gerald Grey Fitzmaurice, Starling, and Balfour agreed that so long as the Mexican government believed or was able to lead most of the Mexican population to believe that the US condoned their act, it would not change.⁵⁷

While O'Malley was drafting his last note to Mexico, the foreign office instructed Lindsay to try to persuade Washington to issue a statement of disapproval and cooperate with Whitehall.⁵⁸ Lindsay, however, did not present Britain's case forcefully to Washington. Although Hull was away from Washington at the time as he frequently was, Balfour was upset that Lindsay tended to talk to Welles, the state department official in charge of Latin American affairs, rather than Hull or Roosevelt. As Balfour wrote:

I rather wish he would not solely confine his attention to Welles who is the state department official least sympathetically disposed towards an understanding of our attitude.⁵⁹

Balfour, however, did nothing directly to stop Lindsay from making representations to the undersecretary.

On 5 May Lindsay expressed British concern to Welles about a 'middle of the road' solution which

⁵⁷ Balfour, Memorandum, 27 May 1938, FO 371 21471 [A4305/10/26].

⁵⁸ Foreign Office to Lindsay, 4 May 1938, FO 371 21469 [A3404/10/26].

⁵⁹ Balfour, Memorandum, 7 May 1938, FO 371 21469 [A3590/10/26].

might encourage other countries to imitate Mexico. To placate Welles, Lindsay admitted that he was very disappointed the British government did not follow the same line as Washington in its dealings with the American republics especially in the challenging situation posed by the Mexican government. Welles replied to Lindsay that fear of the expropriation fever spreading was 'not serious' and that the policy of moderation pursued by the US offered hope of compensation.⁶⁰

Lindsay's seemingly strange actions with regard to Mexico reflected his belief that the only way to secure US cooperation in matters of defence generally was to recognise Washington's suspicion of foreign governments trying to influence its policy, and to refrain from taking any strong diplomatic initiatives in the US. He noticed the ineffectiveness of Whitehall's diplomatic representations to Washington and believed strongly that US cooperation would come only from Whitehall allowing Washington to take the lead in matters and make decisions independently of foreign pressure.⁶¹ His attitude toward the Anglo-American trade agreement which was finalized in

⁶⁰ Memorandum of a conversation with Lindsay and Under Secretary Welles, 5 May 1938, RG 59, Records of the Department of State [812.6363/4002].

⁶¹ Reynolds, David: The Creation of the Anglo-American Alliance 1937-41: A Study in Competitive Co-operation (London: Europa Publications, 1981), pp. 10-11.

October 1938 illustrates this belief. Washington had tried to negotiate such an agreement for months, and Lindsay, supported by Foreign Secretary Anthony Eden had argued that Britain must accept the agreement in order to improve relations between Washington and London.⁶² In approaching Welles on the Mexican problem, Lindsay was clearly thinking about Anglo-American relations in the broader context of Britain's need for US help in matters such as naval cooperation in the Far East, munitions and finances.

Lindsay reported to the foreign office after his meeting with Welles that the state department might adopt a firmer response to Mexico and that representations by the British government would only cause a delay. Lindsay explained that the state department was upset with the way Mexico had treated American interests, but felt unable to take too harsh a stand for fear an alternative government would take over. He was, therefore, against overtly requesting Washington to take a firmer stand and wanted Washington to decide to do so independently of British importuning.⁶³

The foreign office increasingly came to resent Welles not only for his lack of cooperation but also

⁶² Ibid., pp. 17-18.

⁶³ Lindsay to Foreign Office, 6 May 1938, FO 371 21469 [A3590/10/26].

for his work towards getting a compromise solution with Mexico. On 30 April he described a plan to Lindsay that he said the state department was trying to get the oil companies to accept. Herbert Feis had presented a similar plan to the companies on 21 April. According to the plan, the Mexican government was nominally to own the properties while the companies were to control the production and the marketing of the oil.⁶⁴ The Mexican government was to receive the proceeds from the sale of the oil less a percentage to the oil companies to compensate them for the expropriation.⁶⁵ The plan Welles had described to Lindsay put the British government in a terrible position. Rejecting the plan would run the risk of having the US come to an agreement with Mexico while leaving Britain to fend for itself. If Britain were to accept such an agreement, it would run the risk of alienating the companies and setting a bad example for other countries. Balfour believed that Lindsay had made the situation worse by merely listening to Welles rather than trying to convince him to stop supporting

⁶⁴ Lindsay to Foreign Office, 4 May 1938, FO 371 21469 [A3404/10/26].

⁶⁵ O'Malley to Foreign Office, 20 May 1938, FO 371 21470 [A4009/10/26]; Starling to Balfour, 17 May 1938, FO 371 21471 [A4108/10/26].

the compromise and to take stronger action in Mexico.⁶⁶

Because nothing the British government had tried seemed to work, Foreign Secretary Viscount Halifax started to panic about the boycott's level of effectiveness and the neutrality laws in the United States. The Mexican government finding alternative markets for its oil shook Halifax's confidence in the boycott as a means to prevent other countries expropriating foreign oil holdings, and he expressed anxiety about the prospect of Washington applying the cash and carry provision of the neutrality laws to oil. If this happened, a serious drop in oil supplies for the navy and air force from the United States would occur. He reiterated the worry of the oil board, the petroleum department and the American department that such a change might occur during wartime if Italy blocked the Mediterranean and prevented Britain's access to oil from Russia, the Dutch East Indies, Roumania and Iraq. If these countries were to follow Mexico's example, Britain would then have substantially to limit the activities of the navy, air force and other mechanised services. It was vital, therefore, to show other remaining suppliers, such as Iran, Venezuela, Mexico, Colombia

⁶⁶ Foreign Office to Lindsay, 4 May 1938, FO 371 21469 [A3404/10/26].

and Peru, that expropriation of the oil industry brought serious consequences.⁶⁷

Halifax appreciated that Britain was caught between the fear of too forcefully pressing the United States government to act and the fear that if it did not pressure Washington to voice disapproval clearly to Mexico, the situation would not improve for the British. Halifax accepted that it was crucial for Washington to voice disapproval of what Cárdenas had done. He was, however, very wary of appearing to put pressure upon the president because it was so important to foster American good will at a time when hostilities were likely. Nevertheless he felt that a subtle request to the United States was worth a try, and on 5 June 1938 he requested Lindsay to present his views on how Washington could improve the situation. Consistent with his reluctance to be too forceful with Washington, Lindsay spoke to Welles rather than Hull and neglected to mention that the concerns he voiced were those of Halifax himself. As with his other representations, Lindsay failed to get any helpful response out of Welles.⁶⁸

Encouraged by Halifax's active interest in the matter, representatives of Mexican Eagle and Standard Oil of New Jersey asked Lindsay to voice Whitehall's

⁶⁷ Balfour, Minute, 29 June 1938, FO 371 21473 [5182/10/26].

⁶⁸ Ibid.

concerns to the state department again. The companies wanted Roosevelt to make up for the approving statement he had made in Warm Springs on 1 April by voicing his disapproval of the expropriation. Reluctant as ever, Lindsay refused, saying that he would need further instructions from the British government in order to carry out the request.⁶⁹

Halifax, however, took the initiative by approaching United States Ambassador Joseph Kennedy to get the president to dispel the idea current in Mexico that Washington approved of the expropriation. Halifax, now seriously concerned about the situation, bluntly told Kennedy that Cárdenas would not have gone through with the expropriation if he had not believed the United States government would react with 'some degree of sympathy' which Daniels had in fact conveyed to Mexico. Kennedy admitted this was probably true. He and Hull had told Roosevelt that his comments in Warm Springs had been a mistake, and they urged him to make a stronger statement.⁷⁰

Much to Britain's disappointment, Roosevelt did not dispel the impression he had given in Warm Springs. In early July at the dedication of the cornerstone of the federal building in New York's

⁶⁹ Starling to Balfour, 9 July 1938, FO 371 21473 [A5457/10/26].

⁷⁰ Memorandum of a Conversation between Halifax and Kennedy, 11 July 1938, FO 371 21473 [A5379/10/26].

world fair grounds, Roosevelt emphasised the reciprocal nature of the Good Neighbor policy which the New York Times believed referred to the Mexican oil situation. Whatever it referred to, the British government and the oil companies believed the statement did not go nearly far enough in pressuring the Mexican government into allowing the companies back into Mexico.⁷¹

Later the same month there was suspicion in Whitehall briefly that at last the United States government had decided to voice strong disapproval to Mexico. After Washington and the oil companies decided on 31 May to hold off negotiations for the time being, Washington turned to the issue of Mexico's failure to compensate US citizens whose agrarian properties had been confiscated since 1927. On 22 July it condemned the confiscations and proposed arbitration.⁷² Whitehall was hopeful that the note was a sign that the United States was prepared to take equally stern measures with the Mexican government over oil.⁷³

⁷¹ Lindsay to Foreign Office, 12 July 1938, FO 371 21474 [A5654/10/26].

⁷² Starling to Balfour, 23 July 1938, FO 371 21474 [A5746/10/26].

⁷³ Cleugh to Foreign Office, 20 July 1938, FO 371 21474 [A5659/10/26]; Starling to Balfour, 22 July 1938, FO 371 21474 [A5736/10/26].

To the grave disappointment of the British, Washington finished the correspondence with Mexico in November with an agrarian agreement which set the precedent of compensation for the oil companies. After hearing about the agreement, according to which the Mexican government was to pay compensation on a fixed schedule over a period of five years, the amount to be determined by a committee of Mexican and American experts, Lindsay called on Welles and nervously tried to get information about what Washington planned to do about the oil situation in the aftermath of the agrarian settlement.⁷⁴ Welles' vague response probably made the British government feel worse, having tried desperately to avoid a compensatory solution to the oil problem which would set an encouraging example to other countries contemplating expropriation.

MUTUAL RESENTMENT

In Whitehall, resentment toward the US government existed at the highest levels. The foreign secretary said in a meeting of the

⁷⁴ Memorandum of a Conversation between Lindsay and Welles, 17 November 1938, RG 59, Records of the Department of State, [812.6363/5112 1/2].

cabinet that it was unfortunate that the United States was not taking the same firm line as Britain.⁷⁵ David Scott, promoted to assistant undersecretary of state for foreign affairs at the end of May, similarly complained that it would be very difficult for the British government to influence Washington to take a firm line because Washington seemed to be concerned more about domestic policy than anything.⁷⁶ Balfour particularly resented America's advantageous position in terms of oil supplies:

Unlike the United States, the British rely on [other] countries for oil supplies vital to their national defence and it is for this reason if for no other, that it has been considered necessary to pursue a firm course.⁷⁷

As Balfour believed, any note from Britain would have little effect, but if the US were to issue a firm note, the Mexican government might change its policy.⁷⁸

Britain's task of getting the United States to take a harder stand, however, was as difficult as ever

⁷⁵ CAB 23/93, Cabinet Meeting, 18 May 1938.

⁷⁶ Foreign Office, Memorandum, 14 June 1938, FO 371 21472 [A4728/10/26].

⁷⁷ American Department, Memorandum, 16 May 1938, FO 371 21470 [A3927/10/26].

⁷⁸ Foreign Office, Memorandum, 14 June 1938, FO 371 21472 [A4728/10/26].

because Washington continued to have no sympathy for the British position, and some in Washington even bitterly resented the attitude Britain had taken. For the most part, American officials thought the British were being unreasonable and were pleased with the allusion the Mexican government had made in their note to the British debt to the United States from World War I. Upon hearing news of the note Morgenthau said, 'I feel very kindly disposed to the Mexicans.' The president agreed and called it 'a peach'.⁷⁹ In addition, Pierre Boal was critical of Britain for misinterpreting Mexico City's payment of an instalment on a debt to the US before it made a similar payment to Britain. It was not a case of discrimination, he argued, because the United States had concluded its special claims settlement earlier than Britain, and therefore the Mexican government had given it precedence as to payment.⁸⁰

Daniels in particular found the British point of view as expressed in its last note to Mexico damaging to the whole situation because he believed it had stiffened 'the determination of the government to go forward along the course taken.' Furthermore, he condemned the British denial of Mexico's right to

⁷⁹ Morgenthau, Diary entry, 12 May 1938, Diary #124.

⁸⁰ Boal to Secretary of State, 12 May 1938, RG 59, Records of the Department of State [812.6363/3899].

expropriate in the public interests as an effort to control Mexico. Britain's attitude made him recall the efforts during Mexico's revolution of British Minister in Mexico Sir Francis Stronge and American Ambassador Henry Lane Wilson to maintain privileges of foreigners exploiting Mexico's natural resources by helping Victoriano Huerta secure the presidency at the expense of Francisco Madero in 1913.⁸¹ Given Washington's lack of concern over the severity of the situation for Britain as well as the break in Anglo-Mexican diplomatic relations, Whitehall in the months ahead was to experience added frustration in trying to persuade Mexico to accept a settlement that would ensure oil supplies in an emergency.

In conclusion, the oil board, petroleum department, foreign office and the committee of imperial defence gave priority to making an example of Mexico to secure oil supplies for an emergency. Although Washington's help was unlikely to be forthcoming from the start, Whitehall was desperate enough to at least try to secure it. Taking an approach that stood the least chance of irritating Washington at a time when Britain needed US help in

⁸¹ Daniels to Hull, 9 April 1938, Papers of Josephus Daniels; Schulzinger, Robert D.: American Diplomacy in the Twentieth Century (Oxford: Oxford University Press, 1984), p. 53.

coping with the threat of war was very important. Without relations with Mexico, Whitehall's many requests for US help continued to elicit unhelpful replies. Washington had the upper hand in the situation more than ever and refused to communicate its policy with Whitehall. Whitehall became increasingly anxious that Washington might conduct policy at the exclusion of Britain's oil interests. Worse still Washington might set a precedent which would run counter to Whitehall's efforts to make an example of Mexico and thereby put British oil supplies in jeopardy. In losing the ability to communicate directly with Mexico City, Britain lost the ability to give the appearance of independence from the United States which was so important in approaching Washington. As the following chapters show, however, the lack of diplomatic relations did not substantially affect Anglo-US relations.

The blame for Britain being put in such a position lies principally with Owen O'Malley. Although his final note to Mexico had the approval of the foreign office, he alone received General Hay's warning that any reference to Mexico's internal debt would gravely offend the Mexican government, and he

alone chose to ignore the warning.⁸² He admitted that his posting to Mexico was 'seven months of arduous, obscure and unfruitful effort put forth in an atmosphere of physical exhaustion and mental perplexity.' He had nothing but contempt and disgust for Mexicans and expressed his grave doubts that the 'mingling of Spanish blood with the blood of numerous tribes of degenerate Indians' could make 'any permanently valuable contribution to humanity'.⁸³

His arguments for being recalled and exposing what he thought was Mexican insincerity about paying compensation to the oil interests contain logical gaps. His ostensible goal of demonstrating to the Mexican public and the world that the Mexican government could not pay compensation hardly necessitated the British government recalling him. Furthermore his argument about the benefits of recalling him depended on a revolution occurring in Mexico which despite, unsubstantiated speculation about the British government and Shell planning a revolution, he could not guarantee.⁸⁴ It could be argued that perhaps O'Malley, like others in the

⁸² Young to Balfour, 3 May 1938, FO 371 21468 [A3500/10/26]; Boal to Secretary of State, 12 May 1938, RG 59, Records of the Department of State [712.41/74].

⁸³ O'Malley to Foreign Office, 1 June 1938, FO 371 21472 [A4932/10/26].

⁸⁴ O'Malley to Foreign Office, 15 May 1938, FO 371 21470 [A3770/10/26].

British government, had been worried about the boycott of Mexican oil not lasting and wanted to make an example of Mexico before it broke down completely. O'Malley, however, should have known that jeopardizing Anglo-Mexican relations would not further this goal because so long as the United States had strong relations with Mexico, relations with Britain were relatively unimportant to Mexico, and Mexican nationalism made Cárdenas determined to make the expropriation succeed.

There is no doubt that O'Malley, after being forced into a situation which he despised and which caused him to sacrifice both his family home and his influence over the events in Europe, had great motivation to remove himself from such misery. Both the machinery of government as well as the timing of the expropriation just after the *Anschluss*, which focused Whitehall's attention on Europe rather than Mexico, allowed him to exercise enough influence over policy to provoke a break in relations to secure his return to Britain. His claim that he examined his conscience to see if in fact 'mischievous exasperation' or 'pugnacity' had led him to propose an unduly harsh policy toward Mexico rings of disingenuousness.⁸⁵ The very fact that he singled out

⁸⁵ O'Malley to Foreign Office, 1 June 1938, FO 371 21472 [A4932/10/26].

these emotions among so many other unmentioned possibilities indicates that they did indeed play a role in his actions.

CHAPTER FIVE

THE BOYCOTT: MARCH 1938-SEPTEMBER 1939

*Although firm in our attitude, we sought also to be friendly, in keeping with the spirit of the Good Neighbor.*¹
Cordell Hull

*The one remaining hope lay in the possibility that Mexico's difficulties in production, shipping and disposition of her oil might compel the government to seek reconciliation with the companies.*²
Frederick Starling

The Anglo-Dutch and American oil companies decided just after the expropriation to do whatever possible to cut off Mexican oil from the vital foreign market. Their tactics included getting the cooperation of tanker owners to deny the Mexican government access to tankers and persuading other oil companies not to purchase Mexican oil. The reactions of London and Washington to the oil companies' boycott illustrate the different priorities of the two governments. John Balfour and Frederick Starling saw the issue principally from the angle of defence and believed that

¹ Hull, Cordell: The Memoirs of Cordell Hull, Vol. 1 (London: Hodder & Stoughton, 1948), p. 610.

² Starling to Balfour, 4 May 1938, FO 371 21464 [A2479/10/27].

supporting the oil companies' boycott was vital to maintaining Britain's oil supplies. Frederick Starling, who largely took the lead in forming policy toward the boycott, hoped to get Mexico to return to the status quo ante, thereby discouraging other countries from expropriating British oil properties and helping to secure oil supplies world-wide in the event of war.

Both Starling and Balfour supported Mexican Eagle by having government agencies refuse to purchase Mexican oil, strongly dissuading British companies from doing business with Mexico and convincing other countries not to purchase Mexican oil. The cooperation Whitehall secured from the Bank of England was invaluable in obtaining the cooperation of the City of London to prevent British businessmen from selling Mexican oil by denying them the necessary finances to meet the obligations of distributing the oil. The American department and the petroleum department, despite criticism from the department of overseas trade, were so dedicated to the boycott that they also insisted other British businesses like Turner Brothers Asbestos Company and Tyneside shipbuilder Swan Hunter refrain from dealing with Mexico even at the loss of their business to American and German interests.

Washington maintained its priority of establishing a standard of respect for US interests

in Mexico before an eventual trade agreement with Mexico could be established. In support of the oil companies' boycott, Washington refused to permit any government agency to purchase Mexican oil or to loan money to Mexico. Whenever possible Hull advised companies wanting to market Mexican oil against doing so, although some of them took no notice of the advice, and officials in Washington usually requested other governments wishing to purchase Mexican oil not to do so. In addition, the Export-Import Bank denied a loan to a company wanting to do business involving Mexican oil.

Washington did not communicate or cooperate with London on matters involving the boycott of Mexican oil. As a result, Whitehall concluded that Washington was not taking action effectively to support the boycott. Whitehall was particularly angry that American independent oil producers continued to market Mexican oil with little apparent resistance from Washington. To Whitehall's frustration, the state department seemed reluctant to put pressure on other Latin American governments not to buy Mexican oil for fear of triggering a reaction in countries sympathetic to the expropriation.³ In reality however, Washington was doing whatever it could possibly do consistent with the Good Neighbor

³ Meyer, p. 209.

Policy to support the interests of the expropriated companies. Unlike Whitehall, which had so much at stake in terms of oil supplies, Washington usually did not want to run the risk of compromising relations between nations by putting too much pressure on foreign governments not to purchase Mexican oil. Also, Washington did not have the leverage in the banking world which was invaluable to Whitehall in controlling the activities of British companies wanting to sell Mexican oil.

THE OIL COMPANIES' BOYCOTT AND MEXICO'S RESPONSE

By organizing the boycott of Mexican oil, British and American oil interests hoped that the resulting increase in economic hardships and heightened social unrest would force President Cárdenas to leave office or return to the status quo ante on ownership of the oil properties. Among the ways the companies tried to achieve this goal was to pay oil workers to strike⁴ and to exacerbate the fall of the peso on the foreign exchange market by withdrawing their money from Mexican banks and dumping balances on the exchange markets. The companies also tried to stop the important influx

⁴ Daniels to Secretary of state, 8 June 1939, RG 59, Records of the Department of State [8122.6363/5838].

of foreign exchange from tourism by launching a campaign of negative publicity reporting gruesome murders, random acts of terrorism and other incidents designed to keep tourists away from Mexico. Even filling station attendants in the border states were drawn into the campaign and quite often successfully persuaded motorists not to continue on their planned journeys to Mexico. As a result of the propaganda, the income of dollars from tourism for 1938 decreased by one third from the previous year.⁵

Because the market for oil in Mexico and the rest of Latin America was relatively small at the time, the success of the oil industry depended greatly on sales abroad.⁶ Knowing Pemex had very few serviceable tankers, Jersey Standard and Royal Dutch/Shell in April 1938 convinced tanker owners not to sell or lease tankers to the Mexican government,⁷ and thereby denied Mexico access to 88 percent of the world's tankers.⁸ Most of the independent tanker companies and operators whom Mexican Finance Minister Eduardo Suarez approached refused to lease him tankers because the major

⁵ Meyer, p. 204.

⁶ Meyer, Lorenzo and Vazquez, Josefina Zoraida: The United States and Mexico (Chicago: University of Chicago Press, 1985), p. 151.

⁷ Memorandum of a Conversation between Duggan and Armstrong, 9 April 1938, RG 59, Records of the Department of State [812.6363/3459].

⁸ Everest, Allan Seymour: Morgenthau, the New Deal and Silver (New York: Columbia University Press, 1950), p.91.

companies threatened them with the permanent loss of their business if they dealt with Mexico. Only a few tanker operators offered to sell him tankers, and he planned to buy as many as possible and sell Mexican oil at ruinously low prices. The oil companies, however, were able to undermine the Mexican competition by lowering their oil prices.⁹

Standard Oil intimidated British and American independent oil companies transporting, refining and selling Mexican crude oil by bringing suits in American and European courts with the claim that the oil had been stolen. This litigation was not successful because most courts did not want to make a ruling on the legality of the expropriation. Furthermore, proving that the oil had come from an expropriated property was particularly difficult. The prospect of involvement in a lawsuit with one of the major oil companies, however, was the most decisive factor in making many independents avoid deals involving Mexican oil.¹⁰

In addition to intimidating independent oil companies with lawsuits, Standard Oil of New Jersey had the Ethyl Gasoline Corporation, which it controlled with General Motors, refuse to sell Mexico tetraethyl lead, an antidetonant necessary

⁹ Herschel Johnson to Hull, 14 April 1938, RG 59, Records of the Department of State [812.6363/3703].

¹⁰ Gordon, Wendall C.: The Expropriation of Foreign-owned Property in Mexico (Washington D.C.: American Council on Public Affairs, 1941), p. 126.

for processing gasoline and improving the quality of refined petroleum products.¹¹ Without tetraethyl lead Mexican gasoline could not without special equipment be refined to a high enough octane rating necessary to run an automobile motor.¹² This aspect of the boycott alone forced Mexico to stop exporting refined petroleum products, downgrade the quality of the domestically consumed fuel and import gasoline with a high enough octane rating for aircraft and other needs. Pemex was, however, able to produce some tetraethyl, but at a much higher cost than it used to buy it. Only after the American companies realised that their monopoly on tetraethyl was under threat did they agree to resume selling to Mexico.¹³

The major oil companies also tried to deprive Pemex of technicians and equipment necessary for the lucrative running of the oil industry. They threatened to withhold all orders from any company that sold equipment to the Mexican government.¹⁴ Makers of oil-drilling equipment and replacement parts in the United States returned cheques from the Mexican government for orders with the comment

¹¹ Randall, Stephen J: United States Foreign Oil Policy 1919-1948 (Kingston: McGill-Queens University Press, 1985), p.100; Meyer, p. 203.

¹² Unidentified newspaper clipping, 19 June 1938, RG 38, Records of the Chief of Naval Operations.

¹³ Meyer, p. 203.

¹⁴ Meyer, Lorenzo and Vazquez, Josefina Zoraida, p. 151.

that they simply could not afford to risk losing the business of Standard Oil. Mexican Foreign Minister Eduardo Hay complained to Daniels that the continued refusal of US manufacturers and dealers to sell to Pemex would force the Mexican government to turn to Germany where it would be able to barter oil for the necessary machinery, a prospect which caused Daniels anxiety.¹⁵

The cutting off of markets abroad was devastating for Mexico, and the boycott soon forced Mexico to sell oil to Japan, Germany and Italy. Between 50 and 60 percent of oil drilled in Mexico at the time of the expropriation was for foreign consumption. Although Mexican production declined dramatically after the expropriation, Mexico City still desperately needed markets for its oil. Because the boycott happened at a time when Japan, Italy and Germany desperately needed oil, Mexico City found markets rather quickly. Japan lacked the raw materials such as rubber and oil which the military needed to fulfil its ambitions, and the German policy on oil while the country prepared for war was to get as many possible stores from abroad and leave as much of its own oil as possible in the ground.¹⁶

¹⁵ Diary entry, 29 October 1938, Papers of Josephus Daniels.

¹⁶ Tugendhat, Christopher and Hamilton, Adrian: Oil: the Biggest Business (London: Eyre Methuen, 1975), p. 115.

Mexico City, therefore, organised many barter arrangements with Germany, Italy and, to a lesser extent, Japan, exchanging Mexican oil for technicians, machinery, tankers or other material.¹⁷ For example, on 20 October 1938, the Mexican petroleum administration arranged a deal with the Italian oil company, *Azienda Generale Italiana Petrole*, in which the company agreed to buy \$350 million worth of Mexican oil in exchange for tankers. Other deals with Italy involved rayon yarn.¹⁸ In June 1938, according to an article in the New York Times which was confirmed by the British consulate, a Japanese tanker pulled into a Mexican port and took away 12 thousand tons of fuel oil.¹⁹

INDEPENDENT OIL COMPANIES AND THE REACTION OF WASHINGTON

The issues that arose from the dealings of Eastern States Petroleum Company did more than any others to provoke mutual resentment between British

¹⁷ According to figures Lorenzo Meyer cites, between the expropriation and the start of World War II, Germany accounted for 48% of Mexican oil exports, while Italy accounted for 17% and Japan a less significant figure, which Meyer fails to provide. The US accounted for 20%. [Meyer, Lorenzo: Mexico and the United States in the Oil Controversy, 1918-1942 (Austin: University of Texas Press, 1972), p. 209].

¹⁸ Rippy, Merrill: Oil and the Mexican Revolution (Leiden: E.J. Brill, 1972), pp. 255-6.

¹⁹ Paz Salinas, p. 133.

and US interests. Eastern States was an American company which had negotiated a contract to sell 10,000 barrels of Poza Rica crude per day, most of which went to Germany, Italy and Sweden. In 1938 it pursued further negotiations to increase its purchases to 15,000, nearly the entire production of light crude from the oil field known to have so much potential.²⁰ The company had secured the agreement of US customs to allow it a rebate on the duty from bringing Poza Rica crude into the United States for refining as long as the company exported the oil rather than sold it within the US.²¹

In addition to the fact that an American company was selling the oil from the most promising field in Mexico which Mexican Eagle had discovered, Whitehall became very concerned that under the arrangement between Eastern States and US Customs Mexican oil would obtain a certificate of US origin and enter Britain. The British company Harris and Dixon had an agreement with the American company dating from November 1937 whereby it agreed to buy a certain amount of motor spirit or kerosene from Eastern States over a period of two and a half years. Eastern States had wanted Harris and Dixon to accept supplies that had originated in Mexico,

²⁰ Lockett to Daniels, 10 October 1938, RG 151, Records of the Bureau for Foreign and Domestic Commerce [File 312: Oils and Minerals-Mexico]

²¹ Telegram, New York to LC asdebatic, 28 October 1938, FO 371 21477 [A8255/10/26].

but the British company refused.²² When Captain Crookshank, secretary of mines, heard what Eastern States had done, he told Ivor Guest, chairman of Harris and Dixon, that he categorically did not want oil of Mexican origin to enter Britain. Guest responded by mentioning the practical difficulty of knowing the origin of any petroleum product they or any company planned to buy.²³

Mexican Eagle bitterly resented the activities of Eastern States. At the urging of Godber, managing director of Royal/Dutch Shell, Starling persuaded the foreign office to call on Lindsay to complain to the state department.²⁴ To Whitehall's and Mexican Eagle's frustration, however, Lindsay was unable to convince Washington to take strong enough action to stop the deal with Eastern States. The exasperated G. H. Thompson of the foreign office wrote that the situation with Eastern States 'scarcely suggests the US government can be counted upon for much help in preventing the export of "stolen" oil. We know they cannot.'²⁵ Starling believed that the arrangement of Eastern States not only placed another refinery at Mexico's disposal

²² Starling to Balfour, 4 November 1938, FO 371 21477 [A8221/10/26].

²³ Note of an Interview between the Secretary for Mines and Chairman and Director of Harris and Dixon's, 1 November 1938, FO 371 21477 [A8251/10/26].

²⁴ Starling to Balfour, 31 October 1938, FO 371 21477 [A8221/10/26]; Foreign Office to Lindsay, 4 November 1938, FO 371 21477 [A8251/10/26].

²⁵ Thompson, Minute, 28 November 1938, FO 371 21478 [A8981/10/26].

and helped strengthen Mexico, but also greatly embarrassed the British government and the governments which had been cooperating in the boycott.²⁶

In contrast to what London thought, Washington did make it difficult for Eastern States to continue with its arrangement of importing Mexican oil and refining it. Standard Oil of New Jersey approached Herbert Bursley, assistant chief of the division of American republics, about Eastern States' arrangement with customs and said that aiding the sale of the Mexican oil in such a manner gave the message to Mexico and the world that Washington tacitly approved of the expropriation.²⁷ The commissioner of customs agreed to investigate whether Eastern States was in violation of the Anti-Dumping Act of May 1921 because it was purchasing crude from Mexico at prices below those of the world market.²⁸ While Standard's efforts to get Eastern States convicted under this act failed, the procedure of the investigation which took several months harmed the company. The treasury department forced Eastern States to post bond to ensure it could pay the expenses in case of a

²⁶ Starling to Balfour, 31 October 1938, FO 371 21477 [A8221/10/26]; Foreign Office to Lindsay, 4 November 1938, FO 371 21477 [A8251/10/26].

²⁷ Memorandum of a Conversation between Bohannon and Bursley, 28 October 1938, RG 59, Records of the Department of State [812.6363/5027].

²⁸ Meyer, 203.

decision against it and refused to pay any of its rebate money for the duration of the investigation.²⁹ Also, the Export Import Bank denied a loan to the company even after it complained that the major oil companies' pressure on its former banking contacts caused them to deny the company collateralized bank loans.³⁰

When the large oil companies tried to prevent another American interest from organizing barter agreements between Germany and Mexico, Washington tried to stop such arrangements interfering with US trade but failed to involve itself too much for fear of making a precedent. American businessman William Rhodes Davis, who had lost his company Sabalo Transportation during the expropriation, entered into an agreement with the Mexican government whereby his company Eurotank would ship Mexican petroleum products mostly to Hamburg where he owned a refinery. According to the agreement Davis was to pay for what he was taking out of Mexico, 60 percent in German machinery and 40 percent in cash.³¹ Before Eurotank could collect any given shipment, the Mexican government required that Davis open the 40 percent cash credit with the First National Bank of Boston. When Davis had

²⁹ unmarked, undated document in Papers of Josephus Daniels.

³⁰ Whittmore, Vice President of the Export-Import Bank, to Duggan, 4 October 1938, RG 59, Records of the Department of State [812/6363/4902].

³¹ Herschell Johnson to Secretary of State, 16 June 1938, RG 59 [812.6363/4270].

problems opening the credit, which he blamed on the activities of the large oil companies who were trying to obstruct his business, the Mexican government prevented some of his tankers which had arrived in Mexico from sailing.³²

Daniels, Feis and Lockett were all anxious about the Davis contract. Lockett took action by persuading Suarez that in future any barter arrangement with Davis would involve the barter of American refinery equipment. When Davis attempted another arrangement involving technical help and refinery equipment to revamp Mexican refineries in exchange for oil, Suarez insisted that certain equipment be bought in the United States and found a company, Winkler Koch Company, who were prepared to sell to it.³³

However, when Standard Oil tried unsuccessfully to get Davis convicted under the Trading with the Enemy Act of 1917, Washington investigated the matter but ultimately did not persecute the company for fear of setting a precedent. As Duggan wrote:

The implication of such a proceeding would be that our government is now prepared to persecute dealers in products

³² Lockett to Daniels, 26 July 1938, enclosed in Daniels to Hull, 26 July 1938, RG 59, Records of the Department of State [812.6363/Davis and Company/92].

³³ Lockett to Daniels, 6 June 1938, RG 151, Records of the Bureau for Foreign and Domestic Commerce [File 312: Oils and Minerals-Mexico]; Lockett to Daniels, 10 August 1938, RG 151, Records of the Bureau for Foreign and Domestic Commerce [File 312: Oils and Minerals-Mexico].

expropriated without compensation from Americans throughout the world if these are the subject of diplomatic negotiations. This seems like a very large order.³⁴

The investigation, however, threatened the company financially because its resulting uncertainty created the need for financial assistance which bankers were withholding. The activities of the large oil companies in trying to interfere with or take over his business interests also caused Davis great concern. He claimed that they even offered to buy his obligations from the First National Bank of Boston.³⁵ When Davis complained to the US commercial attaché in Mexico about the major oil companies sabotaging his efforts with governments and large banks throughout the world, nothing was done.³⁶

³⁴ Lockett to Daniels, 3 August 1938, RG 151, Records of the Bureau for Foreign and Domestic Commerce [File 312: Oils and Minerals-Mexico]; Duggan to Secretary of State, 23 September 1938, RG 59, Records of the Department of State [812.6363/4879].

³⁵ Lockett to Daniels, 6 December 1938, RG 151, Records of the Bureau for Foreign and Domestic Commerce [File 312: Oils and Minerals-Mexico].

³⁶ Lockett to Daniels, 3 August 1938, RG 151, Records of the Bureau for Foreign and Domestic Commerce [File 312: Oils and Minerals-Mexico].

WHITEHALL'S REACTION TO INDEPENDENT COMPANIES
SELLING MEXICAN OIL

Participation in the boycott became official policy after representatives of the treasury, board of trade, petroleum department and foreign office decided in favour of economic reprisals on 29 March 1938 and then obtained the approval of the committee for imperial defence. They all agreed that the benefit of economic pressure was the example it would set for other countries contemplating Mexico's example.³⁷ Balfour in particular realised that economic pressure would probably not result in the return of the oil companies to working their former properties. But he believed that Mexico was probably headed for a revolution and hoped that the outside world would draw the conclusion that the boycott caused the revolution and that expropriations could not be done with impunity.³⁸

The petroleum department played a central role in making the boycott official British policy with its memorandum regarding the situation in the aftermath of the expropriation, which was passed from the oil board to the committee of imperial

³⁷ Interdepartmental Meeting at the Foreign Office, 29 March 1938, FO 371 21464 [A2472/10/26].

³⁸ Balfour, Minute, 9 May 1938, FO 371 21469 [A3663/10/26].

defence where it was approved.³⁹ The memorandum emphasised in particular that access to oil supplies abroad in an emergency necessitated having organized facilities for refining, storing and transporting in important oil producing countries. Due to the absence of cooperation from Washington in the diplomatic handling of the situation, resorting to economic sanctions was Britain's last hope of making an example of Mexico to protect these facilities world-wide.⁴⁰

After official policy was decided in favour of the boycott the treasury secured the cooperation of banks and financial houses to deny requests for credit to businesses that traded in Mexican oil.⁴¹ In addition Prime Minister Neville Chamberlain, announced in parliament that no government department would purchase Mexican oil,⁴² and on 27 April 1938 R.A. Butler, parliamentary undersecretary at the foreign office, announced in the house of commons that British subjects marketing Mexican oil were embarrassing the British government.⁴³

³⁹ Meeting of the Committee of Imperial Defense, 12 May 1938, FO 371 21469 [A3663/10/26].

⁴⁰ Petroleum Department, Memorandum, 8 April 1938, FO 381 21469 [A3663/10/26].

⁴¹ John Simon to Montagu Norman, 22 April 1938, G1/495 4261/5, Bank of England Papers.

⁴² House of Commons, Parliamentary Debates, (London, H.M.S.O., 1938), 29 April 1938.

⁴³ House of Commons, Parliamentary Debates, (London, H.M.S.O., 1938), 27 April 1938.

Balfour was furious about the new arrangement between Davis and the Mexican government, the boycott's seemingly diminishing effectiveness and the fact that American independent oil companies persisted in dealing in Mexican oil. Balfour was especially worried that Mexico was obtaining German drilling machinery and material for the refineries from US firms rather than British material and equipment from British firms as previously. Most importantly, Balfour was upset that because of activities of people like Davis, the Mexican government was able to continue producing oil.⁴⁴ Mexican Eagle was equally angry about Washington's policy. Godber complained to Starling that Davis was the main purchaser of Mexican oil and was ruining their efforts to bring the Mexican government around to a more conciliatory attitude towards foreign oil interests.⁴⁵

Balfour and Starling were so committed to the boycott that they insisted that British businesses who wanted to deal in Mexican oil forego opportunities that went to foreign competitors. Harrison Ltd. of London had agreed to cooperate with Davis to help supply tankers for the haulage

⁴⁴ Balfour, Minute, 14 December 1938, FO 371 21478 [A9251/10/26].

⁴⁵ Starling to Balfour, 22 September 1938, FO 371 21476 [A7363/10/26]; Herschel Johnson to Secretary of State, 25 May 1938, RG 59, Records of the Department of State [812.6363/Davis and Company/44].

of Mexican oil,⁴⁶ and because of the objections of the British government Harrison had to tell Suarez the company could not continue the negotiations. The withdrawal of Harrison left Davis, seemingly unrestrained by Washington, as the sole negotiator in the deal.⁴⁷

Starling and Balfour also called upon other British interests to make sacrifices for the boycott and risk losing their business to foreign interests. Turner Brothers Asbestos Company, Ltd. reported that in August the Mexican petroleum administration sent it an order, and that because of the advice of the department of overseas trade, it turned the order down. It made clear to the department of overseas trade the fact that its adherence to the boycott by refusing to trade with the Mexican oil administration was costing the company a considerable amount of business which was going to American and German competitors.⁴⁸ The company wrote to the department,

It is unreasonable to expect us to incur the serious financial sacrifices involved in compliance with [Whitehall's] wishes unless there is some clear indication that these sacrifices are serving a really useful purpose and that it

⁴⁶ Lockett to Boal, 3 May 1938, RG 151, Records of the Bureau for Foreign and Domestic Commerce [File 312: Oils and Minerals-Mexico].

⁴⁷ Boal to Secretary of State, 2 May 1938, RG 59, Records of the Department of State [812.6363/3751].

⁴⁸ Department of Overseas Trade to Foreign Office, 18 August 1938, FO 371 21475 [A6553/10/26].

will not be necessary to continue them indefinitely.

Turner Brothers complained that some British firms were surreptitiously doing business with Mexico and wanted assurances that adherence to the boycott was widespread among British business. Otherwise, 'it would seem rather quixotic of us to continue as at present if we are in a small minority in doing so.'⁴⁹

G.H. Thompson of the foreign office was relatively sympathetic to trade matters and tried unsuccessfully to caution other members of the foreign office against what he considered an unjustifiably optimistic attitude on the part of the oil companies about what the boycott was capable of achieving. When the department of overseas trade forwarded the complaints of Turner Brothers and others to him, he had 'every sympathy with the manufacturing interests who incurred appreciable losses in supporting the boycott policy of the oil companies.' He minuted,

I can not see how we can expect equipment makers and others to continue losing opportunities and passively in time the Mexican market altogether. The question seems all the more urgent having regard to the fact that Germany is to pay for part of her oil from Mexico in machinery.⁵⁰

⁴⁹ Turner Brothers Asbestos Company to the Comptroller General, Department of Overseas Trade, 4 December 1938, FO 371 21478 [A9323/10/26].

⁵⁰ Thompson, Minute, 12 December 1938, FO 371 21478 [A9323/10/26].

His opinion did not have time to take hold because Starling took charge of the replies to the companies who were making the complaints and told them that Britain had to maintain the boycott to set an example for Mexico because of

the serious effect on British enterprise abroad which would result if action similar to that taken by the Mexican government in expropriating properties of the oil companies were followed by other governments.

This decision also affected the interests of Swan Hunter, who also wanted to do business with Mexico.⁵¹

Starling, with Balfour's support, controlled most of the policy with regard to British independent oil interests wanting to do business with Mexico. When Godber learned the news that the American Ben Smith and Francis William Rickett, a British citizen, of Thames Haven Company, allegedly backed by Lord Inverforth, director of Parent Petroleum Interests, had been negotiating a contract with the Mexican government for the disposal of the entire output of Mexican oil, he was furious and complained to Starling that something official had to be done.⁵² Starling shared Godber's feelings of outrage at Rickett, who a few years before had signed a deal in Ethiopia

⁵¹ Starling to Balfour, 23 December 1938, FO 371 21478 [A9634/10/26].

⁵² Starling to Balfour, 7 April 1938, FO 371 21465 [A2669/10/26].

for the African Exploration and Development Corporation, and took as effective steps as possible to stop him. Starling was especially concerned that such actions by independents might harm British commercial enterprises in foreign countries and was very irate that people who were dealing in what he considered stolen goods were depriving the Mexican Eagle of the last hope of getting their properties returned. Starling, therefore, insisted that the British government 'place any obstacle that it can in the way of the disposal of Mexican oil in British territory,'⁵³ and the foreign office instructed O'Malley to inform people like Rickett that their activities were embarrassing the British government.⁵⁴ Rickett reluctantly agreed to stop his activities involving Mexican oil.⁵⁵

Not trusting Rickett to keep his word, Starling also accepted Godber's advice to do something to dissuade British banks from helping him.⁵⁶ Starling requested that S. D. Waley, principal assistant secretary in the treasury, tell the City of London to withhold financial aid from Inverforth and Rickett and other interests who were

⁵³ Starling to Balfour, 4 May 1938, FO 371 21464 [A2479/10/26].

⁵⁴ Foreign Office to O'Malley, FO 371 21465, 7 April 1938, [A2703/10/26].

⁵⁵ O'Malley to Godber, 9 April 1938, FO 371 21466 [A2973/10/26].

⁵⁶ Starling to Balfour, 7 April 1938, FO 371 21465 [A2669/10/26].

determined to deal in Mexican oil in a similar way that US banks were withholding assistance at the request of Farish.⁵⁷ The City came to the support of the government by printing letters in the London papers expressing their opposition to any British financial institutions contributing in any way to the disposal of the Mexican oil.⁵⁸ Starling, through the treasury, also persuaded the Bank of England to have British banks scrutinise applications for credit and refuse to loan money to companies that wanted to sell Mexican oil.⁵⁹ Indeed, the British government's action successfully obstructed the deal with Rickett, and Suarez blamed Lloyd's Bank's withdrawal of support and Whitehall's pressure for ending Mexico's negotiations with Rickett and Smith.⁶⁰

Whitehall at the initiative of Starling, not only responded to the direct wishes of the oil companies but also used its policy as an example to Washington. After hearing that Hull had recently questioned representatives of the US oil companies about Inverforth's activities, Balfour was determined subtly to 'make it clear to the State

⁵⁷ Starling to Waley, 7 April 1938; John Simon to Montagu Norman, 22 April 1938, G1/495 4261/5, Bank of England Papers.

⁵⁸ Herschel Johnson to Hull, 14 April 1938, RG 59, Records of the Department of State [812.6363/3703].

⁵⁹ John Simon to Montagu Norman, 22 April 1938, G1/495 4261/5, Bank of England Papers.

⁶⁰ Daniels to Secretary of State, 13 April 1938, RG 59, Records of the Department of State [812.6363/3465].

Department that we deplore the attempts of Inverforth and others to exploit the situation.⁶¹ He hoped the state department would decide to assume a similar policy with American independent companies dealing in Mexican oil. On Balfour's instructions,⁶² Lindsay mentioned to Laurence Duggan, chief of the division of American republics of the state department, the British government's reaction to Rickett and Rickett's expressed intention to cooperate with Whitehall. Careful as usual not to offend Washington, Lindsay acknowledged it was difficult for the US to get the degree of cooperation from US business that Whitehall got from British business, but also made a general statement that there were many more people like Rickett ready to take advantage of the situation - a subtle and tactful hint that Washington should stop the American Ben Smith who had been involved in the deal with Rickett.⁶³

Despite Whitehall's efforts, Rickett was determined to come to a deal with Mexico and hoped to win official approval by mentioning imminent talks between Suarez, Castillo Nájera and the White House in order to play on the British government's

⁶¹ Balfour, Minute, 7 April 1938, FO 371 21465 [A2711/10/26].

⁶² Balfour, Minute, 6 April 1938, FO 371 21465 [A2703/10/26].

⁶³ Memorandum of a Conversation between Lindsay and Duggan, 11 April 1938, RG 59, Records of the Department of State [812.6363/3511].

fear of an exclusive US-Mexico agreement. Rickett also mentioned the activities of Davis and implied that it would be useful for British interests in general for him to get a foot in Mexico in case of a Mexican-American oil settlement which would exclude British interests. He also believed he needed to ease Davis away from Mexico to prevent oil falling into undesirable hands.⁶⁴ He realised the importance of Mexican oil to British supplies in an emergency and offered to help the British government settle the oil problem with Mexico. He also told the British government that the Parent Petroleum Company in which he was interested should be allowed to secure Mexican oil for their refinery in Dublin.⁶⁵ Although Rickett used arguments that drew on genuine British anxieties, the British government was so committed to the boycott that his suggestions were cast aside.

Starling and Balfour also refused to support the activities of the British company, Centralamer Ltd., which Mexico City had allowed before the expropriation to drill in the rich Poza Rica field and dispose of oil produced by the government organisation Pemex as well as royalty oil received by the government for certain concessions worked by

⁶⁴ Rickett to Sir George Mounsey, 17 January 1939, FO 371 22771 [A481/4/26].

⁶⁵ Rickett to Sir George Mounsey, 14 April 1939, FO 371 21466 [A2817/4/26]; Balfour, Minute, 24 April 1939, FO 371 21466 [A2817/4/26].

the oil companies.⁶⁶ Starling and Under Secretary of the Mines Department Sir Alfred Faulkner, who rarely got involved in the Mexican matter, strongly disagreed with the company's arguments that the position of the major oil companies who had lost their properties was irrevocable and that Whitehall should, therefore, approve of Centralamer selling Mexican oil. Faulkner told him that Centralamer's pursuit of Mexican oil was highly embarrassing and emphasised the obligation of the British government to do everything possible to restore Mexican Eagle's previous position in the Mexican oil industry. Starling and the secretary for mines also were very concerned about what Washington would think in light of the rumour that Mexican Eagle controlled Centralamer. Starling believed that if Centralamer persisted with its contract, it would harm the chances of getting the cooperation of the United States government which disapproved of British oil interests operating in Mexico.⁶⁷

Starling, therefore, requested that Sir George Mounsey of the American department inform Centralamer that the British government strongly condemned its activities. The company's chairman, however, stubbornly refused to break the contract with Mexico because it had originated before the

⁶⁶ Department of Overseas Trade to Foreign Office, 11 August 1938, FO 371 21475 [A6732/10/26].

⁶⁷ Starling to Balfour, 29 March 1938, FO 371 21464 [A2433/10/26].

expropriation.⁶⁸ Whitehall was not able to stop Centralamer's activities until it got the cooperation of the City of London to help prevent the deal materialising.⁶⁹

WASHINGTON'S AND LONDON'S REACTIONS TO COUNTRIES
TRYING TO PURCHASE MEXICAN OIL

Whitehall was resentful not only of Washington's seemingly relaxed policies toward maverick American independents, but also of its reaction to other countries trying to purchase Mexican oil. Balfour and Starling wanted to inform Washington Whitehall was supporting the boycott and, thereby, to set an example for Washington to lend their full support to British policy. At Balfour and Starling's instruction, Lindsay told Washington of Whitehall's request to the government in Australia not to accept any more Mexican oil. Balfour and Starling also wanted Lindsay to emphasise the dangers of the increasing shipments of oil to Germany and the news that an Italian delegation including representatives of the *Azienda Generale Italiana Petrole* were going to Mexico to

⁶⁸ George Mounsey, Minute, 30 March 1938, FO 371 21464 [A2481/10/26].

⁶⁹ John Simon to Montagu Norman, 22 April 1938, G1/495 4261/5, Bank of England Papers.

discuss possible purchases of substantial amounts of oil.⁷⁰

Despite what officials in Whitehall thought about US policy, the state department did try to discourage countries from purchasing Mexican oil. When Washington learned that Uruguay's National Administration of Fuel, Alcohol and Portland Cement, a government organisation, had bought 10 thousand tonnes of fuel oil from the Mexican government at a price that was between 13 cents and 15 cents per barrel less than market quotations at the time, Hull urged the government to use caution about purchasing oil when its ownership was unclear.⁷¹ Whitehall warned Uruguay that purchasing Mexican oil would be construed as an unfriendly act,⁷² and Uruguay finally agreed not to purchase Mexican oil after Shell offered Uruguay a lower price for comparable oil from elsewhere.⁷³

Both Godber and Thomas Armstrong, a manager of Jersey Standard, were very upset when they learned about a proposed barter deal between the Mexican government and Swiss manufacturers of machinery. Armstrong complained to the state department and

⁷⁰ Lindsay to Scott, October 1938, FO 371 21476 [A7909/10/26].

⁷¹ William Dawson, Montevideo, to Secretary of State, 9 June 1938, RG 59, Records of the Department of State [812.6363/4223]; Hull to the American Legation in Montevideo, 24 August 1938, RG 59, Records of the Department of State [812.6363/4629].

⁷² Mr. Milington-Drake (Montevideo) to Foreign Office, 27 August 1938, FO 371 21553 [A6823/1001/45].

⁷³ Coleman to Mr. Busk, 8 September 1938, FO 371 21553 [A 7000/1001/46].

suggested that the department make the most of the close commercial relationship between the two countries by having the American minister in Berne advise the Swiss government against the arrangement. Berle, however, rejected the request because he feared that if Washington became involved in such matters, it would eventually have 'disputes with the whole world'. He also thought it was unrealistic for the oil companies to expect the boycott completely to keep Mexican oil from foreign markets:

The Standard Oil Company formulated a policy on the ground that no Mexican oil could be transported or sold; we did not agree and told them so. Now they wish the United States government to back up their hopelessly wrong estimate of the situation.⁷⁴

By contrast, Starling and Balfour were very willing to support Godber in the matter. When he complained to the petroleum department, Starling and Balfour agreed that it was of utmost importance to do everything possible to prevent oil going to Switzerland.⁷⁵ Balfour was prepared to resort to pressure with regard to the negotiations for the trade treaty in order to get the Swiss government to abandon discussions with Mexico City. He was ready to get the approval of the board of trade for

⁷⁴ Armstrong to Duggan, 2 September 1938, RG 59, Records of the Department of State [812.6363/4779].

⁷⁵ Colman to Holman, 2 September 1938, FO 371 21475 [A7025/10/26].

such pressure when the Swiss-Mexican negotiations fell apart on their own accord.⁷⁶

The case of Argentina was different for Washington because the United States had more at stake in terms of trade. Mexican oil imports posed a threat to the US imports there, and the state department as a result was more direct with the Argentine government. When a Mexican representative tried to convince the Argentine government to exchange Mexican oil for various products,⁷⁷ the state department reminded it that the US had refrained from putting its wheat on the same market with Argentine grain in Brazil. In return, the department asked for Argentina's cooperation in not buying Mexican oil.⁷⁸ The British ambassador also made representations to the Argentine government against Mexican oil entering Argentina.⁷⁹ Afraid of the consequences, the Argentine government informed the Mexican embassy that it could not use foreign exchange to import Mexican oil.⁸⁰

The state department also took fairly strong action when it learned that the Nicaraguan

⁷⁶ Balfour, Minute, 10 December 1938, FO 371 21478 [A9342/10/26].

⁷⁷ Memorandum of the Division of American Republics, 24 September 1938, RG 59, Records of the Department of State [812.6363/4903].

⁷⁸ Meyer, p. 208.

⁷⁹ Starling to Balfour, 28 July 1938, FO 371 22774 [A5926/10/26].

⁸⁰ Meyer, p. 208.

government, through a private firm, whose partners included some of the dictator Anastasio Somoza's closest associates, had acquired 1,200 tons of Mexican asphalt while it was building a highway with US aid. The state department decided to take a strong stand because it suspected that the Nicaraguan government had been using US funds to purchase asphalt from Mexico which it could have bought from a Nicaraguan subsidiary of Standard Oil who agreed to meet Mexico's price. Washington sent a US envoy to Managua to protest the transactions to Somoza, who told him that he was purchasing Mexican products out of fear that if he did not, the Mexican government would give aid to his political adversary, General Chamorro.⁸¹ After the representation, there were no more direct purchases of Mexican oil by the Nicaraguan government until a private company emerged which distributed Mexican oil throughout the country. As before, Washington protested, and Somoza finally agreed to take all steps possible to keep Mexican oil and oil products out of Nicaragua.⁸²

Pressure from Washington in Guatemala was far more subtle than in Nicaragua and Argentina. For the Mexican government, Guatemala was particularly

⁸¹ Mrs R.M. Hughes, 'Mexican Oil in Latin America', 6 May 1939, RG 59, Records of the Department of State [812.6363/5805].

⁸² Meyer, pp. 207-9; Wood, Bryce: The Making of the Good Neighbor Policy (New York: Columbia University Press, 1961), p. 233.

attractive because it was the only market that was largely accessible by rail. Before January 1939, 670 barrels of Mexican gasoline entered the country, and later in the year a Guatemalan firm was created to distribute Mexican oil. Washington reacted by having the US legation seek information about Mexican oil entering Guatemala. In response, a Guatemalan representative defended his government's action, explaining that while his government did not like taking Mexican products it was not able legally to prevent the importation of Mexican gasoline. Shell officials eventually persuaded Guatemalan officials not to purchase Mexican oil by offering them the alternative of buying oil from Shell.⁸³

When a Mexican representative went to Brazil and sought to exchange Mexican oil for various products, the Brazilian minister for foreign affairs did not cooperate and tried to stop the sale of Mexican oil in his country.⁸⁴ The US embassy observed his efforts and encouraged him in his opposition to other cabinet members who wanted to organise an agreement with the Mexican government to import Mexican oil. US efforts failed, however. Despite the foreign minister's

⁸³ Mrs. R.M. Hughes, 'Mexican Oil in Latin America', 6 May 1939, RG 59, Records of the Department of State [812.6363/5805].

⁸⁴ Memorandum of the Division of American Republics, 24 September 1938, RG 59, Records of the Department of State [812.6363/4903].

opposition, the Brazilian government succumbed to the temptation of Mexico's low prices. A large company to distribute Mexican oil in Brazil was created and continued to import Mexican oil until the end of 1941.⁸⁵

When the Mexican government gave oil to the Chilean government to alleviate shortages in the aftermath of an earthquake, Washington denied a request to exempt Chilean naval transport carrying 4,500 tonnes of Mexican petroleum from tolls at the Panama Canal.⁸⁶ Standard Oil was furious when it heard of the Mexican government's alleged plans to contribute to the campaign of Chilean President Pedro Aguirre Cerda in the forthcoming elections in return for the promise that if he won he would purchase Mexican oil.⁸⁷ Although Standard sharply criticised the Mexican government for what it believed was interference in the internal affairs of another country, Washington took no decisive action when the government of Chile bought small quantities of Mexican fuel for its Navy from 1939 until 1942.⁸⁸

After Centralamer offered to sell the French government 100,000 tonnes of Mexican oil for

⁸⁵ Meyer, p. 208.

⁸⁶ Mrs. R.M. Hughes, 'Mexican Oil in Latin America', 6 May 1939, RG 59, Records of the Department of State [812.6363/5805].

⁸⁷ Memorandum of the Division of American Republics, 24 September 1938, RG 59, Records of the Department of State [812.6363/4903].

⁸⁸ Meyer, p. 208.

defence, Washington tried to stop it. The French government badly needed oil and wanted to purchase oil from Mexico, and the French foreign ministry approached the state department enquiring about its attitude towards Mexican oil being sold very cheaply and perhaps displacing petroleum normally supplied by US firms. Duggan realised that French distributors with long-standing contracts to purchase and distribute oil from various sources were putting pressure on the French government to prohibit the importation of oil from Mexico. He also believed the French government wanted to be able to oblige the wishes of the French distributors along with an announcement that French policy had official approval from Washington and London. Hull expressed his opinion that it was 'highly undesirable' for Washington to give the French permission to allow Mexican oil into France.⁸⁹

The French government, even less self-sufficient than the British in oil, was more worried than Whitehall about oil supplies in an emergency. Like London, it was concerned that the US neutrality legislation would prevent it from getting supplies from the US. The French received much of its oil from sources where British influence was predominant and relied on British

⁸⁹ Lawrence Duggan to Welles, 4 August 1938, RG 59, Records of the Department of State [812.6363/4665].

tankers for approximately 16 percent of its imports. It, therefore, liked the idea of getting oil from Mexico because it was relatively easily accessible by sea.⁹⁰

The matter was complicated by a set of talks which the French government had initiated in March 1937 towards an Anglo-French oil purchasing agreement to guarantee supplies of oil in an emergency. The petroleum department, the air ministry and the service departments were concerned that Anglo-French cooperation in oil would give Hitler the impression that the two countries were preparing an alliance designed to encircle Germany and inspire more aggression.⁹¹ Official negotiations between the two sides did not start until June 1938 at which time the French did not succeed in getting all of the information they felt they needed. By the Spring of 1939 the governments had met and drawn up principles of cooperation regarding oil supplies, but despite the progress, the two sides lacked a sense of common purpose. After the Spring, they met infrequently, and the discussions did nothing to alleviate the French government's anxieties over oil supplies.⁹²

⁹⁰ Payton-Smith, D.J.: Oil: A Study of War-time Policy and Administration (London: Her Majesty's Stationery Office, 1971), p. 71.

⁹¹ Payton-Smith, pp. 69-71; Balfour and Nicholls, Minutes, 9 April 1938 FO 371 21465 [A2806/10/26].

⁹² Payton-Smith, p. 73-4.

Starling, who led the British reaction to Centralamer's offer to France, believed that while 100,000 tonnes would not do much to stop Mexico's worries about markets, its purchase would set a bad example.⁹³ After hearing Starling's concerns, Balfour emphasized the importance of persuading the French government not to purchase the oil from Centralamer.⁹⁴ Given the strong opinions in the foreign office and the petroleum department on the one hand and the British government's knowledge about France's grave worries about its oil supplies for emergencies on the other hand, Whitehall was in a delicate position. Balfour, therefore, decided not to insist that France refuse the offer of Mexican oil. He asked Sir Eric Phipps, the British ambassador to France, merely to hint to the French government to cooperate with the British in the boycott, and to make a strong but general statement that Whitehall highly disapproved of the activities of independent oil companies who wanted to sell Mexican oil. He was so careful not to exacerbate any French feelings of resentment with regard to the conversations about the joint purchasing agreement that he did not want Phipps to let on

93 Starling to Ashton-Gwatkin, 25 March 1938, FO 371 21464 [A2471/10/26].

94 Minute of Balfour, 31 March 1938, FO 371 21464 [42471/10/26]; Balfour to Phipps, 1 April 1938, FO 371 21464 [A2471/10/26].

that Whitehall knew about Centralamer's specific offer to France.⁹⁵

The French government's response gave the British government the impression that French cooperation in the boycott could be won by progress in the Anglo-French oil negotiations. The *Quai d'Orsay* stated that before the former French government resigned it had decided that it would not stand in the way of any policy pursued by the British or US governments with regard to the Mexican oil expropriation. Most importantly, he expressed hope that the French refusal to purchase Mexican oil would influence the British government to expedite the establishment of an effective Franco-British purchasing policy.⁹⁶ Yet when the French government started to feel even more desperate in May 1938 about its oil supplies, it wavered in its agreement to cooperate with the British and American governments in the boycott. The Mexican government increased the French temptation to purchase Mexican oil by saying if the French did not purchase it, Mexico would sell it in Italy or Germany. Charles Corbin, the French ambassador to Britain, therefore, told Alexander Cadogan that in present circumstances this outcome would be very undesirable and that the French

⁹⁵ Balfour to Phipps, 1 April 1938, FO 371 21464 [A2471/10/26].

⁹⁶ Phipps to Halifax, 9 April 1938, FO 371 21465 [A2806/10/26].

government had not yet decided what to do about Mexico's offer.⁹⁷

Roger Cambon, the counsellor in the French Embassy in London, later appealed to Holman for fairness in the face of France's need for oil. Germany's and Italy's acquisition of large quantities of oil infuriated the French. It was one thing for France to agree to forego small quantities of Mexican oil to support the boycott policy, but so long as large amounts of oil were involved, the French were not prepared to let the opportunity pass to buy oil which otherwise would have fallen into German or Italian hands. The French government saw no reason to adhere to a policy which was not successful for Britain and was setting back French preparedness for the war.⁹⁸ The British thus realised that news of large shipments to Germany and Italy in August and September would strengthen the French government's resolve not to participate in the boycott.⁹⁹ Despite the pressure, the British attitude remained the same.

Another problem for Whitehall was to convince the French government to prevent Mexican oil in transit from being stored in France. Starling in

⁹⁷ Cadogan, Memorandum, 20 May 1938, FO 371 21470 [A3960/10/26].

⁹⁸ Holman to Starling, 23 August 1938, FO 371 21475 [A6561/10/26].

⁹⁹ Balfour, Minute, 9 September, 1939, FO 371 21476 [A7026/10/26].

particular was furious when he learned that large consignments of Mexican oil had arrived at the port of Le Havre from Mexico and were discharged into the storage tanks of the *Compagnie Industrielle Maritime*, a company which had the exclusive concession in the port for the operation of storage tanks for petroleum production.¹⁰⁰ He took the initiative and had Holman talk to Cambon to stop such activities.¹⁰¹ Holman casually mentioned the recent case of Mexican oil being stored at Le Havre, and Cambon promised to tell Paris.¹⁰²

The French government was initially reluctant to cooperate with the British on the matter, and at the news of Mexican oil going to Italy and Germany, it allowed one or two more cargoes of Mexican oil to enter France. The French government, however, became increasingly aware of the danger of Mexico's example spreading, and eventually Mexican Eagle succeeded in obtaining French support. Cambon informed Balfour that large private French oil corporations as well as the French government were refraining from purchasing Mexican oil. Although Mexican Eagle ultimately failed to seize Mexican cargoes through the French court system,¹⁰³

¹⁰⁰ Samuel Wiley to Hull, 25 October 1938, RG 59, Records of the Department of State [812.6363/Davis and Company/141].

¹⁰¹ Starling to Holman, 9 August 1938, FO 371 21474 [A6268/10/26].

¹⁰² Holman to Starling, 23 August 1938, FO 371 21475 [A6561/10/26].

¹⁰³ Starling to Balfour, 30 November 1938, FO 371 21478 [A9047/10/26].

Starling was satisfied that French authorities had helped Mexican Eagle 'behind the scenes'.¹⁰⁴ The French however were still not prepared to give up their hope of obtaining Mexican oil and tried to mediate between Mexico City and London to come to an agreement so France could purchase Mexican oil without complications. French efforts stopped abruptly when the Mexican government accepted the French offer of posing as a mediator on condition that the British government recognise the legality of the nationalisation.¹⁰⁵

WASHINGTON'S POLICY AND ITS CRITICS

Washington's stopping special purchases of Mexican silver and allowing the price on the world market to decrease soon drew criticism from some American officials worried that it would drive Mexico into close trade and perhaps military ties with the fascist powers, especially while the boycott was taking place. Robert McGregor, American consulate general in Mexico, suspected Mexico was re-exporting to other Latin American

¹⁰⁴ Perowne to Campbell, 14 August 1939, FO 371 22774 [A5542/4/26].

¹⁰⁵ Mexican Embassy in Paris to Georges Bonnet, 12 January 1939, FO 371 22775 [A6395/4/26]; Meyer, p.184.

countries some of the German machinery it received in exchange for Mexican oil at prices which competed with those of US goods and that increased Mexican trade with Germany was threatening other Latin American markets for US goods.¹⁰⁶ McGregor warned of 'far reaching' repercussions in Mexico of any further decline in silver prices in Mexico.¹⁰⁷ Herbert Bursley, assistant chief of the division of American republics expressed his concern that American goods were becoming unaffordable to Mexicans because of the exchange rate.¹⁰⁸ Daniels, a staunch critic of the boycott who wanted to protect Mexico's economic well-being, repeatedly wrote to Hull. Both he and Lockett knew that the Mexican government desperately needed to sell their oil for cash in order to get dollar exchange which was needed to purchase US goods.¹⁰⁹ Daniels bluntly told Hull that the United States had the most to lose from the barter transactions because former US markets in Mexico were receiving goods from German and other competitors.¹¹⁰ Although US exports to Mexico declined 35.5 percent during the

¹⁰⁶ Meyer, p. 213.

¹⁰⁷ Robert G. McGregor, *Analysis of the Mexican Silver Industry*, 30 January 1939, RG 59, Records of the Department of State [812.6342/36].

¹⁰⁸ Herbert Bursley to Mr. Briggs, 30 November 1938, RG 59, Records of the Department of State [611.1231/296].

¹⁰⁹ Lockett to Daniels, 19 October 1938, RG 151, Records of the Bureau for Foreign and Domestic Commerce [File 312: Oils and Minerals-Mexico].

¹¹⁰ Daniels to Hull, 9 December 1938, Papers of Josephus Daniels.

first nine months of 1938 from the same period in 1937, Daniels and other critics of US policy seemed to forget the fact that Mexico had increased its tariff rates on US goods at the beginning of 1938 which had badly impacted the sale of US goods in Mexico.¹¹¹

Daniels was concerned not only about US interests that wanted to trade with Mexico but also about defence, and he warned Hull:

If as is almost certain Mexico must barter oil for German, Japanese and Italian goods or be drowned in oil, the United States business houses and manufactures will lose the big market [they have] enjoyed in Mexico, and we know from experience in some South American countries, that trade influences other associations.¹¹²

Daniels also railed against the oil companies whose intransigence in refusing to negotiate with Mexico and whose pursuit of the boycott he found highly destructive.

The loss of this market does not seem to concern the Standard oil and other American oil companies. Just as long as they make money for themselves they seem indifferent as to what happens either to other business concerns or to the Good Neighbor policy upon which we set such store.¹¹³

¹¹¹ Robert G. McGregor, *Analysis of the Mexican Silver Industry*, 30 January 1939, RG 59, Records of the Department of State [812.6342/36].

¹¹² Daniels to Hull, 22 August 1938, President's Secretary's File, Papers of Franklin Roosevelt.

¹¹³ *Ibid.*

Daniels tried to convince Hull to get the oil companies to negotiate with Mexico, but Hull for the moment was adhering to the oil companies' wish to refrain from negotiations.

In conclusion, the boycott failed to achieve its main objective of getting the Mexican government to return the properties to the oil companies. The initial effect of the boycott, however, was quite devastating with the loss of much of Mexico's foreign market for oil after March 1938, and as a result the Mexican government had substantially to curb oil production, Mexico's third most important economic activity. In 1938 exports fell to 14,562,250 barrels from 24,960,335 in 1937. The situation, however, improved greatly between January 1939 and the start of war in September. During that time, approximately 1,750,000 barrels per month were sold to foreign buyers. This figure compared relatively well to the average monthly foreign sales of 2,080,028, in 1937, and because Pemex 's output was spoken for in August, it had to stop taking orders. The Allied blockade after the outbreak of war in Europe, however, caused exports once again sharply to decrease due to the loss of the German and Italian markets. Although new customers were found for some of Mexico's output, sales did not return to levels reached before August 1939. Cárdenas was

determined that the nationalisation should succeed, however, and the Mexican oil industry eventually came to rely on domestic consumption.¹¹⁴

In the absence of relations with Mexico, the boycott of Mexican oil seemed to be Whitehall's only hope of getting Mexico to return the oil properties. To Starling, abandonment of the boycott would allow Mexico City the opportunity to show its policy as a triumph in the eyes of the world and leave Whitehall the awkward task of explaining the adoption of a new policy to foreign governments who had already been asked to support the embargo.¹¹⁵ Britain's anxiety over oil supplies inspired Whitehall to support the oil companies' boycott fully with, for example, an announcement in Parliament discouraging British interests from making arrangements harmful to the boycott and the Bank of England's request that British banks scrutinise applications for credit for companies wishing to deal in Mexican oil. The close relationship between Whitehall and British business and banking interests made Whitehall's efforts to enforce the boycott more successful than Washington's, and officials in Whitehall greatly resented American officials who did not seem to be doing enough to support the boycott.

¹¹⁴ Meyer, p. 201.

¹¹⁵ Confidential Print, November 1938, FO 371 21477 [A8255/10/26].

Despite Britain's opinion, Washington did lend substantial support to the boycott. Unlike Whitehall, however, Washington, did not make broad declarations of policy the way Whitehall did and tended to deal with each situation involving the boycott as it arose. Washington's priority was increased US trade rather than access to overseas oil, and the advice Washington generally gave to countries and US citizens wanting to purchase Mexican oil was consistent with this goal. For example, Washington's efforts to get Nicaragua to purchase asphalt from a Nicaraguan subsidiary of Standard Oil rather than Mexico was a direct attempt to promote a US interest. Furthermore, Washington's intervention in the Davis arrangement to barter German equipment for Mexican oil was not only done to stop the sale of Mexican oil but also to promote the interests of US refinery makers over their German competitors. Whitehall's perception of US policy as an inactive one was the result once again of Washington refraining from cooperating with Britain.

CHAPTER SIX

US AND OIL COMPANY POLICY AFTER THE AGRARIAN
SETTLEMENT: NOVEMBER 1938-MAY 1940

*Not that we love the oil companies, but...we have to preserve some sort of norm by which relations can be carried on.*¹

Adolf Berle

By far the most important turning point for the oil companies in Mexico was Sinclair's settlement of April 1940, whereby the company, which had controlled a substantial 25 per cent of production and 40 per cent of refining and distribution of the American oil interests in Mexico, agreed to accept compensation which did not take into account oil in the subsoil. While the agrarian settlement of November 1938 had caused the oil companies considerable anxiety, the agreement between Mexico City and Sinclair greatly strengthened the hand of the Mexican government, making any chances of Mexico returning the properties all the more remote. During this time, Hull remained caught between two clashing priorities. On the one hand he needed to take a firm stand with economic sanctions to protect US

¹ Adolf Berle, Memorandum, 14 December 1939, Papers of A. Berle.

commercial interests operating abroad and to silence voices in congress critical of the administration for not being stern enough with Mexico. On the other hand, he realised the increasing need for sound relations with Mexico for defence which inhibited him from demanding the return of the properties. Hull, therefore, continued to pursue a policy of compromise. Welles broadly agreed with his tactics, but seemed to diverge from Hull's policy when Roosevelt became involved.

The present chapter describes how Sinclair's plan to negotiate with Mexico made the major oil companies go back on their decision at the end of May 1938 not to communicate with Mexico. It then shows that criticism from congress encouraged Roosevelt to become involved in the Mexican matter. Next it examines the impact of the outbreak of war in Europe in September 1939, which surprisingly did not change Washington's policy because heightened pressure from the oil companies coincided with the increase in general concern about defence. By the end of the year the oil companies, having failed in their negotiations with Mexico, insisted that Washington adhere to its policy expressed before the expropriation to increase its support in their dealings with Mexico after they had exhausted all legal recourses in the country. By December 1939, therefore, the necessity of improving relations

with Mexico City and the need to take firm enough measures to protect US commercial interests operating abroad continued to vie equally for Washington's attention. Hull, therefore, continued to refrain from directly demanding the return of the oil properties and continued to use economic sanctions, hoping Mexico would return the oil properties. Not only did he place a highly restrictive import quota on Mexican oil, but the congressional debates on the future of the Silver Purchase Act allowed him and other state department officials to prolong the uncertainty which was harming the Mexican peso.

The chapter shows that rather than demanding the return of the oil properties, Hull turned to arbitration of the amount Mexico owed the oil companies as a way to get them restored and chose a form of arbitration which would exclude British interests. By getting Mexico to agree to arbitration of the amount it owed the oil companies, which Hull believed Mexico would not be able to pay, President Cárdenas would have to return the properties. It is also seen that just as Mexico City rejected Hull's plan for arbitration, it announced Sinclair's agreement, and the reaction of the major oil companies is discussed.

It is the purpose of this chapter to analyse and explain the strategy of the companies and Washington's policy toward the oil problem between

November 1938 and April 1940. During this time, the oil companies insisted that they manage their former properties so the expropriation would not look like a success, but the Mexican government, due to nationalist feelings, could not allow foreigners so much control. Hull continued to pursue economic sanctions in an effort to drive Mexico to make a satisfactory agreement with the US; however, domestic pressure on the administration to take a stronger stand to protect US interests in Mexico did not translate into consistent efforts from Roosevelt to protect the interests of the oil companies.

THE OIL COMPANIES' DECISION TO NEGOTIATE WITH
MEXICO

In late 1938 Sinclair made the decision to start negotiations with Mexico City without the major oil companies. The company had had a history of competition with major oil interests, and in the early 1920's had competed with Standard Oil and Anglo-Persian in trying to secure a concession in North Persia. The agricultural settlement had shown that Washington was not likely to give adequate support for oil company interests.² As a

² Venn, Fiona M.: Oil Diplomacy in the Twentieth Century (London and Basingstoke: Macmillan 1982), p. 58.

smaller independent company with most of its investment in the United States, Sinclair did not regard preventing other expropriations world-wide by punishing Mexico as crucial. Furthermore Sinclair had perhaps come to distrust the major oil companies because of their efforts to exclude it from their meeting of 31 May 1938 with Hull, at which they had decided to stop negotiating with the Mexican government. Laurence Duggan's explanation that Hull had wanted the meeting to be small with only one representative of the oil companies attending was not credible because Standard Oil of New Jersey had sent three.³ Most importantly, Sinclair's properties in Mexico had not made any contribution to the profits of the corporation in the year before the expropriation.⁴

For the task of negotiating with Mexico City, Sinclair chose the 55 year old attorney, Patrick Hurley, whom the company had kept on retainer for several years. His background and political experience made him ideal for the job. His association with native American peoples in the US and the fact that he had been a colonel in the reserves since the First World War appealed to General Cárdenas who was of Indian descent. Although Hurley was the son of Irish immigrants, he

³ Laurence Duggan, Memorandum, 31 May 1938, RG 59, Records of the Department of State [812.6363/4090].

⁴ New York Times, 8 April 1938, p. 29, column 4.

had attended the Indian University in Muskogee, Oklahoma, and after obtaining a law degree, he took on Indian cases. In addition, Hurley's humble background as the son of a very poor farming and mining family made him a very suitable petitioner to the president who was championing the cause of oppressed peoples in Mexico, and Cárdenas at the end of the negotiations awarded him the prestigious Aztec Eagle while Sinclair paid him \$1 million.⁵

Sinclair's decision shocked the major oil companies and led them to adopt a devious plan. They realised that if Sinclair, with its considerable investment in Mexico, came to a separate settlement with the Mexican government, their chances of convincing Cárdenas to allow them at the very least to work their holdings would become negligible.⁶ They, therefore, persuaded Sinclair to postpone its attempts at negotiation, so they could organize their own talks with Mexico City and cause them to stalemate in hopes that Washington would afterwards demand the return of their oil properties.

Hiring Donald Richberg, to negotiate on their behalf was an important part of their plan to win the approval of Washington. As former administrator of the National Recovery

⁵ Buhite, *passim*.

⁶ Cronon, E. David: Josephus Daniels in Mexico (Madison: University of Wisconsin Press, 1979), p. 237.

Administration and a practicing railroad labour attorney, Richberg tried to bring compromises in disputes among business, labour and government.⁷ Although the oil companies planned to sabotage Richberg's negotiations by refusing to compromise with Cárdenas, Richberg was sincere in his attempts at negotiations. He was also a frequent visitor to the White House and had the confidence of the administration. Only recently he had helped the president in his failed efforts to stop elderly members of the supreme court from dismantling his New Deal programmes by suggesting the president introduce legislation to retire all federal court judges from active service when they turned 70.⁸ Despite the fact that the supreme court plan had greatly damaged Roosevelt politically, abortive attempts at an oil settlement led by such a prominent Washington insider would surely convince Washington that Mexico City was unreasonable and inspire the state department to insist that Cárdenas restore the properties.

The major oil companies, with Richberg's help, drew up a memorandum in January 1939 on which to base negotiations with Mexico. It represented the minimum that they were prepared to accept and left

⁷ Vadney, Thomas E.: The Wayward Liberal: A Political Biography of Donald Richberg (Lexington: University Press of Kentucky, 1970), p. 122.

⁸ Rosenman, Samuel I.: Working with Roosevelt (London: Rupert Hart-Davis, 1952), p. 143.

the Mexican government little room for bargaining. First, they demanded a long-term contract under which the companies would manage their former properties. Second, while they were willing to pay the Mexican government taxes and royalties, they insisted that they do so only according to a fixed schedule of rates. Third, they also demanded an agreement upon reasonable, specified labour conditions. Fourth, they required reimbursement for losses they suffered during the time that the Mexican government was in control of their oil properties. Fifth, the companies wanted to embody the arrangement in a commercial treaty between Mexico and the United States. Sixth, as a token gesture of compromise, they were willing to agree that at the end of the contract, all their claims and interests in the Mexican oil properties would be transferred to the Mexican government without payment or any other consideration.⁹

ROOSEVELT'S INVOLVEMENT

As the companies had hoped, both Richberg's involvement and growing opposition in congress led to unprecedented involvement of the president in the matter at the beginning of 1939. At the time,

⁹ Memorandum of the Oil Companies, 3 April 1939, FO 371 22774 [A3723/4/26].

Roosevelt could ill afford further criticism. His sweeping re-election of 1936 had been an endorsement of his first term and had left him with 75 Democrats in the senate and a majority in the house of representatives. The 1938 elections, however, in which he lost 81 seats in the house and 8 in the senate showed his popularity starting to wane. He faced an increasingly threatening coalition of Republicans and disaffected conservative Democrats led by Vice President John Nance Garner, who was angry with the president for his failure to balance the budget and chastise sit down strikers. The break-away group also included southerners and old-time Democrats who particularly resented the president's reliance on members of the former brain trust, a group of academics who advised Roosevelt when he was governor of New York and during his presidential campaign. Although the group dissolved after the election of November 1932, its members continued to advise Roosevelt and seemed to wield a disproportionate amount of influence given the fact that they did not have to face elections. The scandal caused by the president's efforts to retire septuagenarian conservatives from the supreme court was particularly harmful to his popularity. The recession of 1937-38 and the low price of wheat and corn also cost the president support especially among midwestern farmers.

The Mexican oil problem was a target of criticism for both opponents and allies of the administration. In January 1939, Democratic Chairman of the House Foreign Affairs Committee Samuel Davis McReynolds from the farming state of Tennessee submitted a resolution critical of the US silver purchasing policy. He claimed that silver purchases subsidized Mexico's objectionable confiscatory policies and called for a congressional investigation of recent events in Mexico. He was very irate that Cárdenas had confiscated the oil properties of US citizens and increased Mexico's commercial ties with Germany and Japan by selling them oil from those properties. He was worried that eventually those countries would obtain a dangerous amount of influence over Mexico and threaten the Monroe Doctrine. For good measure he also expressed fear of the influence of communism in Mexico because of Leon Trotsky's presence there.¹⁰

Democratic Representative from New York Martin Kennedy directly attacked the state department's policy towards Mexico. He lamented the loss of trade with Mexico and suspected that Germany, Italy and Japan had arranged to get Mexican oil even before the expropriation.¹¹ He was also concerned

10 Samuel D. McReynolds, Senate Resolution 72, 76th Congress, 1st session, 27 January 1939, Papers of Josephus Daniels.

11 Martin J. Kennedy, House Resolution 78, 76th Congress, 1st session, 1 February 1939, Papers of Josephus Daniels.

that Mexico was a potential threat to US security because it was disposing of oil in Germany in return for German planes which were easily converted for military use. He railed that while Mexican policy toward the US became increasingly unfriendly, Washington, instead of being firmer with Mexico, allowed Cárdenas to obtain such planes. He also called for Ambassador Daniels' return for questioning about what he and the state department had done to secure adequate compensation for lost investments in Mexico.¹²

Hamilton Fish, a Republican isolationist and senior member of the house foreign affairs committee, who had a history of opposing Hull in congress, introduced a resolution at the end of February asking Roosevelt to tell the house the extent and value of American properties expropriated in Mexico since 1933. In addition he demanded information about Daniels suppressing the note of 26 March as well as Mexico bartering oil for German farm, road or factory machinery that used to be purchased in the US. He also wanted confirmation of reports that US trade in Mexico had decreased by 50 per cent while German trade had increased by that amount.¹³

Hull was able to put a temporary stop to these resolutions by informing Key Pittman, chairman of

¹² 26 February, 1939, New York Times, p. 30, column 1.

¹³ 28 February 1939, New York Times, p. 7, column 1.

the senate foreign relations committee, and McReynolds that the resolutions coincided with attempts by the major oil companies to negotiate with the Mexican government and that investigating the situation would have a deleterious effect on the concurrent negotiations. Hull had an excellent working relationship with McReynolds whom he described as 'my Tennessee colleague and friend'. They had served in congress together, and both had been circuit court judges in Tennessee. Hull also had a close working relationship with Pittman, although the two did not always see eye to eye on matters, most significantly on Hull's trade agreement program. Hull tried to convince Pittman that once the oil problem was solved, 'progress towards satisfactory settlement of other highly important and urgent questions pending between this country and Mexico would be furthered.'¹⁴

Congressional criticism coincided with the president's endorsement of the oil companies' memorandum. The president even became anxious for the first time about the impression Mexicans had gained from his casual interview with the press on 1 April 1938 in Warm Springs in which he appeared to condone the expropriation and the taking of property without compensation. To try to correct

¹⁴ Hull to Pittman, 7 February 1939, RG 59, Records of the Department of State [812.6363/5388]; Hull to McReynolds, 7 February 1939, RG 59, Records of the Department of State [812.6363/5408].

this impression, the president had Daniels tell Cárdenas that fair compensation must accompany expropriation according to international law. He also had him inform Cárdenas that he found what the oil companies were offering in the memorandum Richberg was presenting 'eminently practical' and that an early settlement was desirable.¹⁵

Negotiations almost immediately reached an impasse by March. Cárdenas bluntly refused to allow the oil companies to manage their former properties. Instead, he proposed that the government and petroleum companies form a jointly-owned 'financial society'¹⁶ in which the Mexican government would be the major shareholder. In this society, the oil companies would be allowed profits and influence in financial and economic matters involving the oil industry in proportion with the combined value of their former properties and whatever new investments they made.¹⁷ The Mexican government was prepared to compensate the companies for the loss of their former properties, but not for lost profits from the time the Mexican government took over their properties. Also, Mexican Minister of Finance Eduardo Suarez objected to a long contract because he feared that the oil

15 Roosevelt to Daniels, 15 February 1939, Official Files, Papers of Franklin D. Roosevelt.

16 Memorandum of a Conversation between Cárdenas and Daniels, 15 March 1939, Papers of Josephus Daniels.

17 Castillo Nájera to Richberg, enclosed in Castillo Nájera to Welles, 21 March 1939, RG 59, Records of the Department of State [812.6363/5636].

companies would deplete Mexico's oil reserves or that fossil fuels would eventually become less widely used during such a contract.¹⁸ In addition, Cárdenas wanted the companies' interests to be consolidated into one company so that the Mexican government would have an agreement with only one entity.¹⁹

The oil companies furiously objected to the Mexican government's insistence upon managing the oil properties, but were pleased that a breakdown of negotiations seemed imminent.²⁰ As Van Hasselt, president and managing director of Mexican Eagle Oil Company, later wrote:

Richberg has drawn the Mexicans into making a proposal which is so one sided and unfair that he will have no difficulty in proving to Washington the impossibility of the Mexicans' attitude.²¹

Not only did the companies believe that Mexican management would ruin their plan to make the Mexican oil expropriation appear a failure in the eyes of the world, but they also had little faith in the ability of the Mexican government to run the oil industry. They, therefore, refused to be a part of a financial society to which they would

18 Daniels to Secretary of State, 11 March 1939, RG 59, Records of the Department of State [812.6363/5569].

19 The Ambassador in Mexico (Daniels) to the Secretary of State, 23 March 1939, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5, 1939 (Washington, D.C.: United States Government Printing Office, 1957), pp. 671-2.

20 Richberg to Hull, 12 June 1939, Papers of Cordell Hull.

21 Memorandum of a Conversation between Godber and Hasselt, 28 March 1939, FO 371 22773 [A2485/4/26].

contribute most of the capital but over which they would have little or no control.²² The companies particularly objected to the Mexican government's offer of compensation for the loss of the oil companies' former properties because any such compensation would mean acknowledging the validity of the expropriation decree which denied their rights to the subsoil petroleum. The companies felt so strongly about this point that they had forbidden Richberg even to talk about compensation or valuation with Mexico City. Faced with stalemate, Richberg returned to the States for other, pre-arranged, unrelated legal work and consultation with the oil companies and state department.²³

Determined not to give in to Mexico, the companies drew up a second memorandum in April 1939 in which they continued to insist on their previous demands and angrily expressed their need for state department action. Having failed in their attempts to negotiate with Cárdenas, they wanted Hull formally to 'demand a return of the properties to the management of their owners in accord with the British and Netherlands governments'. They

22 Unsigned Memorandum, 7 April 1939, Papers of Cordell Hull.

23 Rees to Foreign Office, 20 March 1939, FO 371 22772 [A2141/4/26].

believed that such a demand was 'the only way in which the wrong [could] be remedied.'²⁴

Richberg, however, sought to dampen the tone of the oil companies' memorandum because he did not want to offend Washington or harden the attitude of the Mexican government. He prudently persuaded the oil companies not to show Hull the memorandum which so bluntly stated the companies' requirements of Washington.²⁵ Instead of asking for a strong state department demarche demanding the return of the properties to oil company management, Richberg merely told Hull and Welles that the oil companies desperately needed their support²⁶ by putting 'non public' pressure on Mexico, and Hull and Welles agreed to do whatever possible.²⁷ Richberg did, however, stick up for the interests of the oil companies when he informed Mexico city before returning to Mexico for further negotiations that:

...further conferences would be fruitless if the Mexican government insisted upon raising the hopeless valuation question or maintaining a political control of the properties after they had been restored to private management.²⁸

²⁴ Memorandum of the Oil Companies, 3 April 1939, FO 371 22774 [A3723/4/26].

²⁵ Minutes of a Meeting with Richberg, 5 April 1939, FO 371 22773 [A3508/4/26].

²⁶ Hasselt to Godber, 6 April 1939, FO 371 22773 [A2897/4/26].

²⁷ Minutes of a Meeting with Richberg, 5 April 1939, FO 371 22773 [A3508/4/26].

²⁸ Richberg, Donald R.: My Hero, The Indiscreet Memoirs of an Eventful but Unheroic Life, (New York: G.P. Putnam's Sons, 1954), p. 259.

When Richberg returned to Mexico and presented Cárdenas with the companies' latest memorandum in May, he emphasised again the companies' need to control the oil industry without interference from the Mexican government²⁹ and their need for a specific, fixed schedule of taxes and royalties.³⁰ In reply, Cárdenas expressed his willingness to allow the companies to unite into four companies instead of one and tried to soften Richberg's proposals by offering to make a deal with only the American interests at the exclusion of Mexican Eagle.³¹ Richberg, however, turned the offer down, knowing the oil companies' insistence on upholding the united front.³² Cárdenas then stalled the negotiations by saying that he would have to seek the approval of his advisers on some of the matters raised by Richberg before proceeding further.³³

To avoid further stalemate, Hull and Roosevelt, anxious to appear to support the oil companies to silence critics, told Castillo Nájera that they were in total agreement with Richberg's demands.³⁴ The Mexican government however refused formally in July to consider the oil companies'

29 New York to NLT Ciamexag, 12 May 1939, FO 371 22773 [A3508/4/26].

30 Richberg, 'Tentative Basis for a Typical Agreement', 3 April 1939, FO 371 22773 [A3508/4/26].

31 Richberg to Hull, 12 June 1939, Papers of Cordell Hull.

32 Conversation between Wilkinson and Leigh Jones, 11 May 1939, FO 371 22773 [A3508/4/26].

33 Starling to Balfour, 12 August 1939, FO 371 22775 [A5627/4/26].

34 Starling to Balfour, 20 June 1939, FO 371 22774 [A4375/4/26].

demands on profits and management. The four corporations which Mexico wanted the companies to form were to be Mexican, and Mexico City was to appoint the majority of the board's directors.³⁵ The government also proposed a scheme by which it would manage the properties, with the companies providing very little input. Furthermore, instead of agreeing to fixing rates of wages, royalties and taxes in the contract, the government requested a division of the profits after wages, operating expenses and taxes had been deducted on terms to be decided by the Mexican board of conciliation and arbitration.³⁶

The Mexican reply even angered Richberg, who believed that the Mexican government sought far too much control. He warned Castillo Nájera that further foreign investment in Mexico was out of the question unless the companies regained control. Richberg also angrily informed the ambassador that the Mexican proposals were 'totally unacceptable to my clients' and 'entirely incompatible with the tenor of our previous conversation'. He curtly added:

I am regretfully forced to conclude that the efforts heretofore made to arrive at an understanding of basic principles have now been abandoned; and without such an understanding,

35 Castillo Nájera to Welles, 5 July 1939, RG 59, Records of the Department of State [812.6363/5636].

36 Richberg to Castillo Nájera, 17 July 1939, FO 371 22775 [A5627/4/27].

further negotiations would be useless.³⁷

Soon after it became clear to the oil companies that the Mexican government was not going to yield on the most important matters to the oil companies, Roosevelt, hoping to get a settlement on the oil issue to silence his critics, unwittingly made the situation worse for the oil companies. Castillo Nájera delivered a letter to him from Cárdenas dated 29 July in which he blamed the failure of the negotiation on the 'intransigence' of the oil companies, who insisted on making claims that were incompatible with Mexican law. The ambassador claimed that the Mexican government had made a huge concession when it agreed to allow the companies to unite into four companies instead of one. He said that the companies' insistence on managing the oil industry was ridiculous because they would most likely clash with oil industry workers in the same way they did before the expropriation. He reminded Roosevelt that labour problems before the expropriation had caused huge difficulties in the supply of oil which exacerbated Mexico's economic problems. He said that all the American companies were entitled to ask for was compensation, and in case the negotiations failed,

37 Richberg to Castillo Nájera, 17 July 1939, enclosed in the President of Standard Oil Company of New Jersey (W. S. Farish) to the Secretary of State, 10 August 1939, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5, 1939 (Washington, D.C.: United States Government Printing Office, 1957), pp. 690-91.

he reiterated his offer to let the companies handle the export of some of the petroleum which the Mexican government would provide at a discount to compensate the companies for their capital invested.³⁸

When Castillo Nájera handed the note to Roosevelt in the presence of Welles, the president spontaneously made a suggestion which he requested Welles and Castillo Nájera to discuss further.³⁹ His suggestion was for each of the four proposed corporations to have a board of directors comprised of a more balanced selection of people. Specifically, he wanted the stockholders and the Mexican government to each name three board members while the six they named would select the final 'neutral' three from a list of nine competent business people approved by both governments. The nine were not to be citizens of Mexico, the United States, Holland or Britain. This arrangement was only to last for a few years until a permanent settlement could be reached.⁴⁰

This plan was a direct threat to the companies' strategy of demonstrating that the Mexican government was being unreasonable so the state department would be obliged to demand the

38 Lázaro Cárdenas to Franklin Roosevelt, 29 July 1939, RG 59, Records of the Department of State [812.6363/5636 3/8].

39 Hasselt to Godber, 10 August 1939, FO 371 22775 [A5987/4/26].

40 Hasselt, Notes on the XYZ Affair, 8 August 1939, FO 371 22775 [A5987/4/26].

return of the oil companies' properties. If the Mexican government accepted it, the companies could only protest at the price of offending the president of the United States.⁴¹ Shell's Van Hasselt, the most outspoken opponent of the plan, found the formula for management 'completely unacceptable'. He mentioned that neutral directors who met the requirements of nationality and business competence would be nearly impossible to find. Most importantly he refused to share control of the management of the oil industry with the Mexican government and felt outraged at the amount of control the Mexican government, who would be investing no money in the oil industry, would have. The Mexican directors, he believed, would be 'a constant source of trouble' and primarily serve the interests of the Mexico City. Equally objectionable was the plan's failure in any way to 'condemn the initial injustice committed when the properties [were] confiscated without the possibility of adequate and prompt compensation being tendered.'⁴²

Roosevelt's suggestion to Castillo Nájera illustrates his desire to solve the oil matter and his ambivalence to big business which allowed him suddenly to propose a policy inconsistent with his

⁴¹ Hasselt to Godber, 10 August 1939, FO 371 22775 [A5987/4/26].

⁴² Hasselt, Notes on the XYZ Affair, 8 August 1939, FO 371 22775 [A5987/4/26].

own recent action as well as those of the state department. The suggestion gave support for joint control by the companies and the Mexican government and was scarcely compatible with his own message to Daniels in February 1939 affirming that the companies' first memorandum, in which they insisted on managing their former properties, was 'eminently practical'. His suggestion was also a departure from the unspoken policy of the state department which was to demand compensation from the Mexican government, which it knew Mexico would not be able to pay in hopes that the Mexican government would allow the companies to return to managing their properties. Duggan had earlier articulated support for the companies' goal and informed the Mexican government that the plan Richberg was presenting was the only viable solution.⁴³

Welles' support of Roosevelt's solution was a marked departure from his previous support of the oil companies. Although he had little choice but to go along with the scheme, his cooperation with Roosevelt in this instance was certainly consistent with his changes of policy in the past, and in this instance gave him an opportunity to endear himself to Roosevelt to enhance his own influence in the administration. Before Roosevelt made his

⁴³ Memorandum of a Conversation by the Chief of the Division of the American Republics (Duggan), 19 June 1939, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5, 1939 (Washington, D.C.: United States Government Printing Office, 1957), pp. 680-83.

suggestion, Welles had angrily informed the Mexican embassy earlier in July 1939 that Mexico's reply to the oil companies' second memorandum 'departed completely from the general bases agreed upon between the ambassador and Richberg' and introduced elements which the companies would find 'totally unacceptable'. The enraged Welles had threatened that if the negotiations failed, Washington would have to support the oil companies in 'what we regard as a legitimate and well-founded complaint on the part of US nationals that the Mexican government had seized their properties' and was 'utilising the properties to Mexico's own benefit'.⁴⁴

In contrast, after Roosevelt suggested that Welles and Castillo Nájera work on his proposed solution, Welles tried to convince the companies and the Mexican government to accept it.⁴⁵ Welles pointed out to Castillo Nájera that Roosevelt's solution would allow Mexico City to continue to manage the properties rather than turning them back to the oil companies. He said that he was optimistic the companies would accept the solution because it would not leave the Mexican government

44 Memorandum of a Conversation by the Under Secretary of state (Welles), 20 July 1939, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5, 1939 (Washington, D.C.: United States Government Printing Office, 1957), pp. 686-7.

45 Hasselt to Godber, 10 August 1939, FO 371 22775 [A5987/4/26].

in complete control.⁴⁶ Welles, however, failed to persuade the Mexican government to accept it.⁴⁷ Welles went back to being firm toward Mexico shortly after Roosevelt stopped showing interest in Mexico for the time being.

In response, Roosevelt wrote to Cárdenas in late August saying that the swift rejection of his proposed solution by both parties was 'most disheartening'. He expressed concern that such an issue could damage relations between the two countries and said that Mexico had no other choice than to pay prompt and just compensation, suggesting that the amount and timing be determined by impartial arbitration.⁴⁸ To make matters worse Cárdenas also rejected this proposal because he believed arbitration was only for extreme cases where negotiations had completely failed, which he believed had not yet happened.⁴⁹

46 Memorandum of a Conversation by the Under Secretary of State (Welles), 2 August 1939, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5, 1939 (Washington, D.C.: United States Government Printing Office, 1957), pp. 688-90.

47 Memorandum of a Conversation between Welles and Castillo Nájera, 10 August 1939, RG 59, Records of the Department of State [812.6363/6014].

48 Roosevelt to Cárdenas, 31 August 1939, Papers of Josephus Daniels.

49 Cárdenas to Roosevelt, 7 October 1939, Official File 146, Papers of Franklin D. Roosevelt.

THE START OF WAR AND WASHINGTON'S POLICY

The start of war in September 1939 had increased the importance of settling outstanding issues with Mexico for reasons of hemispheric defence. However, Hull and Welles saw the need to continue protecting the interests of the oil companies at the same time for two reasons. First, two months after European hostilities started, the companies had exhausted legal recourses in Mexico and failed in their negotiations. The oil companies' efforts with the Mexican legal system, which started in April 1938 when they filed for an injunction against the expropriation decree on the grounds that it was unconstitutional, had proved futile by December 1939 when the Mexican supreme court upheld its legality.⁵⁰ The supreme court ruled after the expropriation that compensation on the spot was not necessary because Mexico was not capable of paying it and the expropriation was necessary for national interest. It was time, therefore, for Washington to make good its promise to become more involved in the matter. Second, Hull was still trying to protect US commercial interests abroad, hoping to negotiate a trade agreement. As Berle said in December, 'Not that we

⁵⁰ Gaither, Roscoe, B.: Expropriation in Mexico: The Facts and the Law (New York: William Morrow & Company, 1940), p. 155.

love the oil companies, but we have to preserve some sort of norm by which relations can be carried on.⁵¹

Welles in December responded to the pressure from the oil companies to demand the return of their properties by saying that the recent decision of the Mexican supreme court made it 'entirely impossible for the Department of State to remain quiet much longer'.⁵² Defence concerns, however, led Hull and Welles to continue with an indirect approach rather than simply to demand that Mexico return the oil properties. Hull insisted on arbitration, and similar to his strategy in 1938, he continued to use punitive economic measures designed to harm Mexico's economy further, making the payment of adequate compensation upon which the legality of the expropriation hinged impossible and, thereby, putting pressure on Mexico to return the oil properties.⁵³

The Venezuelan trade agreement provided Hull with an ideal opportunity to make an example of the Mexican oil expropriation. He had negotiated the agreement in November 1939 whereby American farmers and factory owners received concessions. In return Venezuela, whose oil exports comprised 90 per cent

⁵¹ Adolf Berle, Memorandum, 14 December 1939, Papers of A. Berle.

⁵² Memorandum of a Conversation between Richberg and Welles, 5 December 1939, Papers of Cordell Hull.

⁵³ Daniels to the Secretary of State, 13 December 1939, RG 59, Records of the Department of State [812.51/2416].

of their export trade, received a quota of 71.9 per cent of the oil import market which was allowed to enter the United States at a 50 per cent discount on duties. For Venezuela's cooperation in a trade agreement and respect for US citizens who had invested in the country, Venezuela had received an enormous quota.⁵⁴ The Netherlands and Colombia got 20.3 per cent and 4 per cent respectively of the remaining quota, while Mexico in contrast was obliged to compete for the last 3.8 per cent with other countries which were not given specific quotas. Oil entering the US outside a specified quota was subject to a tariff of 100 per cent.⁵⁵

Having promised the oil companies he would not remain silent on the matter any longer and with Roosevelt's attention diverted from Mexico, Welles informed Castillo Nájera of the import quota and sternly warned that any attempt to export petroleum to the US on the part of Mexico would 'create such a storm of indignation as to have very seriously prejudicial effects upon the friendly relations between the two countries.' Welles' approach to Mexico and the fact that the US administration knew that with Europe at war Mexico no longer had access to its traditional overseas markets leave little room for doubt that punishing Mexico was a

⁵⁴ Memorandum Regarding Concessions to Venezuela on Petroleum, 5 February 1940, Papers of Cordell Hull.

⁵⁵ Corrigan suggested the US help Venezuela with the revival of their livestock industry.

substantial factor in the decision to force Mexico to share such a minute quota. At the same time, Welles also tried to get Castillo Nájera to agree to the general principle of arbitration while refusing to specify what Washington thought arbitration should cover. Cárdenas rejected the proposal because he wanted a direct settlement between the oil companies and Mexico.⁵⁶ Welles was furious and claimed not to understand Mexico's argument:

I could not conceive of either one of our two governments being unwilling to submit to an impartial arbitration differences which arose between them which it had been found impossible to settle through the diplomatic channel and which resort to the Mexican courts seemed also incapable of settling.⁵⁷

SILVER POLICY

Congressional debates on the Silver Purchase Act had badly hurt the Mexican peso, and the state department did nothing to alleviate Mexico City's worries. At the end of 1939 Republican Senator

⁵⁶ Memorandum by the Under Secretary of State (Welles) of a Conversation with the Mexican Ambassador (Castillo Nájera), 11 December 1939, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5, 1939 (Washington, D.C.: United States Government Printing Office, 1957), pp. 714-5.

⁵⁷ Memorandum of a Conversation between Castillo Nájera and Welles, 5 February 1940, RG 59, Records of the Department of State [812.6363/6486].

John G. Townsend of Delaware re-introduced legislation recommending the suspension of foreign purchases of silver to congress. He had introduced a similar bill in January 1939, when Nevada's Key Pittman, who had been responsible for the passage of the Silver Purchase Act of 1934, succeeded in tabling it. But the initiative had had a devastating effect on the peso. When Townsend brought it up again, the resulting speculation that Washington was going to stop purchases abroad caused further loss of confidence in Mexican currency. The peso became so weak that on 9 December the Bank of Mexico decided to withdraw from the foreign exchange market.⁵⁸

The discussion of the Townsend bill in congress continued for several months. Because of Mexico's economic problems, the Mexican government was desperate to learn of Washington's plans for buying silver. But when Ramón Beteta enquired in December about the US silver plans so the Mexican government could perhaps try to plan ahead to protect its currency,⁵⁹ the attitude of Herbert Bursley was one of total non-cooperation:

It seems to me that the Mexican government is worried and uncertain as a result of a situation of its own making and that it is not

⁵⁸ Cochran to Morgenthau, 14 December 1939, Morgenthau Diary.

⁵⁹ Daniels to Secretary of State, 12 December 1939, RG 59, Records of the Department of State [812.51/2415].

incumbent upon this government to relieve that concern.⁶⁰

Hull similarly wrote to the American embassy in Mexico in December that they should tell Beteta that it was not possible for the department to furnish the Mexican government with information on US silver plans.⁶¹ Nor was Morgenthau any more forthcoming with Eduardo Suarez when he visited in January. When Suarez expressed his anxiety about the future sale of silver, Morgenthau casually replied, 'If that's your only worry you are very fortunate'.⁶²

Furthermore, comments about the recalcitrance of Mexico featured prominently in the campaign to get the Townsend bill passed. Townsend used Mexico's refusal to arbitrate to get support for his bill. He argued that the Mexican decision to refuse arbitration came at a time when the senate was debating his bill to end American purchases of foreign silver. He continued,

It is absurd that our government during all the period that the seizure of American property in Mexico has been going on and during all the period that the Mexican government has been putting off or evading the question of compensation should have continued

60 Bursley to Welles, 16 December 1939, RG 59, Records of the Department of state [812.51/2415].

61 Hull to American Embassy in Mexico, 20 December 1939, RG 59, Records of the Department of State [812.51/2415].

62 Memorandum of a Conversation between Morgenthau and Suarez, 8 January 1940, Morgenthau Diary.

to lend substantial financial support through silver purchases.⁶³

The bill eventually failed because the silverites in congress were very strong, and the timing of the bill was not conducive to its success. While Harry Dexter White, Morgenthau's aide, privately believed that foreign silver purchases were ridiculous, he argued that stopping silver purchases before the next election would hurt the Democrats by giving the appearance that the administration itself was admitting its monetary policy had been a failure. He wrote that the Republican party would make it appear that the administration did not recognise its mistake for several years until Republicans 'rammed it down their throats.'⁶⁴ While the senate passed the bill in late April, administration leaders in the house refused to consider the bill because they thought it should have originated in the house due to its measure dealing with a trading tax on silver.⁶⁵

63 Townsend, 9 May 1940, Congressional Record, Senate, (Washington, D.C.: United States Government Printing Office, 1940), v. 86 (part 6) Congress 76, session 3.

64 Everest, Allan, Seymour: Morgenthau, the New Deal and Silver (New York: King's Crown Press, Columbia University, 1950), pp. 76-77; Conversation between Daniel Bell and Richard Wagner, 13 February 1940, Morgenthau Diary; Conversation between Alben W. Barkley and Daniel Bell, 13 February 1940, Morgenthau Diary.

65 Bursley to Welles, 16 December 1939, RG 59, Records of the Department of State [812.51/2415].

THE EFFECT OF WASHINGTON'S COMPROMISE POLICY

Washington's compromise policy angered both Mexico and the oil companies. Not only was the state department's approach not firm enough for the companies, but also its insistence on using the General Treaty of Inter-American Arbitration⁶⁶ prohibited the involvement of Britain and the Netherlands who were not signatories to the treaty. Farish in February 1940 complained to Hull that use of the treaty would threaten the united front of American, British and Dutch oil interests in Mexico. Instead, he advocated use of the Convention for the Pacific Settlement of International Disputes, signed at the Hague on 18 October 1907, which Mexico, Britain and the US had all signed. This convention provided for arbitration by the permanent court of arbitration at the Hague, and the governments resorting to this court for settlement of their differences were entitled to help select the arbitrators.⁶⁷

The state department and Farish strongly disagreed on this matter of policy. Hull referred Farish' concerns to Green Hackworth, legal adviser

⁶⁶ signed at Washington on 5 January 1929 by the United States, Mexico and other Latin American and South American nations to keep peace, to interpret treaties and questions of international law and the nature and extent of the reparation to be made for the breach of an international obligation.

⁶⁷ Farish to Secretary of State, 6 February 1940, RG 59, Records of the Department of State [812.6363/6502 1/2].

to the state department, who replied that the department did not like the idea of using the convention. While the administration recognised that the Netherlands and Britain had similar controversies with the Mexican government, Washington regarded the oil matter as 'exclusively a matter between the two countries'.⁶⁸ Farish, however, stubbornly warned that the companies would refuse to assent to submission of their claims against Mexico under the terms of the Inter-American Arbitration Treaty of 1929.⁶⁹

Hull's policy also angered Mexico City. When the Mexican government submitted to Washington its objections to arbitration, it insisted that the 'right of expropriation is beyond discussion.' In addition it reiterated that arbitration was inappropriate until the two sides had reached a total impasse in their direct negotiations. Furthermore the Mexican government disliked the use of the 1907 convention because Mexican Eagle was a Mexican rather than a British company, and hence in this case the question of international arbitration was irrelevant. Instead of arbitration the Mexican government expressed its willingness to discuss compensation directly with the companies. In the event that the companies refused to discuss

⁶⁸ Hackworth to Farish, 6 February 1940, RG 59, Records of the Department of State [812.6363/6502 1/2].

⁶⁹ Farish to Secretary of State, 13 February 1940, RG 59, Records of the Department of State [812.6363/6504 1/2].

arbitration, it proposed that the Mexican and American governments should appoint experts to arrive at an agreement on compensation.⁷⁰

The Mexican government's 'most unsatisfactory' reaction and the oil companies' independent line on arbitration infuriated Counsellor of the State Department Walton Moore. He asserted that the Mexican argument that expropriation could not be discussed completely failed to take into account the principle that for expropriation to be legal, the owners needed to receive prompt, just and adequate compensation which the Mexican government had not ensured in this case. Furthermore he thought the appointment of experts on the basis proposed by the Mexican government would be futile because the experts would not have any legal authority.⁷¹

Hull endorsed Moore's point about the need for suitable compensation if expropriation were to be acceptable. In a note to the Mexican government of 3 April he accused it of failing to adhere to the principles necessary for friendly trade relations 'and many other vital and mutually desirable relations'. He also complained that because of

⁷⁰ Cárdenas to Roosevelt, 16 March 1940, RG 59, Records of the Department of State [812.6363/6600].

⁷¹ Memorandum by the Counsellor of the State Department (Moore), 20 March 1940, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5, 1940 (Washington, D.C.: United States Government Printing Office, 1961), pp. 1006-7.

this outstanding problem the US government had not been able to negotiate settlements of other outstanding matters between the two countries and referred to the world situation which made the settlement of such issues all the more necessary.⁷²

Hull rejected Mexico's proposal for settling the dispute. He pointed out that designated experts would not have any authority to render final binding decisions and that such a procedure had no legal basis. He also disagreed that arbitration was premature because Washington had been insisting on compensation ever since the oil expropriation. He then suggested again that the two governments submit to arbitration 'all the questions involved in the oil controversy' and to empower a tribunal with the authority to determine the amount the Mexican government owed American nationals who had lost their properties in Mexico and to determine the conditions and methods of payment. Showing his unwillingness to be associated with a country whose policy had ended in a break of relations, he named only American nationals. In addition, he outlined a solution to adjust the matter of general claims so that after the settlement of these two questions, the two

⁷² Secretary of State to the Mexican Ambassador (Castillo Nájera), 3 April 1940, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5, 1940 (Washington, D.C.: United States Government Printing Office, 1961), pp. 1009-13.

countries could come to an agreement on all outstanding matters between them.⁷³

THE SINCLAIR SETTLEMENT

As Hull sent the Mexican embassy in Washington the note above on 3 April, Ambassador Castillo Nájera told Welles that the Mexican government and the Sinclair group had come to a settlement. Unable to change its mind about wanting to break the united front in late 1938, the company had retained Hurley to hold talks with Mexico City after the negotiations between the Mexican government and Richberg had failed. Sinclair agreed to accept compensation in the amount of \$14 million to be paid half in oil and half in American dollars while the Mexican government agreed to pay Sinclair a total of \$8.5 million in periodic instalments of \$1 million dollars over the subsequent three years. The Mexican government also agreed to sell Sinclair 20 million barrels of oil over four subsequent years at 20 to 30 cents below the world market price. Although Hurley had hoped to get the companies to work their former properties and to get a higher figure for

⁷³ Ibid.

compensation, he decided to accept the Mexican offer because it was better than no agreement at all.⁷⁴

The Sinclair settlement greatly strengthened Mexico's stand against arbitration. In its reply to the US note of 3 April, Mexico City reiterated its willingness to pay compensation to the oil companies and mentioned that any delay in the repayment was the fault of the oil companies who refused to allow valuation of their former properties. It also denied there was any rule in international law which made the legality of expropriation reliant on immediate compensation. In addition, the Mexican government once again emphasised its opposition to arbitration which it believed must not be used until it had exercised all of its sovereign rights through its own courts and a 'denial of justice can be proved.' At the time Mexican courts were trying to determine the value of the properties, an exercise in which the companies refused to cooperate. In addition the Mexican government insisted that the expropriation was a domestic matter and that the treaty of arbitration was only for international differences.⁷⁵

⁷⁴ Memorandum of a Conversation with Welles, Hurley, Bursley and Hackworth, 6 May 1940, RG 59, Records of the Department of State [812.6363/6899].

⁷⁵ Hay to Daniels, 4 May 1940, RG 59, Records of the Department of State [812.6363/7100]; Hay to Daniels, 1 May 1940, RG 59, Records of the Department of State [812.6363/6892].

Not only did Sinclair's agreement set the dreaded precedent of compensation for the major oil companies, but the low figure for compensation reflected the fact that Sinclair had given up insisting on compensation for subsoil rights, which the major companies had deemed vital.⁷⁶ Although Hurley during negotiations had wanted the oil to come from government-owned properties which had not been confiscated from foreigners, he had to abandon this goal because the Mexican government believed that it owned the subsoil rights to all properties. Therefore, Hurley had accepted an agreement that involved payment to the oil interests involved not only with oil from Sinclair's own properties but also with oil which other companies not party to the agreement believed still to be theirs. The major companies were naturally annoyed that the Sinclair settlement disregarded this issue.⁷⁷ Farish feared the Mexican government would try to use the agreement as proof of the legality of the expropriation and nervously wrote to Hull that 'Sinclair cannot contract away the rights of the

⁷⁶ Memorandum of a Conversation by the Chief of the Division of the American Republics (Duggan), 19 February 1940, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5, 1940 (Washington, D.C.: United States Government Printing Office, 1961), pp. 999-1000.

⁷⁷ Memorandum of a Conversation with Welles, Hurley, Bursley and Hackworth, 6 May 1940, RG 59, Records of the Department of State [812.6363/6899].

other companies or of the United States government.⁷⁸

REACTION OF THE OIL COMPANIES

The major oil companies did all they could to sabotage the agreement. They put out news that Sinclair's imports of Mexican oil were ruining the price of crude in the US. Hurley responded that Mexican oil imports by Sinclair were minuscule and could not possibly have any dramatic effect on domestic prices. They also accused Sinclair of accepting stolen property, and Hurley had to testify before a house committee on this matter. In summer 1940, Texas senators Tom Connally and Morris Sheppard persuaded the senate to pass a law prohibiting any product or property expropriated by foreign governments to be imported into the US. In the house, Massachusetts Representative John McCormack, a Catholic, sponsored the measure because of his disapproval of Mexico's anti-clerical position. Although there is no persuasive evidence of the oil companies' support, Hurley believed that the proposed legislation came from Standard Oil of New Jersey and countered the

⁷⁸ Farish to Hull, 20 July 1940, RG 59, Records of the Department of State [812.6363/6981].

accusation by saying that Sinclair's Mexican oil had come from its former properties.⁷⁹

THE EFFECT OF THE SINCLAIR AGREEMENT ON US POLICY

Still caught in between concerns about the election and promoting the interests of US commercial interests abroad on the one hand and the need for better Mexican-American relations on the other, Washington's policy remained unchanged after the announcement of Sinclair's agreement. Welles admitted that Sinclair's receipt and re-sale of oil coming from properties expropriated from foreigners who had not been compensated for their loss caused concern in Washington.⁸⁰ As a result, the state department turned down several Mexican requests to increase Mexico's quota to accommodate the sales of oil the Mexican government were making to Sinclair under their agreement. Castillo Nájera complained that the Mexican quota was based on figures obtained after the expropriation when imports to the US were particularly low and pointed out that since Venezuela was not using all of its quota the US government should divert the unused portion to

⁷⁹ Buhite, pp. 95-7.

⁸⁰ Memorandum of a Conversation with Welles, Hurley, Bursley and Hackworth, 6 May 1940, RG 59, Records of the Department of State [812.6363/6899].

Mexico. Welles, however, used the Mexican request to get leverage over the Mexican government to accept arbitration, claiming this was 'a question of principle and not a question of indemnity due to one particular company'. He again said that if the two sides submitted the petroleum controversy and settlement of the general claims to arbitration, the two countries could then adjust all of the important outstanding issues between the two countries. After that, he said, the oil quota could be settled in a mutually satisfactory way.⁸¹ Despite the pressure the Mexican government maintained its position.

Nor was Hurley able to achieve an increase in the quota.⁸² Bursley wrote to Duggan on 12 March, that it was 'inadvisable to take any steps which would relax the pressure Mexico is now feeling in the oil matter.' He continued, 'The shoe is definitely pinching,' and if the department were to change its policy with regard to the quota, it would be 'open to charges of having failed to let natural economic forces have free play'. He firmly believed that the department should not change its policy to help Mexico 'in escaping the consequences

⁸¹ Memorandum of a Conversation by the Under Secretary of State (Welles), 3 April 1940, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5, 1940 (Washington, D.C.: United States Government Printing Office, 1961), pp. 1007-9.

⁸² Memorandum of a Conversation between Secretary of State and Hurley, 1 March 1940, RG 59, Records of the Department of State [812.6363/6626].

of her own voluntary acts' particularly when such a change would 'involve a reversal of departmental policy and ... would ... be apparently for the benefit of only one company's settlement, ... [and to the] ... probable detriment of other companies'. In addition, he believed that such a change of policy would probably harm the chances of 'any equitable settlement of the principles involved'.⁸³

In conclusion the policies of Hull and Roosevelt caused friction between Washington and Mexico City and also gave Mexico City an opportunity to stall negotiations long enough to make a separate agreement with Sinclair oil, which set a terrible precedent for US oil interests and made any chance of getting the oil properties returned all the more remote. Responsibility for such a policy, however during the period of this chapter, does not rest entirely with Hull. The administration faced critics who opposed a lenient policy toward Mexico, and if the administration had appeared to give in to Mexico, its authority would have been weakened domestically. Despite the ill effects of this policy, increasing preoccupation with defence concerns brought the two countries together, and even eventually allowed for defence cooperation, an oil settlement and a Mexican-

⁸³ Bursley to Duggan, 12 March 1940, RG 59, Records of the Department of State [812.6363/6597].

American trade agreement as chapter eight will
show.

CHAPTER SEVEN
WHITEHALL'S POLICY AFTER THE AGRARIAN
SETTLEMENT: NOVEMBER 1938-MAY 1940

*The prospect of the progressive loss of British owned oil supplies abroad is certainly one to fill us with apprehension since without adequate oil supplies our mechanised defence forces on sea, air and land must necessarily be paralysed*¹

John Balfour

The discrepancy between what Britain had at stake in the Mexican oil problem and its power to control the situation became more pronounced after the agrarian settlement of November 1938 which made the return of British oil interests to working their former properties unlikely. The greater the prospect of war in the Far East and Europe, the more Director of the Petroleum Department Frederick Starling and John Balfour, who still largely controlled policy toward Mexico, felt the need to make an example of Mexico other countries would not want to follow. As early as December 1938 Balfour minuted that the lack of foreign oil supplies would paralyse British ships, aircraft and mechanised forces on land.²

¹ Balfour, Minute, 10 December 1938, FO 371 21478 [A9190/10/26].

² Ibid.

Whitehall's only options were few and ineffective. Starling and Balfour tried in vain to tighten the boycott of Mexican oil and secure Washington's cooperation in getting the properties returned. Washington, however, would not listen to Britain's requests to demand a reasonable settlement from Mexico. Roosevelt's Good Neighbor policy could not afford to be associated with British officials whom President Cárdenas blamed for the break in relations. Also, as the war started, Washington felt increasingly threatened by British efforts to form a pound-franc trading bloc to the exclusion of the US. Whitehall did everything from making requests to the state department to cooperate in specific matters to waiting patiently in hopes that Hull would take a stern policy toward Mexico. No matter what London did, however, Hull and Welles refused cooperation and conducted policy regardless of British interests.

Balfour and Starling increasingly feared that Washington, which never communicated details of US policy to London, would make a compromise settlement with Mexico. Such a settlement could undermine Britain's war effort, and Whitehall became all the more determined to create the illusion if not the reality of a united front between London and Washington. Working closely with Washington, Balfour and Starling would try to

reduce the chances of an unsuitable settlement between Mexico and the oil interests which continued to work in a united front. If the state department did decide to negotiate a settlement along lines acceptable to Whitehall, a united front would prevent Mexico City from leaving out British oil interests.

London, however, could no longer create the illusion of cooperation with Washington by making representations to Mexico parallel to the state department's - difficult even with Anglo-Mexican relations due to Washington's secrecy. Making a parallel approach would have involved using the Danish legation which was still looking after British interests in Mexico. For the illusion of a governmental united front to be convincing, Washington would have had to make representations to Mexico on behalf of both American and British interests, which it refused to do.

It is the purpose of this chapter to analyse the reactions of Starling and Balfour to the challenges which faced them between November 1938 and April 1940 in turn: the agricultural settlement, Donald Richberg's negotiations, problems with the boycott and critics within Whitehall and France, US arbitration proposals, and the Sinclair settlement. It is argued that while Washington's policy did not change during the same time period because officials simply could not

decide on a realistic, single goal, Whitehall maintained the same policy.

It will also be seen that Starling and Balfour, despite their critics, were able to make their views prevail. Because more immediate concerns such as growing hostilities consumed the attention of officials above the department level, Balfour and Starling kept control of policy. They continued to support the oil interests and worked hard to silence critics of established British policy. Also, shortly after the start of the war, there had been a reorganisation of the petroleum board at Shell-Mex House, which increased the petroleum department's power. Before the start of the war, the board had been established as a distributing agency comprised of Shell, Anglo-Iranian, Trinidad Leaseholds Ltd. and the National Benzole Company which together had a monopoly on handling and distributing all oil supplies in Britain during wartime with the exception of naval fuel oil. The petroleum department's assumption of a supervisory role over the board after the start of the war and its actions as an intermediary between the civilian organisation and Whitehall³ substantially helped the views of the petroleum

³ Payton-Smith, D.J.: Oil: Study of War-time Policy and Administration (London: HMSO, 1971), pp. 43-44, pp. 78-79.

department to remain dominant over those of the treasury and ministry of economic warfare.⁴

WHITEHALL'S POLICY AFTER THE AGRARIAN SETTLEMENT

After the agrarian settlement of November 1938, London had little choice but to continue to rely on both the boycott and the cooperation of Washington to discourage other countries from imitating Mexico. To Balfour, the continuation of the boycott was more important than ever in light of the efforts of the Mexican general worker's union to encourage left wing extremists in South American countries to assert themselves at the expense of foreign investors. At the pan-American labour congress in September 1939, attended by delegates from most of the republics of Central and South America, he had made strides in this direction. Although substantial amounts of oil had gone through the boycott, the conclusion of the memorandum was that it was achieving some success. Balfour hoped that it would both set an example of Mexico's worsening economy to discourage other governments from allowing left-wing elements to oust foreign investors and to wear the Mexican

⁴ Balfour, Minute, 22 November 1939, FO 371 22776 [A8038/4/26].

government down to the point that it would make concessions to the oil companies.⁵

Britain regretted its reliance on Washington, but it realised that it was necessary to wait for the US to take a stronger stand toward Mexico. Balfour resented that Washington did not feel free to take firm action in Mexico due to the Good Neighbor policy which, he believed, the Mexican government interpreted as *carte blanche* to do whatever it wished.⁶ He blamed ineffective policy primarily on Welles, whom he called a 'whole-hearted protagonist of the Good Neighbour policy',⁷ and Daniels because he was not firm enough when dealing with the Mexican government. Balfour most likely summarised the sentiments of many in the foreign office when he wrote that 'The ambassador should be relieved of his post if the US are to exercise a helpful influence in Mexico.'⁸ The fact that Washington rarely informed the British government about its policy and actions toward Mexico compounded this resentment.⁹

⁵ Balfour, Memorandum, 1 December 1939, FO 371 22776 [A8808/4/26].

⁶ Balfour, Minute, 21 April 1939, FO 371 22773 [A2896/4/26].

⁷ Balfour, Memorandum, 1 December 1939, FO 371 22776 [A8808/4/26].

⁸ Balfour, Memorandum, 20 September 1939, FO 371 22776 [A6548/4/26].

⁹ Balfour, Memorandum, 1 December 1939, FO 371 22776 [A8808/4/26].

WHITEHALL'S ANXIETY ABOUT RICHBERG'S NEGOTIATIONS

Shortly after the agrarian settlement, Richberg's negotiations also challenged Whitehall's policy. Due to Washington's cageyness, Whitehall had no knowledge of Washington's true motives and had to rely on unsatisfactory reports that Starling forwarded from the oil companies. As a result, Whitehall did not know how to react and ended up oscillating between requesting Washington's help and being passive, neither of which produced anything satisfactory. On the one hand, Balfour suspected that Richberg was working with the state department to force the oil companies to accept a solution that would threaten Britain's access to foreign oil in wartime. As he put it, Richberg, a government insider, was 'running with the oil companies' hare but hunting with the State Department's hounds'.¹⁰

On the other hand, Richberg's proposal of a commercial treaty with Mexico appealed to Starling who believed such a treaty would prevent Cárdenas from taking liberties with foreign interests in Mexico, and he dreaded the prospect of Washington shutting British interests out of such a settlement. The fact that Whitehall could not propose a parallel treaty with Mexico because it

¹⁰ Balfour, Minute, 21 April 1939, FO 371 22773 [A2896/4/26].

lacked diplomatic relations made Starling, one of the most vocal supporters of a hard-line policy toward Mexico, consider a rapprochement.¹¹

Although Balfour was tempted by this idea because it would allow Britain to negotiate an advantageous commercial treaty with Mexico, he was uneasy about giving the impression to other countries that Mexico had expropriated foreign oil properties with impunity.¹²

Not wishing to miss out on a commercial treaty, Starling, David Scott, Gerald Grey Fitzmaurice and Balfour decided to use the imminent departure of Fin Lund, the head of the Danish legation in Mexico who was representing British interests there, as a pretext to ask Washington to take his place.¹³ The Danish government had already appointed an able successor for Lund, but officials wanted an arrangement with Washington that would guarantee a united front between London and Washington.¹⁴ When Lindsay duly approached Welles with this proposal,¹⁵ the undersecretary gave an unofficial, evasive reply which, however,

¹¹ Balfour, Minute, 13 February, FO 371 22771 [A1135/4/26].

¹² Balfour, Minute, 5 February 1939, FO 371 22770 [A863/4/26].

¹³ Balfour, Memorandum of a Meeting with Lindsay, Starling, Scott and Fitzmaurice, 7 February 1939, FO 371 22770 [A863/4/26].

¹⁴ Balfour, Minute, 13 February 1939, FO 371 22771 [A1135/4/26].

¹⁵ Balfour, Memorandum of Meeting with Lindsay, Starling Scott and Fitzmaurice, 7 February 1939, FO 371 22770 [A863/4/26].

reassured Lindsay. He said that Washington would give 'most friendly consideration to the British request if and when the need arose to make a decision'. He also said that the negotiations with Richberg would probably result in an agreement, and when they did, 'it would be very easy for the US to use their good offices with a view to facilitating the fast resumption of Anglo-Mexican relations.'¹⁶ Approximately two months later, however, Welles told Lindsay that if Richberg's negotiations were not successful, which seemed likely, the US embassy would not be able to help British interests.¹⁷

Not only were Balfour and Starling furious about Welles' latest comment, but they were also angry that Washington refused to take a strong diplomatic stand in the matter to end the long deadlock Richberg was experiencing. Balfour angrily wrote that Washington

would like to see the Mexican oil dispute regulated even on unfavourable terms to the companies rather than that negotiations should drift towards a deadlock prejudicial to their policy.¹⁸

¹⁶ Lindsay to Foreign Office, 20 February 1939, FO 371 22771 [A1402/4/26]; Memorandum of a Conversation between Lindsay and Welles, 20 February 1939, RG 59, Records of the Department of State [812.6363/5024].

¹⁷ Lindsay to Foreign Office, 19 April 1939, FO 371 22773 [A2896/4/26].

¹⁸ Balfour, Minute, 21 April 1939, FO 371 22773 [A2896/4/26].

What made the British situation seem all the worse was that as Balfour saw it, it was impossible to suggest such an approach to the state department:

Any such suggestion on our part would, I fear, merely lead to provoking resentment, and there seems to be nothing we can do except continue our policy of watchful waiting.¹⁹

More than ever London had to be careful about approaching Washington. On the one hand, Whitehall realised that Roosevelt was anxious to strengthen Britain's resolve to defend its own interests rather than get the US involved in hostilities. Even before succeeding Lindsay as ambassador to the US, Lord Lothian emphasised to Roosevelt Britain's need for US help, thus reinforcing the president's suspicions that Whitehall hoped to get the US to take on the unpleasant and potentially costly task of defending Britain.²⁰ On the other hand, in spring, Hitler's take-over of Czechoslovakia and his rumoured threat to Roumania, Italy's occupation of Albania and Japan's blockade of British and French concessions at Tientsin in June heightened Whitehall's worries that Britain might have to fight a war with Italy, Germany and Japan

¹⁹ Ibid.

²⁰ Reynolds, David: The Creation of the Anglo-American Alliance, 1937-41: A Study in Competitive Co-operation (London: Europa, 1981), pp. 43-4, 46.

simultaneously and made Britain desperate to secure US cooperation.²¹

To make matters worse, Washington and London blamed each other for the unfortunate circumstances surrounding the Japanese blockade. Washington was disgusted at Britain's appeasement and believed that Whitehall's decision to negotiate with the Japanese would stimulate more German aggression. Whitehall was not only angry at congress for failing to revise the neutrality laws to allow implements of war to Britain and its allies in the event of hostilities, but was also furious about Washington's lack of support against Japan which was not forthcoming due to isolationist sentiment and concurrent debates in congress on the neutrality laws.²²

Washington's continued lack of strong action when the oil companies were awaiting Cárdenas to get his advisers' analysis on the guide-lines Richberg presented in May 1939 and Welles' secrecy about policy again raised British suspicions about the state department.²³ The fact that Hull had not yet insisted that the Mexican government return the

²¹ Ibid., p. 61; Watt, Donald Cameron: How War Came: The Immediate Origins of the Second World War, 1938-1939 (New York: Pantheon Books, 1989), p 165.

²² MacDonald, C.A.: The United States, Britain and Appeasement, 1936-1939 (London and Basingstoke: Macmillan, 1981), p. 158-64; Parker, R.A.C.: Chamberlain and Appeasement: British Policy and the Coming of the Second World War (Houndmills, Basingstoke, Hampshire and London: The Macmillan Press, Ltd., 1993), pp. 251-55.

²³ Balfour, Minute, 15 August 1939, FO 371 22775 [A5627/4/26].

properties led the British government to believe that Washington was still striving to solve the matter with the international receivership plan Herbert Feis had suggested in April 1938. According to the plan the Mexican government would retain ownership of the properties and let the companies operate them and distribute the products. Balfour and George Mounsey of the American department felt nervous that such a solution would give the state department a welcome opportunity to break the united front by convincing the American companies to agree to such a settlement which would squeeze British interests out of Mexico and at the same time ruin the chances of Mexican Eagle getting the settlement it had hoped for.²⁴

Roosevelt's spontaneous proposal of a compromise solution to Welles and Castillo Nájera in Summer 1939 after Richberg's negotiations stalemated seemed to vindicate British suspicions and infuriate Whitehall further.²⁵ The proposal, Lindsay feared, would not only set a bad example and thereby endanger British oil supplies for war, but it would also let down British shareholders.²⁶ Halifax angrily remarked, 'The attitude of Roosevelt and also to some extent Richberg is...so

²⁴ Mounsey, Minute, 17 August 1939, FO 371 22775 [A5627/4/26].

²⁵ Balfour, Minute, 4 September 1939, FO 371 22775 [A5987/4/26].

²⁶ Lindsay to Foreign Office, 15 August 1939, FO 371 22775 [A5740/4/26].

fundamentally opposed to both common sense and equity of the situation.'²⁷

THE BOYCOTT AND ITS CRITICS IN PARLIAMENT

Not only was Washington's policy a great source of anxiety for Whitehall during the Richberg negotiations, the fact that Washington, despite its efforts, had failed to prevent US citizens from distributing Mexican oil was also upsetting to London. Representatives of the petroleum department, the ministry of economic warfare, ministry of information, foreign office and Mexican Eagle had decided to continue the boycott shortly after the start of the war. Starling in particular believed the chances of the boycott having the intended effect were stronger than before the outbreak of war due to the effect of the economic blockade in cutting Mexico off from the German market which had been so important to Mexico, taking 48 per cent of Mexico's oil output.²⁸ Wartime freight rates, he believed, would most likely preclude the Japanese from buying Mexican

²⁷ Foreign Office to Lothian, 23 November 1939, FO 371 22776 [A8215/4/26].

²⁸ Germany, Italy and the US, according to figures Lorenzo Meyer cites, accounted for 48%, 17% and 20% of Mexican oil exports during this period [Meyer, Lorenzo: Mexico and the United States in the Oil Controversy, 1918-1942 (Austin: University of Texas Press, 1972), p. 209].

oil, and tanker restrictions and rationing would prevent Italy, which had taken 17 percent of Mexico's output, from increasing purchases of Mexican oil. With the increased success of the boycott and with British supplies being satisfactory, he believed that Cárdenas would most likely consider a reasonable settlement with the oil companies.²⁹

Even after the start of the war, however, Mexico still sold oil to US independent companies, which resulted in continued resentment of US policy.³⁰ Starling believed that without this leak in the boycott Mexico would have no outlet for her oil, particularly if Italy were to enter the war and the Allied blockade applied to that country.³¹ Until it entered the war in June 1940, Italy also provided a major leak in the boycott.³²

After the start of the war the boycott became a political tool for those in parliament who wanted to embarrass the National government. The boycott lent itself to such manipulation because its success was so difficult to gauge. Information came from several different sources such as Mexican Eagle, which had its own intelligence network in

²⁹ Foreign Office, Minute, 9 September 1939, FO 371 22775 [A6165/4/26].

³⁰ Balfour, Minute, 20 December 1939, FO 371 22777 [A8718/4/26].

³¹ Starling to Balfour, 31 May 1940, FO 371 24215 [A3198/57/26].

³² Meyer, p. 201.

Mexico, and the ministry of economic warfare. Most important, it was not clear what it would take in terms of economic hardship to bring Cárdenas to the bargaining table with a settlement the oil companies would find reasonable. People, therefore, were able to interpret the boycott's results in a manner which supported their political goals.

Arthur Woodburn, the Labour M.P. for Clackmannan, was one such critic. He expressed anxieties about Mexican oil going to Germany via Italy and blamed the boycott for this disturbing trend which he believed was harming Britain's war effort.³³ Balfour, Starling and R.A. Butler responded to the critics by arguing that the continuation of the boycott was justified and necessary. The ministry of economic warfare denied there was any evidence to suggest Italian purchases were reaching Hitler and attributed the rise to Italy's desire to accumulate oil reserves and develop export markets in the Balkans and Switzerland.³⁴

The fact that Mexico's lack of new equipment and technical assistance had forced it to import gasoline refined from Mexican crude in the US, Balfour argued, indicated the boycott was

³³ Balfour, Minute, 30 April 1940, FO 371 24215 [A3085/57/26].

³⁴ Balfour, Minute, 6 March 1940, FO 371 24213 [A1305/57/26].

succeeding.³⁵ More importantly, Whitehall could not abandon the boycott because any British purchases of Mexican oil would force Britain to purchase less from countries like Iran and Venezuela because of tanker restrictions. Butler in particular did not want to risk alienating those countries which needed such oil exports for budget revenues and on whom Britain depended for oil supplies for defence. He also addressed criticism of the boycott by saying that even if Britain started to purchase Mexican oil, Whitehall could neither prevent Italy from selling oil to Germany nor prevent Mexico from supplying oil to Italy. Even if they were able to prevent such things, Italy would be able to obtain oil from other sources.³⁶

CRITICISM OF THE TREASURY AND MINISTRY OF ECONOMIC
WARFARE

The treasury, not present when the ministry of information, ministry of economic warfare and petroleum department decided to continue the boycott after the start of war, began to criticise the boycott on the grounds that it was inconsistent with its dollar-saving policy. In early September

³⁵ Ibid.

³⁶ Balfour, Minute, 17 May 1940, FO 371 24215 [A3198/57/26].

the treasury got the war cabinet's approval of a memorandum recommending 'the maximum possible restriction of unnecessary imports' payable in dollars and other scarce currencies.³⁷ The treasury had persuaded the cabinet in July that Britain needed to conserve foreign exchange as much as possible because of the American Johnson Act of 1934, which banned loans and credits to belligerent nations, and the Neutrality Acts of 1935 and 1937 which prohibited the export of implements of war to belligerents.³⁸ Acting on the instructions of the exchange requirements committee, T.K. Bewley, an assistant secretary in the treasury, wrote to Balfour that the importation of oil from the US and other sources which required dollars for payment was worsening Britain's exchange difficulties. In order to conserve dollars to pay for arms, Bewley wanted Britain to import oil from Mexico and other countries which did not require payment in dollars.³⁹

Balfour found Starling adamantly opposed to the idea. The treasury's proposal would involve a reversal of British policy toward Mexico which, they believed, had more of a chance than ever of producing the desired results of making an example

³⁷ Bewley to Balfour, 12 September 1939, FO 371 22775 [A6304/4/26].

³⁸ Reynolds, p. 43, p. 73.

³⁹ Bewley to Balfour, 12 September 1939, FO 371 22775 [A6304/4/26].

of Mexico which would discourage other foreign oil producing countries from expropriating British oil properties. In addition, the petroleum department believed that British oil supplies were perfectly satisfactory. Starling dismissed Bewley's inquiry as 'pro forma ... designed to safeguard the Treasury position as regards exchange.' He continued, 'any considerations in favour of altering our policy on this score were entirely outweighed by the political risks involved' and that 'now more than ever it was important to take steps to prevent other Latin American countries from doing the same as Mexico.' Balfour, with Starling's approval, replied to Bewley that it would be 'inadvisable for the time being ... to convey a hint to the Mexican government that we would welcome action on their part to settle the dispute.'⁴⁰

Although the ministry of economic warfare had been represented at the meeting on 8 September at which it was decided to continue the boycott, it soon became as critical as the treasury of the policy. Like the treasury, the ministry of economic warfare advocated a policy reversal with regard to the boycott within a fortnight of the treasury's similar recommendation. The fact that

⁴⁰ Balfour, Minute, 15 September 1939, FO 371 22775 [A6304/4/26]; Balfour to Bewley, 18 September 1939, FO 371 22775 [A6304/4/26].

Balfour took the ministry's objections far more seriously than those of the treasury and was tempted to agree with them until Starling convinced him otherwise was most likely due to the competition for influence between the foreign office and the treasury.⁴¹

Marris of the ministry of economic warfare wrote to Balfour suggesting that Britain might want to buy oil from sources other than the United States and Canada due to concerns about Britain's exchange difficulties:

In our search for such a source of supply we may have to consider Mexico before the Mexicans feel compelled...to agree to the oil companies' terms. If that should happen then the interests of the companies might conflict with those of the country.⁴²

As a compromise, Marris suggested that the British government agree to buy oil from Mexico for the duration of the war provided that any agreement made would not prejudice the rights of British oil interests.⁴³ Balfour wrote to Starling:

Marris' suggestion might be of value as long as it is made clear to Mexicans that money retained by Britain was not compensation to the oil companies who reserve their full rights in the matter.⁴⁴

⁴¹ Balfour, Minute, 15 September 1939, FO 371 22775 [A6304/4/26].

⁴² Marris to Balfour, 22 September 1939, FO 371 22776 [A6542/4/26].

⁴³ Ibid.

⁴⁴ Balfour to Starling, 29 September 1939, FO 371 22776 [A6542/4/26].

Starling, the driving force behind Britain's continued pursuit of the boycott, however, convinced Balfour to reject the idea by assuring him that British supplies of oil were perfectly adequate for the time being and that the British government should contemplate purchasing Mexican oil only if supply difficulties arose.⁴⁵ Starling was particularly worried about the shortage of tankers. Buying Mexican oil would mean using tanker space he would prefer to reserve for oil from larger oil producers such as Iran and Venezuela, who would complain if British purchases slumped and perhaps sell the oil they usually sold to Britain to other countries. In addition, he said that since the committee of imperial defence shortly after the expropriation had approved of the policy of boycott,

Nothing short of a Cabinet decision to the contrary would induce the Petroleum Department to consent to the lifting of the embargo on Mexican oil for which in the present circumstances they see no occasion whatever from the point of view of easing the oil situation.⁴⁶

Balfour also silenced the critical voice of Consul General Rees of Mexico who was concerned about the losses suffered by British businesses like Swan Hunter and Turner Brothers Asbestos who

⁴⁵ Starling to Balfour, 2 October 1939, FO 371 22776 [A6767/4/26].

⁴⁶ Balfour, Minute, 10 November 1939, FO 371 22667 [A7571/4/26].

were cooperating with the boycott. He believed that there was a strong case for having the oil companies agree to a settlement whereby they would receive compensation by controlling Mexican oil exports. Balfour, however, did not believe in changing policy in present circumstances and remarked, 'The loss to British manufacturers is an inevitable consequence of the present position....'⁴⁷

CRITICISM OF FRANCE

The French government also continued its efforts to change British policy. It made representations to both the president of the board of trade and the foreign office to secure British approval to buy Mexican oil. A French official complained to Oliver Stanley, president of the board of trade, that while France greatly wanted close Franco-British cooperation in the war, it was very difficult for France, whose oil imports in the opening months of the war fell far below expected levels,⁴⁸ to continue heeding British wishes not to buy the cheaper Mexican oil only to see it ending

⁴⁷ Balfour, Minute, 16 March 1939, FO 371 22772 [A1980/4/26].

⁴⁸ Payton-Smith, p. 111.

up in enemy hands.⁴⁹ France desperately wanted to accept the Mexican government's offer to place all of Mexico's production at the disposal of France and Britain.⁵⁰ Stanley sought to reassure French officials that in the special circumstances created by the war, the Allied blockade in particular, the boycott would be expected to bring Mexico to heel and discourage other countries from repeating the Mexican experiment, and he warned that it would be a 'grave error' for France to weaken Britain's efforts to now.⁵¹

Lothian, the British ambassador in Washington, also encouraged a change of policy when he suggested that Britain re-establish diplomatic relations with Mexico as a way toward a possible settlement of the oil question. He believed that not having diplomatic relations during the war was disadvantageous and that having them would improve reporting from Mexico and would allow Britain to make purchases of Mexican oil to help alleviate the dollar shortage.⁵² Before rejecting Lothian's suggestion, Balfour asked C.G. Jarret, a principal

⁴⁹ De Monzie to Oliver Stanley, 19 September 1939, FO 371 22776 [A 6622/4/26].

⁵⁰ Roché to Foreign Office, 5 October 1939, FO 371 22776 [A6857/4/26]; Ambassador in Mexico (Daniels) to the Secretary of State, 6 September 1939, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5, 1939 (Washington, D.C.: United States Government Printing Office, 1957), pp. 706-7.

⁵¹ Oliver Stanley to De Monzie, 27 September 1939, FO 371 22776 [A6622/4/26].

⁵² Balfour, Minute, 22 November 1939, FO 371 22776 [A8038/4/26]; Lothian to Balfour, 18 October 1939, FO 371 22776 [A7789/4/26].

in the Admiralty, on 13 November 1939 whether the handling of wartime problems 'relating to Mexico so far as they concern the Admiralty is prejudiced owing to the absence of normal diplomatic relations in Mexico City.'⁵³ While Balfour knew that the petroleum board shared Starling's sentiments on maintaining the boycott, he needed the approval of the admiralty which had had autonomy over procuring its own oil supplies since before the outbreak of war.⁵⁴ He was pleased when Jarret indicated that the admiralty supported the boycott since Mexico supplied only about 2 percent of world production, and saw no need for a minister in Mexico.⁵⁵

BRITISH REACTIONS TO US ARBITRATION PROPOSALS

Washington's arbitration proposals to Mexico also caused London much anxiety. Balfour viewed Roosevelt's letter to Cárdenas in August 1939 urging him to accept arbitration for the amount and timing of compensation as a potential threat to British security because it was too lenient to set a negative example to other countries contemplating imitating Mexico. Both Balfour and Godber,

⁵³ Balfour to Jarret, 13 November 1939, FO 371 22776 [A7789/4/26].

⁵⁴ Payton-Smith, pp. 77-79.

⁵⁵ Balfour, Minute, 10 November 1939, FO 371 22776 [A7789/4/26].

managing director of Royal/Dutch Shell, were still concerned that the shah of Iran might interpret any leniency toward Mexico as a precursor to British purchases of Mexican oil at the expense of Iranian oil from Abadan and, therefore, try to 'squeeze the British petroleum interests if the British government were to display weakness in relations to Mexico'.⁵⁶ The British demand for Iranian oil had already decreased substantially after the start of war due to the re-routing of tankers around Africa after the temporary closure of the Mediterranean to Allied shipping, heavy shipping losses due to hostilities, and the decrease in demand due to rationing.⁵⁷

The proposal also made Balfour again suspect that Washington wanted to force a settlement on the American oil interests. One alternative was to remain passive if the state department pushed through a settlement involving arbitration without them. Balfour rejected this option, however, because he was concerned it might also lead to a situation in which American interests were being compensated from former British assets in Mexico.⁵⁸ Unable to make representations to Mexico directly,

⁵⁶ Balfour, Minute, 22 November 1939, FO 371 22776 [A8038/4/26].

⁵⁷ Bamberg, J.H.: The History of the British Petroleum Company 1928-1954 (Cambridge: Cambridge University Press, 1994), pp. 230-31.

⁵⁸ Balfour, Minute, 7 February 1940 FO 371 24212 [A935/57/26].

he decided that the only option was to try to give the illusion of a united front between Washington and London as well as among the Anglo-American oil interests and hope that it would lead to a settlement that was satisfactory to both the oil companies and Britain.

The foreign office, therefore, instructed Lothian to reiterate to Washington the importance of making an example of Mexico to protect oil supplies for defence from foreign countries, especially Iran.⁵⁹ After Lothian presented the British concerns, Welles no doubt infuriated the British when he said that he thought the arrangement the US was already proposing would give 'security against South Americans following Mexico's example'. When Lothian asked Welles if he did not think that the only basis for solution was for the companies to control the operation of their properties, Welles agreed but stated that operation of the oil properties was a question of national honour for the Mexicans.⁶⁰

The British government and Mexican Eagle believed that getting a tribunal to rule on the time and method of payment would only lead to Mexico finding a way to evade making payments.⁶¹

⁵⁹ Foreign Office to Lothian, 23 November 1939, FO 371 22776 [A8038/4/26].

⁶⁰ Lothian to Foreign Office, 17 November 1939, FO 371 22776 [A8080/4/26].

⁶¹ Balfour, Minute, 22 November 1939, FO 371 22776 [A8038/4/26].

Officials saw no need for Washington's efforts to get Mexico to admit that it could not pay compensation when the British found that fact obvious. They also felt that the only effective course was to be firm and insist that because of Mexico's inability to make prompt effective and adequate compensation, Mexico must allow the oil companies to operate their former properties on a long lease and with a contract guaranteeing labour conditions and royalties.⁶²

Washington's second arbitration proposal, however, was sufficiently vague to give Britain hope that Washington was demanding arbitration of the expropriation itself, which Britain was confident would lead to the return of the oil properties. It, therefore, left London afraid that Washington would leave the British out of a favourable settlement by using the Inter-American Arbitration treaty. Balfour and Starling, while averse to the idea of arbitration of the amount of compensation, approved of the idea of having the legality of the expropriation arbitrated so long as the arbitration tribunal had the authority to restore properties to the control of the companies.⁶³ Lothian was adamant that arbitration

⁶² Lothian to Foreign Office, 14 December 1939, FO 371 22777 [A9117/4/26].

⁶³ Lothian to Foreign Office, 30 January 1940, FO 371 24212 [A758/57/26]; Foreign Office to Lothian, 3 February 1940, FO 371 24212 [A758/57/26].

must include British and American oil interests at the same time because:

Otherwise the Mexican government could either refuse to arbitrate ... about British properties or refuse to fulfil the award and compensate American ones out of British estates.⁶⁴

Before Mexico's rejection, Starling and Balfour used direct approaches to Washington and indirect ones via the American oil companies. The foreign office instructed Lothian to tell Hull on 30 January 1940 that if Washington and Mexico City were to use an impartial tribunal which would rule on whether the Mexican government had to return the properties to the management of the companies, the British government would wish to be a part of such arbitration. When Lothian raised the issue the same day, Hull said the arbitration agreement would only apply to American properties at first, and it was up to the companies to insist on simultaneous arbitration.⁶⁵ Godber then tried to capitalize on the strength of the Anglo-American oil interests' united front by encouraging Standard Oil of New Jersey to persuade the state department to pursue single arbitration.⁶⁶ William Farish tried his best to protest against the state department's

⁶⁴ Lothian to Foreign Office, 30 January 1940 , FO 371 24212 [A758/57/26].

⁶⁵ Ibid.

⁶⁶ Balfour, Minute, 2 February 1940, FO 371 24212 [A758/57/26].

proposal which excluded British and Dutch interests, but to no avail.⁶⁷

Once again Lothian informed Welles on 9 February 1940 that the British hoped the state department would arrange for a tribunal to have the authority to restore the properties to the management of the oil companies. In such a case, the British government hoped that it would be able to deal with both American and British claims.⁶⁸ When Lothian referred to the united front between Britain and the United States in dealing with the expropriation, Welles bluntly denied that 'there had...been anything remotely resembling a "united front" between the governments of the US and Britain.'⁶⁹ He also angrily rejected the idea that British and American claims should be dealt with simultaneously by the same arbitration tribunal.⁷⁰ Starling was deeply worried about Washington's reaction and the prospect of it using the Inter-American Arbitration treaty, which would 'squeeze out British and Dutch interest'. He had hoped to convince the state department to use a tribunal

⁶⁷ Lothian to Foreign Office, 16 February 1940, FO 371 24213 [A1251/57/26].

⁶⁸ Lothian to Foreign Office, 10 February 1940, FO 371 24213 [A1437/57/26].

⁶⁹ Memorandum of a Conversation by the Under Secretary of State (Welles), 9 February 1940, US Department of State: Foreign Relations of the United States: The American Republics, Vol. 5, 1939 (Washington, D.C.: United States Government Printing Office, 1957), pp. 994-6.

⁷⁰ Lothian to Foreign Office, 10 February 1940, FO 371 24213 [A1437/57/26].

composed of three judges from the permanent court of international justice at the Hague.⁷¹

Washington's unhelpful responses to Britain at this time are consistent with the resentment of the state department, particularly of Welles and Berle, at what seemed to be British efforts to use economic warfare to harm American trade during the winter of 1939-1940. The blockade had greatly reduced the amount of surplus agricultural crops Britain had purchased from the American South and Middle West, and to make matters worse, Whitehall announced that it would be importing more agricultural products from Turkey and Greece largely to prevent them from becoming too tied to Germany. Hull feared for the future of his trade agreements programme because he believed that the diminished purchases, which sometimes violated the 1938 trade agreement with Britain, might lead congress to reject renewal of the Trade Agreements Act in Spring.⁷² In addition, Washington greatly resented Britain disrupting American trade by diverting neutral ships for inspection at contraband control bases, while Italian ships seemed to go through with far more ease than American ones. Britain's drive to increase its

⁷¹ Starling to Balfour, 19 February 1940, FO 371 24213 [A1414/57/26].

⁷² After a spirited Congressional debate, Hull managed to get the act renewed. See Steward, Dick: Trade and Hemisphere: The Good Neighbor Policy and Reciprocal Trade (Columbia: University of Missouri Press, 1975), pp. 183-184.

exports particularly in Latin America in early 1940 raised Washington's suspicion that Britain was building a trading zone based on the pound and the franc which excluded the US.⁷³

Whitehall greatly resented the Johnson Act as well as the neutrality laws which by 1940 only allowed Britain access to American arms and implements of war on a cash and carry basis. Whitehall was also angry about Roosevelt's pan-American neutrality zone, formalized at the pan-American conference in Panama in September 1939. The so called declaration of Panama delineated an area from 300 to 1,000 miles off the Atlantic Coast south of Canada, and signatories were to keep watch on the area to keep it free of belligerent vessels. The zone did nothing to help Britain, and it prevented the Allies from effectively controlling contraband from their bases in the Caribbean.⁷⁴

Whitehall officials also strongly disagreed with the idea of Welles' mission to Italy, Germany, France and Great Britain to stop the fighting in Europe, because they believed it was an early attempt at American peace making which would be done strictly to the advantage of the US. Whitehall suspected that Roosevelt was using it to secure a victory for the Democratic party in the

⁷³ Reynolds, pp. 67-8.

⁷⁴ Medlicott, W.N.: The Economic Blockade (London: HMSO, 1959), pp. 329-31.

next presidential election. Successfully stopping a war would greatly enhance his position at home, but Roosevelt did not seem to think about the effect of the visit on the Allies. Not only would it give the impression that peace was near and, therefore, encourage Scandinavian neutrals not to support the Allies in sending aid to the Finns who were defending themselves against Russia, but it would also give Germany hope at a time when the prime minister harboured hopes Germany would collapse under the economic strain of the blockade.⁷⁵

Reactions to Welles' impending visit showed how unpopular he was in London. R.A. Butler suggested that Whitehall 'twist Welles' tail' with regard to Mexico when he arrived. Balfour, however, rejected the idea because 'he possesses in this respect an iron tail with a spike at the end of it!'⁷⁶ David Scott agreed with Balfour and minuted:

At no stage has Welles shown the slightest inclination to deviate from the path he has chosen in order to help British interests ... I don't think that he is any more likely now than before to want to be kind to us over this question.⁷⁷

⁷⁵ Reynolds., pp. 80-83.

⁷⁶ Balfour, Minute, 28 February 1940, FO 371 24213 [A1471/57/26].

⁷⁷ David Scott, Minute, 1 March 1940, FO 371 24213 [A1643/57/26].

Balfour blamed him for Washington's insistence upon separate arbitration, and minuted:

The arguments in favour of single arbitration are vigorously and clearly put and show what a deaf adder Welles is. I fear his ears are utterly clogged with the dust of self esteem.⁷⁸

BRITISH REACTIONS TO THE SINCLAIR SETTLEMENT

A fortnight after Lothian reported that the Mexican government had rejected arbitration,⁷⁹ the British government learned that the state department had again proposed the settlement of the oil issue by allowing a tribunal to determine the amount of compensation the Mexican government owed the American nationals. The Americans did not propose a specific treaty for arbitration, but they did exclude European interests. Balfour complained with understatement, 'This proposal...tends to put compensation in the forefront rather than the restoration of the properties.'⁸⁰ Lothian was cross that the state department had not warned him about its new note to Mexico.⁸¹ Balfour commented

⁷⁸ Balfour, Minute, 3 March 1940, FO 371 24213 [A1437/57/26].

⁷⁹ Lothian to Foreign Office, 22 March 1940, FO 371 24214 [A2135/57/26].

⁸⁰ Balfour, Minute, 17 April 1940, FO 371 24215 [A2822/57/26].

⁸¹ Lothian to Foreign Office, 5 April 1940, FO 371 24215 [A2557/57/26].

that the US proposal of arbitration was symptomatic of 'US caution to avoid any accusation of joint action with the British government'. He was particularly disappointed in the state department's 'cageyness' which in this case manifested itself in Hull's omitting in a letter to mention US plans for the third arbitration proposal. On 3 April, the same day as the US note to Mexico, the British had sent Washington a letter saying that they were pleased 'the question of arbitration was not a live issue'. As Balfour angrily wrote, '[Hull] must surely have smiled on reading [it]'.⁸²

The Sinclair agreement which the Mexican government announced at the same time that it received the US note also infuriated the British government. The agreement which involved the payment of compensation in oil and dollars in an amount which the major oil companies believed sadly undervalued Sinclair's former properties was a setback for them and the British government. The agreement, as Lothian acknowledged, greatly strengthened Mexico's position.⁸³ Starling feared that the state department in its determination to resolve the matter would put pressure on American

⁸² Balfour, Minute, 17 April 1940, FO 371 24215 [A2822/57/26].

⁸³ Lothian to Foreign Office, 7 May 1940, FO 371 24215 [A3198/57/26].

oil interests to agree to a settlement like Sinclair's.⁸⁴

The worries that the petroleum department had expressed while the Sinclair agreement was being negotiated became justified after the agreement was announced. By providing compensation it invalidated the argument that the Mexican government had committed an injustice by not paying compensation. The agreement eased the effects of the boycott which was so important to the success of British policy.⁸⁵ The British concern about the possibility of American oil interests being compensated from former British properties also turned out to be justified because much of the Mexican oil that Sinclair was to receive came from the Poza Rica field.⁸⁶

In conclusion, although Balfour and Starling seemed ruthless in their continued willingness to sacrifice the interests of British companies such as Swan Hunter and Turner Brothers Asbestos by forcing them to adhere to the boycott, Britain's potentially dangerous oil situation justified their attempts to harm Mexico economically in order to set an example for other nations not to follow.

⁸⁴ Starling to Foreign Office, 31 May 1940, FO 371 24215 [A3198/57/26].

⁸⁵ Petroleum Department to Foreign Office, 11 March 1940, FO 371 24215 [A2680/57/26].

⁸⁶ Collins to Secretary of State, 18 May 1940, RG 59, Records of the Department of State [812.6363/6887].

While officials were not optimistic about a return to the status quo ante, they strove to give the appearance of causality between Mexico's economic problems and the expropriation.

Despite the short-sightedness of O'Malley's policy described in chapter four, maintaining diplomatic relations with Mexico would probably have helped Whitehall only marginally. Relations would certainly have given Britain the option to make a parallel appeal to Mexico to try to give the illusion of a united front. However, it is doubtful again whether Mexican nationalism would have allowed a response that was helpful to Britain. It is also questionable whether Britain could have kept up such an appearance because Whitehall, as seen in chapter four, for most of the time knew relatively little about US policy. Having relations, however, would have made the British less obviously reliant on Washington at a time when it was not in Britain's favour to appear so dependent on US help. This fact alone, however, was not important enough to alter Anglo-American relations at the time. The most diplomatic relations with Mexico could do would have been to reduce the anxiety of officials in Whitehall by offering the assurance that they could negotiate directly with Mexico when the need arose.

CHAPTER EIGHT
THE AMERICAN SETTLEMENT:
MAY 1940-OCTOBER 1943

*An unfriendly Mexico, as it was from 1914 to 1918, could create manifold and difficult problems for us.*¹

Laurence Duggan

Hitler's renewed aggression in May 1940 heightened Roosevelt's apprehension that Hitler's ambitions stretched well across the Atlantic and into South America, a convenient location from which Germany could launch air attacks on the United States or the Panama Canal. Reminiscent of the worries he had expressed in a press conference in November 1938,² he publicly stated that Hitler's goal of striking such targets would be alarmingly easy to achieve if the Nazi fifth column in Mexico or any country in Latin America established a strong economic presence, infiltrated the government or established a puppet regime after

¹ Duggan to Welles, 12 June 1940, RG 59, Records of the Department of State [711.12/1482], quoted in Cronon, E. David: Josephus Daniels in Mexico (Madison: University of Wisconsin Press, 1960), p. 258.

² White House Press Conference, 15 November 1938, RG 59, Records of the Department of State [710.H Continental Solidarity/2].

staging a coup.³ His limited means to address the problems of allegedly growing Nazi influence in the area and the possibility of a Nazi military attack led him to take more interest in military cooperation with Mexico to combat threats from this direction.⁴ Specifically he hoped to establish bases on Mexico's Pacific coast, an ideal location for aircraft to refuel before making counter attacks against possible enemy action in the Panama Canal or other vulnerable sites in Latin America.⁵ Such bases would also be tremendously helpful in keeping sea routes open.⁶

In June 1940 Roosevelt's plans became complicated when President Cárdenas insisted that full military cooperation between the US and Mexico

³ The evidence of Nazi designs on South and Central America is far from convincing. The map of Central and South American that Roosevelt claimed in October 1941 to be proof of Hitler's plans to divide the area into five vassal states was later proved to be bogus. [Kimball, Warren F.: "The Juggler": Franklin D. Roosevelt and Anglo-American Competition in Latin America' in di Tella, Guido and Watt, Donald Cameron, (eds.): Argentina Between the Great Powers, 1939-46 (Houndmills, Basingstoke, Hampshire: Macmillan, 1989), p. 23; Gellman, Irwin: "The New Deal's Use of Nazism in Latin America" in Davids, Jules (ed.): Perspectives in American Diplomacy (New York: Arno Press, 1976), pp.197-8].

⁴ Roosevelt, Message to Congress, 16 May 1940, Address to the University of Virginia, 10 June 1940 in Rosenman, Samuel I.: The Public Papers and Addresses of Franklin D. Roosevelt, 1940 vol. (London, Macmillan & Co., 1941), pp. 198-205, pp. 259-64.

⁵ Hayes, Grace Person: The History of the Joint Chiefs of Staff in World War II (Annapolis, Maryland: Naval Institute Press, 1982), p. 4.

⁶ Meyer, Lorenzo: Mexico and the United States in the Oil Controversy, 1918-1942 (Austin: University of Texas Press, 1972), pp. 217-18.

depended on a resolution of all outstanding issues between the two countries.⁷ These included settling the claims resulting from Mexico's expropriation of American railroads, agrarian lands and oil properties. Despite concerns for defence, a settlement was not reached for nearly a year and a half, and this delay was due to Washington's refusal to abandon completely the cause of US firms with interests in Mexico. In pursuing such a policy, David Cronon in Josephus Daniels in Mexico remarks, the state department treated Mexican officials so offensively in the weeks before the settlement that the Mexican president nearly broke off relations with Washington, and it was only after the intervention of Josephus Daniels, he argues, that the agreement was signed and relations between the two countries saved.⁸

The purpose of this chapter is first to fill two main gaps in the existing literature on the Mexican oil nationalisation. First, this last chapter of the US side of the story explains why Washington did not subordinate commercial interests completely to defence after the end of the phoney war and when Cárdenas made military cooperation contingent on a settlement of the oil issue. To do

⁷ Chapin, Memorandum of a Conversation, 11 June 1940, RG 59, Records of the Department of State, [812.20/222 1/2].

⁸ Cronon, p. 270.

so it is necessary to analyse Washington's policy towards Mexico in the wider context of the administration's concerns about German and Japanese aggression as opposed to the more obvious and narrow context of Mexican-American defence cooperation which the literature so far has done.⁹ It is only by approaching the issue from this standpoint that the role of Ambassador Daniels in the settlement can be assessed. Second, the oil companies, despite the Sinclair agreement, did not abandon their determination to manage their former properties. Existing accounts mention that the companies objected to the eventual settlement of November 1941 which failed to provide this and refused to cooperate with it. However, the literature so far neglects to give a satisfactory explanation of why the oil companies did eventually agree to this settlement nearly two years after it was signed.

This chapter makes two arguments about Washington's policy. First, the continuing efforts Cordell Hull and Sumner Welles to strike a balance

⁹See, for example, Cronon, E. David: Josephus Daniels in Mexico; Koppes, Clayton: "The Good Neighbor Policy and the Nationalization of Mexican Oil," Journal of American History (June 1982); Meyer, Lorenzo: Mexico and the United States in the Oil Controversy, 1918-1942; Wood, Bryce: The Making of the Good Neighbor Policy (New York: Columbia University Press, 1961); Yergin, Daniel: The Prize: The Epic Quest for Oil, Money and Power (New York: Simon & Schuster, 1991), pp. 271-279.

between the conflicting commercial and defence concerns with regard to Mexico were mainly responsible for the delay in reaching an oil settlement with Mexico, but only up until mid-1941. Preoccupied with defence, Roosevelt, as usual, paid only intermittent attention to the Mexican oil issue and left the settlement of outstanding issues with Mexico mainly to Welles and Hull. The standards both had set for relations between countries made them reluctant to make concessions to Mexico, and they still felt an obligation to use the oil problem to establish a norm for relations between countries based on fair treatment of American commercial interests abroad. Concerns about the Nazi threat and the precedent set by the Sinclair settlement, however, led them to compromise somewhat to secure Mexican military cooperation. In order to ensure that a compromise would not harm the cause of commercial concerns operating in Mexico, Hull thought it was imperative to secure the agreement of the oil companies, who were furious about the state department's willingness to compromise and were insisting on the return of their properties.

Second, the change in the strategic picture after June 1941 brought a subtle but important shift in the state department's tactics. With

Hitler involved in war with Russia and progress being made on defence cooperation with Mexico, the department appreciated that insisting on an oil agreement acceptable to the oil companies did not risk compromising US defence needs. Hull and Welles, therefore, delayed progress toward an agreement while they tried to persuade the oil companies to accept an agreement with Mexico. In delaying the settlement, however, Hull and Welles angered the Mexican president to such a degree that he considered recalling his ambassador from Washington. The lack of communication between Hull and Welles made the management of US policy much worse. Only the intervention of Daniels ended the stalemate.

The events covered in this chapter are as follows. First, Roosevelt's changes in the division of responsibility for making foreign policy will be described. Examining this issue is essential to understand why there was an almost total lack of coordination between Hull and Welles in the weeks leading up to the oil settlement. Second, factors in the spring and summer of 1940 that influenced policy in incompatible directions will be seen. Third, it will be shown that Washington's response to these factors, in particular Cárdenas' determination to get a

settlement of the oil matter before full military cooperation could be established, was to start recognising Mexican nationalist sentiment but at the same time to persist with a policy which did not lose sight of US commercial interests.

Fourth, it will be seen that after Vice President-elect Henry Wallace's mission to Mexico, Roosevelt became involved in the Mexican matter, and as a result the state department, Welles in particular, keen as ever to improve his political standing, took a softer line toward Mexico. Fifth it will be seen that after June 1941 Hull and Welles, after the temporary, decreased involvement of Roosevelt, became more willing to risk alienating Mexico to buy time to persuade the oil companies to compromise with Mexico, and only renewed involvement from the president got Hull to finalise a settlement with Mexico. Last, the settlement and Harold Ickes' attempts to oppose the state department's policy will be described and the reasons for the oil companies' delayed acceptance of the Mexican-American agreement given.

FOREIGN POLICY-MAKING

Just before summer 1940, the division of responsibility for foreign policy changed. The state department had functioned for several years with Welles overseeing Latin American affairs while Hull managed most Asian and European matters. Roosevelt, however, who had decided to play a larger role in foreign policy, changed that structure by relying increasingly upon Welles to carry out most of his directives in foreign policy. He chose Welles rather than Hull for the European mission in February and March 1940, and when the president casually mentioned in early July that he planned to seek a third term, Hull was devastated and even considered resigning a few months later.¹⁰ In addition, Welles controlled policy toward Mexico more than ever with Hull's long absences due to illness and his activities with the Japanese. What feelings of personal enmity that existed between the secretary and undersecretary certainly grew with the president's changes, and Welles neglected to keep Hull informed on matters as well as he should have.

¹⁰ Gellman, Irwin F.: Secret Affairs: Franklin Roosevelt, Cordell Hull and Sumner Welles (Baltimore: Johns Hopkins University Press, 1995), pp. 174-5, pp. 215-7.

FACTORS INFLUENCING POLICY

On the one hand congressional criticism of the administration's policy and the results of the Mexican elections, which brought no promise of change in Mexico's policy on the oil properties, encouraged the administration to take a firmer policy towards Mexico. On the other hand, the fall of France, the failure of the cartel plan, Roosevelt's defence considerations, the Sinclair settlement and the results of Mexico's presidential election made a more lenient policy seem appropriate and necessary. While the Mexican issue was not a big factor in the elections of 1940, nevertheless congressional opinion could not be ignored. Roosevelt still faced opposition from conservative Democrats and Republicans, and after he decided to run for a third term, he replaced his secretaries of navy and war, whom he believed incompetent, with Frank Knox and Henry Stimson respectively. Not only did he need their expertise, but the fact that they were both Republicans helped placate some of the opposition.¹¹

¹¹ Leuchtenburg, William E.: Franklin D. Roosevelt and the New Deal, 1932-40 (New York: Harper & Row, 1963), p. 301; Gellman, p. 215.

Democratic Representative Thomas C. Hennings, Jr. of Missouri called for the government to set punishments for violations of the rights under international law of US citizens, who had invested in farm lands, railways and oil properties in Mexico. He was also concerned about the resulting worsening of Mexican-American relations and the possible spread of what he thought were Mexico's socialist tendencies, which in his view threatened the peace of the hemisphere. Concerned that congress had done nothing despite many complaints of US citizens about Mexico's confiscatory policy, on 3 April 1940 he presented resolution 545, which called for congress to appoint a committee to investigate both Mexico's actions and how they had affected US citizens. It also raised alarm at the possibility of the Mexican government's policies spreading and threatening democracy in the western hemisphere.¹² Hennings' resolution was clearly an embarrassment to Welles who evaded a reporter's question in a press conference about whether he welcomed the investigation Hennings' had proposed. When a correspondent commented that he understood that Hennings had asked the attitude of the

¹² Speech of Congressman Thomas C. Hennings, 3 May 1940, RG 59, Records of the Department of State, [812.6363/6847]; Hennings, 3 May 1940, Congressional Record, House of Representatives, (Washington, D.C.: United States Government Printing Office, 1940), v. 86 (part 5), Congress 76, session 3.

department before making the proposal, Welles indicated that that was not the case.¹³

Republican Representative Dewey Short, who presented a similar resolution, was also openly critical of how both the president and the state department had treated Mexico after the expropriation. He bluntly said that what Mexico had done amounted to confiscation because no agreement about compensation had been reached before the expropriation of properties. Given what he thought was such a belligerent act, he argued that it was ridiculous for the president to keep calling the Mexican government a good neighbour. In addition, the state department's suggestion of arbitration seemed ridiculous to him because, he argued, robbery could not be arbitrated. He proposed that the only viable alternative for the Mexican government was to return the properties because Mexico's debt and financial conditions would preclude payment in full of the value of the confiscated properties. He proposed exactly what the major oil companies had wanted and even suggested that in the event Mexico did not

¹³ Memorandum of a Press Conference, 4 May 1940, Papers of Cordell Hull.

cooperate, congress vote to stop US treasury purchases of Mexican silver.¹⁴

Despite the arguments of congress, it had become hopeless for the state department to expect that they could effect much change by being firm with Mexico. The companies' favoured candidate, General Juan Andreu Almazán had failed to win the violently contested Mexican presidential election of 7 July 1940. Although the conservative general had promised never to surrender to foreign oil interests, most foreign oil companies believed this was mere campaign rhetoric.¹⁵ By Summer 1940, most importantly, the Sinclair settlement had made the chances of the oil companies returning to Mexico to manage their former oil properties plummet.

The failure of the Latin American cartel plan, designed to keep important products from the region away from the Axis and to prevent the furthering of Axis trade links with Latin American countries, increased concern about Axis activities in the region. The state department in June 1940 had proposed a plan which provided for an inter-American trading corporation to purchase exports of the participating countries and market them in

¹⁴ Dewey Short, 6 May 1940, Congressional Record, House of Representatives, (Washington, D.C.: United States Government Printing Office, 1940), v. 86 (part 5) Congress 76, session 3.

¹⁵ Cronon, pp. 255-6.

Europe. The plan, however, came up against stiff opposition both within the United States and abroad. Not only were American domestic interests and European powers opposed to it, but Latin American states, especially Argentina, rejected the plan at the Havana conference in July for fear it would make their economies all the more dependent on the United States.¹⁶ The plan's failure coincided with intelligence reports about offers German officials made to Mexico City to barter aviation material and British Honduras for Mexican petroleum after a German victory.¹⁷

Roosevelt's anxiety about the alleged Nazi menace in the western hemisphere was based partly on a geopolitical conception of the world to which he was exposed while he served as assistant secretary of the navy during World War I. While Roosevelt was sincere in his anxiety about Hitler, he greatly exaggerated the Nazi military threat to South America. He calculated that linking the need to check Hitler's aggression with hemispheric defence would win domestic approval for measures

¹⁶ Steward, Dick: Trade and Hemisphere: The Good Neighbor Policy and Reciprocal Trade (Missouri: Columbia University Press, 1975), p. 274.

¹⁷ Naval Attaché to State Department, 19 July 1940, RG 59, Records of the Department of State [812.6363/7070]; Commander W.M. Dillon, Naval Attache's Report, 25 August 1939, RG 38, Records of the Chief of Naval Operations, Office of Naval Intelligence; Justice Department to the State Department, 29 September 1939, RG 59, Records of the Department of State [812.6363/6207].

such as rearmament and assisting the British, whose Atlantic fleet he claimed was useful for protecting the approaches to the western hemisphere by sea from attack.¹⁸

Roosevelt's focus on geopolitics was apparent in his message to congress on 16 May 1940. Because of the accelerated pace of warfare due to the use of aircraft, he feared that the Atlantic and Pacific oceans were no longer adequate barriers of defence for the United States and that further measures were necessary to protect the western hemisphere. He calculated the flying time for enemy attacks on the United States from every possible angle and concluded that Germany could use locations such as Bermuda, Tampico on the Gulf of Mexico, and points in the West Indies as penultimate landing bases from which to attack the United States in three and a half hours or less.¹⁹

The memory of US-Mexican relations during World War I caused further concern. As Laurence Duggan stated, 'An unfriendly Mexico, as it was from 1914 to 1918, could create manifold and

¹⁸ Gellman, Irwin: "The New Deal's Use of Nazism in Latin America" in Davids, Jules (ed.): Perspectives in American Diplomacy (New York: Arno Press, 1976), p. 194.

¹⁹ Franklin Roosevelt, Message to Congress, 16 May 1940 in Rosenman, S.I. (ed.): The Public Papers and Addresses of Franklin D. Roosevelt, 1940 Volume (London: Macmillan & Co., Ltd., 1941), pp. 198-205.

difficult problems for us.'²⁰ The war had demonstrated the necessity of oil for victory, and by the end of the war, Mexican supplies had proved vital to the Allies. The Allies during the war, however, had not felt secure about continued access to Mexican oil due to President Carranza's neutrality and his precarious relationship with Washington. By summer 1917 US and Allied needs for oil were severely straining supplies, and in the same year both the Zimmermann telegram, which raised the possibility of Germany forming an alliance with Mexico, and the Mexican Constitution of 1917, which potentially threatened foreign access to oil, made the Allies all the more anxious.²¹

WASHINGTON'S COMPROMISE POLICY

Despite Mexico City's anti-fascist leaning and its support in the declarations of Panama and Havana in September 1939 and the following July,²²

²⁰ Cronon, p. 258.

²¹ Nash, G.D.: United States Oil Policy (Pittsburgh: University of Pittsburgh Press, 1968) pp. 23-4.

²² Mexico was a particularly unlikely country to fall under Nazi influence because the governments of Lázaro Cárdenas and his successor Manuel Avila Camacho leaned heavily toward socialism. On 11 June 1940 the Mexican Ambassador to Washington Francisco Castillo Nájera expressed Cárdenas' general interest in cooperating with Washington and governments of other American republics for hemispheric

the Mexican president's announcement in June 1940 that full military cooperation could not be achieved without first resolving outstanding matters between the two countries came at the height of Washington's concern about Nazi activity on the South American continent. Instead of putting defence as their main priority, however, Hull and Welles reacted by trying both to meet Mexico's demands adequately to achieve increased defence relations and to demonstrate the failure of Mexico's expropriation by arranging for the companies to return to Mexico to operate their former properties. A note drafted by Herbert Bursley on 7 October offered US help to stabilize the ailing Mexican peso, to resume direct monthly purchases of Mexican silver, and to consider extending the necessary credits to finish the Pan-

defense. He also estimated the total number of Germans in Mexico to be merely 6,000 and discounted the possibility of subversive activities organized by foreign totalitarian nations presenting a viable threat to continental security. [Chapin, Memorandum of a Conversation, 11 June 1940, RG 59, Records of the Department of State [812.20/222 1/2]. Intelligence reports and the conferences in both Panama and Havana, in September 1939 and July 1940 respectively, offered further evidence of inter-American solidarity against the Nazi threat. [For example see W.M. Dillon, Naval Attache's Report, 18 June 1940, RG 38, Records of the Chief of Naval Operations; Earl S. Piper, Intelligence Report, 31 October 1941, RG 226, Records of the Office of Strategic Services.] Despite these factors, Washington believed it was still possible, before Hitler attacked Russia, for Germany to attack Mexico and any other point in South America. In addition, Washington needed concrete proof that Mexico City was anti-fascist in the form of some kind of military agreement with the United States before officials could be confident of Mexico as an ally.

American highway. In return, Bursley wanted Mexico to pay the US \$40 million in instalments to settle all claims apart from oil. He also wanted the Mexican government to renew service on the public and railway debts.²³

Bursley knew that the expropriated oil companies were insisting on running their former oil properties without interference from the Mexican government even if only for a limited period of time. He also realized that the oil issue was deeply rooted in Mexican nationalism and that Mexico would flatly reject the idea of surrendering control of the industry to foreigners. As a compromise, he proposed that the Mexican government compensate the oil companies in cash or oil in exchange for the companies' 'expert services'.²⁴ He hoped that being vague about control of the oil industry would eventually lead to a compromise both parties could accept. His plan, however, was destined to fail due to the stubbornness of both sides. In its memorandum of 16 November 1940 the Mexican government indicated its desire for a settlement of the oil issue similar to that of Sinclair.²⁵

²³ Adolf Berle, Draft of a Note to Mexico City, 11 October 1940, Diary, Papers of A. Berle.

²⁴ Ibid.

²⁵ Mexican Government, Memorandum, 16 November 1940, Papers of Josephus Daniels.

By far the biggest obstacle to an agreement, however, was the unrealistic attitude of the oil companies. Despite the fact that by summer 1940 the companies' chances of returning to Mexico to manage their former oil companies had decreased even further largely due to the Sinclair settlement, they refused to abandon their objective. In addition, as the oil companies had feared, the new government of President Manuel Avila Camacho proved no more amenable to the oil companies' solution of the oil issue than that of Cárdenas. The fact that the oil companies insisted on leaving things unsettled rather than accepting a settlement that would set an unfavourable precedent for their oil properties in other foreign countries made the state department's job of trying to bargain with them extremely difficult.

THE WALLACE MISSION

President-elect Camacho's invitation to Roosevelt to attend his inauguration in December 1940, led to Roosevelt's increased involvement in solving outstanding matters between the two countries and a softening of Washington's attitude toward Mexico. For several months Daniels had

thought a visit from Roosevelt, who he believed embodied the Good Neighbor policy, would improve relations dramatically with Mexico, 'our front door to the south and our back door of any enemy.'²⁶ Because Roosevelt's wartime schedule greatly restricted his travel, however, he sent Vice President Elect Henry Wallace, secretary of agriculture, with the rank of ambassador extraordinary and plenipotentiary to the ceremony. Wallace proved to be an excellent choice to send to Mexico because he had, in his capacity as secretary of agriculture, realised for several years the need for strong relations with Latin American countries. He believed that increased importation of Latin American raw materials which had the advantage of being conveniently located for the US, would expand US export trade and check further economic penetration of the region by Japan and Germany.²⁷ While in Mexico, Wallace did his best to pave the way for a reciprocal trade agreement with Mexico.²⁸ While no concrete steps were taken toward such an agreement, he was very well received and took great strides toward fostering Mexican goodwill. Most

²⁶ Daniels to Roosevelt, March 1940, Papers of Josephus Daniels.

²⁷ Henry Wallace to Bell, 25 April 1938, RG 59, Records of the Department of State [812.6363/6309].

²⁸ Bursley to Bonsal, Welles and Hull, 30 December 1940, RG 59, Records of the Department of State [812.001 Camacho, Manuel A./116].

importantly for US policy, he came to the conclusion, which he communicated to President Roosevelt in a letter of 26 December 1940, that circumstances were propitious to a settlement of all outstanding questions with Mexico.²⁹

Wallace's assessment of the situation encouraged Roosevelt, who had been involved in military talks with Mexico, to become involved in the diplomatic negotiations between the two countries. Welles, missing no opportunity to work closely with the president, drafted the president's response to Wallace in which he blamed the companies for obstructing a settlement with the Mexican government. In particular he blamed the unwillingness of Standard Oil to consider any solution that did not involve its return to manage its former properties for the failure of the Mexican government and the companies to come to a compromise and concluded that it was time for the two governments to negotiate a solution to the problem.³⁰ The sentiments in the letter were certainly a departure from the past support Welles had periodically given to the major oil companies.

²⁹ Wallace to Roosevelt, 26 December 1940, Official Files, Papers of Franklin D. Roosevelt.

³⁰ Roosevelt to Wallace, undated draft, enclosed in Welles to Roosevelt 10 January 1941, RG 59, Records of the Department of State [711.12/1549-1/2].

Roosevelt's decision to negotiate an agreement with the Mexican government resulted in Daniels, who had long agreed with the sentiments in Roosevelt's letter,³¹ and the president working closely together to build better relations with Mexico. Roosevelt's increased interest in the matter also drew Welles into a close working relationship with them. Little of what Roosevelt, Daniels and Welles did about the Mexican issue was communicated to Hull, who was still engrossed in negotiations with the newly appointed Japanese Ambassador Admiral Nomura to get a Japanese agreement to restore Chinese sovereignty, to refrain from interfering in South East Asian matters and to accept the principle of freedom of trade and respect for current borders.³²

Welles' request to the interior department to set a cash value upon the oil properties indicated Washington's determination to settle the dispute with Mexico. The request also was a departure from Welles' comment to Castillo Nájera in March 1938 that the oil companies properties were worth millions of dollars.³³ Given the known difficulty

³¹ Daniels also blamed the oil companies for preventing a solution of the problem. See Daniels to Roosevelt, 11 March 1941, Official Files, Papers of Franklin D. Roosevelt.

³² Gellman, Secret Affairs, p. 266.

³³ Memorandum of a Conversation by Under Secretary of State (Welles), 21 March 1938, US Department of State: Foreign Relations of the United States: The American Republics, Vol.

involved in coming up with an acceptable valuation, this request showed that Welles, due to Roosevelt's influence, had come to think of compensation as an acceptable option. Evaluating the properties required predicting oil prices as well as the yield of specific fields well into the future. The evaluations the state department had made in summer 1938 which took into account profits from oil in the subsoil resulted in the two very different figures of \$76,297,105 and \$101,729,473. Also, the American companies had estimated that their properties were worth more than \$200 million.³⁴

Secretary of the Interior Harold Ickes, petroleum coordinator for national defence from May 1941 worked closely with the Mexican government on valuations and produced low figures. Ickes had been suspicious that the oil companies had wanted to incite a revolution in Mexico and used the Sinclair settlement as a basis for the valuations. Although the state department chose not to publicise the results of the evaluations, its decision to explore compensation attests to the change that had taken place in the state department's attitude.³⁵

5, 1938 (Washington, D.C.: United States Government Printing Office, 1956), pp. 729-33..

³⁴ Meyer, Lorenzo, p. 221.

³⁵ Bursley to Duggan and Welles, 24 April 1941, RG 59, Records of the Department of State [812.6363/7267-1/2].

The softening of Washington's policy led to a tentative agreement with Mexico in August 1941. The Mexican government agreed to make an initial payment of \$9 million toward the oil settlement, and both governments agreed to appoint experts to determine the total amount of compensation that Mexico should pay the American oil companies.³⁶ The US and Mexican treasuries agreed to a programme for the stabilization of the peso whereby Mexico would be able to draw up to \$30 million, with certain restrictions. The US treasury also agreed to renew the arrangement with Mexico for direct purchases of silver, and the Export-Import bank agreed to a loan of \$30 million for highway construction guaranteed by Mexican highway bonds.³⁷ The Mexican government also agreed to pay \$40 million to liquidate all property claims.³⁸

WASHINGTON'S ATTITUDE BECOMES FIRMER

When the strategic picture changed, Welles and Hull worked all the harder to get the oil

³⁶ Cronon, p. 262; Draft of a Note from the Department of State to the Mexican ambassador, 17 July 1941, RG 59, Records of the Department of State [812.6363/7346-5/9].

³⁷ Duggan to Welles, 1 August 1941, RG 59, Records of the Department of State [812.6363/7354-1/11].

³⁸ Ibid.

companies' approval of a compromise settlement. After Hitler's attack on Russia in June 1941, it was clear that the possibility of Germany attacking the British Isles or any point in the western hemisphere was nearly nonexistent for the time being.³⁹ The destroyers-for-bases deal with Britain in September 1940 had provided the US with bases in the Caribbean, and by spring 1941, despite the stalemate on the oil issue, limited progress had been made in Mexican-American defence cooperation. Roosevelt, in an attempt to get bases on Mexico's Pacific coast in March 1941, had instructed Daniels to talk to Avila Camacho about both countries' requirements for enlarged naval and air bases.⁴⁰ The agreement, finalised in April, provided for mutual rights of transit in landing fields for military aircraft of both nations.⁴¹

Although the threat of a Nazi attack on South America had largely disappeared and progress in defence arrangements had been made, Roosevelt was increasingly anxious to prevent a Japanese attack on British South East Asia and wanted to secure naval bases in Mexico. In September 1940 the

³⁹ Kimball, Warren F.: The Juggler: Franklin Roosevelt as Wartime Statesman (Princeton: Princeton University Press, 1991), p. 41.

⁴⁰ Daniels to Roosevelt, 11 March 1941, Official Files, Papers of Franklin D. Roosevelt.

⁴¹ Roosevelt to Senate, 2 April 1941, Official Files, Papers of Franklin D. Roosevelt.

Japanese occupation of northern Indochina and the Tripartite pact, a treaty of mutual aid among Rome, Berlin and Tokyo, heightened worries about Japan.⁴² Roosevelt's role in the matter, however, soon receded as he focused on more direct defence concerns. Although no records exist as to the state department's attitude towards the agreement with Mexico after June, Washington had strong reason to abandon anxiety about Mexico's role in defence should an emergency arise. With the German army engaged in Russia, access to Mexico's oil, conveniently located for counter-attacks against Japan, was the major remaining strategic concern about Mexico. Policy-makers assumed that if Mexico had been so cooperative in granting rights of transit to US aircraft without an agreement on the oil matter while the US was still a non-belligerent, the anti-fascist Mexican government would be all the more forthcoming in the event of war with Japan.

The way was clearly open for the state department to concentrate on settling the oil matter. Anxious to expedite matters, Welles, at the time free of the need to please Roosevelt, rashly informed President Avila Camacho that he

⁴² Reynolds, David: The Creation of the Anglo-American Alliance, 1937-41: A Study in Competitive Co-operation (London: Europa, 1981), p. 140.

approved of his idea of announcing in his first state of the union address on 1 September that agreements with the United States would soon be reached.⁴³ Not only did the undersecretary neglect telling Hull, who was away recovering after his tuberculosis had taken a turn for the worse, but Welles also seemed to ignore the fact that the oil companies were far from ready to agree to the proposed settlement.

Although a settlement was still some way off, Secretary of the Treasury Henry Morgenthau was anxious to finalize financial agreements with Mexico. He had long believed in the need for economic aid to Mexico to prevent the country from forming strong economic links with Germany, Japan and Italy.⁴⁴ He, therefore, invited Mexican Minister of Finance Eduardo Suarez to Washington to sign the agreements with regard to US purchases of silver and currency stabilization which had been drawn up during the summer. When Suarez arrived in Washington on 2 October 1941, Welles, before hearing the oil companies' reply to the latest draft of the tentative agreement, persuaded the treasury to delay signing their agreements until all the issues between the two countries were ready

⁴³ Welles to Roosevelt, 8 August 1941, President's Secretary's Files, Papers of Franklin D. Roosevelt.

⁴⁴ US Treasury, Memorandum, 18 July 1940, Morgenthau Diary.

to be resolved. Welles clearly did not want Washington to provide financial help for Mexico until he knew that the tentative agreement on oil was something the oil companies would accept.⁴⁵ Given Welles' approval of Avila Camacho's announcement that agreements would soon be concluded, his last-minute decision to delay the financial agreements for what would inevitably be a long period of time given the oil companies' attitudes attests to his inability to act consistently on the matter. Furthermore, he made no effort to expedite the settlement.

Hull's job of winning the consent of the oil companies was a particularly arduous one. In a meeting of 27 September 1941, he tried in vain to persuade William S. Farish that the proposed agreement with Mexico was the best the state department could do under the circumstances. When the secretary mentioned that the agreement was necessary for the United States to get naval bases in Mexico, Farish emphatically stated that the oil companies would rather leave the matter unsettled than to agree to anything less than control of their former oil holdings. Anticipating this attitude, Hull had secured the agreement of the

⁴⁵ Morgenthau, Diary entry, 6 October 1941, quoted in Everest, A. S.: Morgenthau, the New Deal and Silver (New York: Columbia University Press, 1950), p. 86.

Mexican government that after the oil companies consented to the proposed settlement it would later negotiate more favourable terms. Farish, however, rejected Hull's arrangement as uncertain and continued to insist on his usual stipulations. The meeting failed to accomplish anything and ended with the state department presenting the oil companies with the latest draft of the tentative agreement with Mexico, to which Farish promised to respond formally after further consideration.⁴⁶

Farish formally rejected the proposed settlement between the two countries in a letter to Hull on 8 October and tried to sabotage the agreement with indiscreet public comments. One of his biggest complaints was that the proposed arrangement did not specifically mention oil company ownership of assets in the subsoil, which Hull had informed him was an extremely sensitive nationalist issue for Mexicans.⁴⁷ Despite Hull's caution, two days later Farish issued a press release saying that the oil companies could not accept the tentative oil settlement because they did not want to give up their rights to the subsoil in return for a Mexican pledge to pay compensation

⁴⁶ Memorandum of a Conversation, 27 September 1941, RG 59, Records of the Department of State [812.6363/7365-4/21].

⁴⁷ Farish to Hull, 8 October 1941, RG 59, Records of the Department of State [812.6363/7353].

which Farish said would be a mere 'paper promise' due to Mexico's debt.⁴⁸ Hull furiously told Farish that his public statement left him 'greatly surprised' because he had earlier 'emphasized ... the delicate political nature of the subsoil question.' Despite Farish's insensitivity, Hull's determination to set a helpful precedent for other US interests operating abroad led him to keep Suarez waiting while he tried in vain to persuade Farish that agreeing to the proposed settlement would allow the companies the opportunity to arrange a more advantageous deal with Mexico at a later date.⁴⁹

While Hull and Welles kept Suarez waiting, they made little effort to conciliate the Mexican government. Their increasingly irreverent treatment of Mexican officials attests to their newly-found confidence in Mexico as an ally and their efforts to buy time to persuade the oil companies to agree to their tentative settlement. President Avila Camacho became increasingly impatient, and Josephus Daniels, who still believed strongly in the Good Neighbor policy and sympathized with Mexico's program of land

⁴⁸ Farish, Press Statement, 10 October 1941, RG 59, Records of the Department of State [812.6363/7365-14/21].

⁴⁹ Memorandum of a Conversation, 28 October 1941, Papers of Cordell Hull.

redistribution, tried hard to convince Sumner Welles to end the delay. On 2 November Daniels wrote to Welles emphasizing that two months had passed since Avila Camacho's state of the union address and that the delay was becoming embarrassing to his government.⁵⁰ A few days later, the Mexican president informed the state department that the delay was causing political problems because closer relations with the United States had been part of his electoral platform. Avila Camacho flatly refused to agree to any settlement that did not provide a plan to solve the problem with the oil companies, whom he blamed for the delay, and threatened that if Suarez were to return to Mexico City without the requisite agreements, the result would be 'the end of his policy of cooperation with the US'.⁵¹

Despite the threat both Hull and Welles treated the matter casually. On 6 November Hull, who despite his ill health was keeping an exhausting schedule of meetings with Japanese envoys, lost his temper. After Castillo Nájera informed the secretary that the lack of an agreement was causing political problems for the

⁵⁰ Daniels to Welles, 2 November 1941, Papers of Josephus Daniels.

⁵¹ Memorandum of a Conversation, 5 November 1941, RG 59, Records of the Department of State [711.12/1682-6/11]; Mexican Government Memorandum, 7 November 1941, RG 59, Records of the Department of State [711.12/1682-8/11].

Avila Camacho government, Hull asked why the Mexican president had announced early in September that agreements would be ready for signing within a few days only to learn from the ambassador that Welles had encouraged the statement. Instead of treating the Mexican situation sympathetically and trying to make amends for the embarrassment Welles had caused, Hull tactlessly asked why there was such a sudden sense of urgency on the part of the Mexican government to settle the oil problem. When the ambassador reiterated that Avila Camacho's political standing was at stake, Hull wearily responded, 'We have had our political situation injured often in connection with these matters.'⁵²

Welles' comments to Castillo Nájera on 12 November while less blatantly rude than Hull's, also offended Mexico City. The long delay and Hull's comments had obviously angered Avila Camacho, who instructed Suarez and the Mexican ambassador to return to Mexico. Castillo Nájera was barely able to persuade the president that he needed to stay in Washington. On 12 November Castillo Nájera reported these happenings to Welles and emphasized, 'The situation in Mexico City with regard to the tentative oil agreement was becoming

⁵² Memorandum of a Conversation, 6 November 1941, Papers of Cordell Hull.

very serious indeed ...'. Welles' reply was that it was,

in the highest degree important to get the cooperation of the oil companies... and that...a few days' delay was not going to be so serious as to make it undesirable to make every final attempt to get the cooperation of the companies.⁵³

It is truly remarkable that after hearing that Avila Camacho blamed the oil companies for the delay and tried to call the ambassador home, Welles, who had had so much experience in Latin American affairs, expressed concern about the oil companies instead of reassuring the Mexican government that Washington was taking the situation very seriously. Having given Avila Camacho approval in August to announce that agreements between the two governments would be arrived at soon, Welles had certainly made the situation worse by delaying the negotiations in early October after Suarez had arrived in Washington.

Only Daniels and Roosevelt, who had little sympathy for the oil companies, were able to end the deadlock. On 13 November Farish wrote to Hull announcing the continued refusal of the oil companies to cooperate with the proposed settlement and emphasizing that if the state department could not insist on a long-term contract for the oil

⁵³ Memorandum of a Conversation, 12 November 1941, RG 59, Records of the Department of State [812.6363/7372-11/12].

companies to manage their former properties without the intervention of the Mexican government, the companies would prefer that the matter be left in abeyance.⁵⁴ Having received this response for the second time, Hull was obliged to act. It was, however, only after Daniels encouraged Roosevelt to intervene that the secretary finally signed the agreements.

Shortly after the state department received Farish's letter of 13 November, Ambassador Daniels returned to Washington after resigning from his post in Mexico City due to his wife's poor health. Hull was still reluctant to come to an agreement without the oil companies' consent. On 18 November Daniels discussed the Mexican situation with Roosevelt and presented him with an appeal from Avila Camacho to stop the delay. After Daniels and the president agreed that matters could be delayed no longer, Daniels received Roosevelt's permission to press Hull to act by telling him that the president was highly concerned about recent developments between the two countries. Roosevelt readily deferred to Daniels' judgement on matters involving Mexico.⁵⁵ After a short meeting with

⁵⁴ Farish to Hull, 13 November 1941, RG 59, Records of the Department of State [812.6363/7430].

⁵⁵ E. David Cronon describes this relationship in Josephus Daniels in Mexico.

Daniels, Hull agreed to sign the agreements the following day. Laurence Duggan attributed Hull's decision to Daniels' visit and wrote to him, 'I suspect that the words which you brought back from the White House weighed heavily with the Secretary.'⁵⁶

THE SETTLEMENT

According to the final agreements, signed on 19 November 1941, the Mexican government promised to pay \$40 million over fourteen years for American general and agrarian claims. The US treasury agreed to buy newly mined Mexican silver each month directly from the Mexican government on a similar basis to that before 1938 and to furnish Mexico with credits worth \$40 million to stabilize the peso.⁵⁷ In addition, the Export-Import Bank agreed to loan the Mexican government \$30 million for the construction of roads, especially the section of the Pan-American highway between Mexico City and

⁵⁶ Duggan to Daniels, 25 November 1941, Papers of Josephus Daniels, quoted in Cronon, Josephus Daniels in Mexico, p. 267.

⁵⁷ The US treasury never ended up purchasing silver from Mexico the way they had before the oil expropriation because Mexico City preferred to sell its silver on the world market where it commanded a higher price than what Washington was offering when purchasing it directly from the Mexican government. For more information see A.S. Everest, Morgenthau, the New Deal and Silver, p. 96.

Guatemala.⁵⁸ The two governments also agreed to negotiate a commercial treaty at a later date. As in the temporary agreement regarding the oil properties, each government agreed to appoint an expert to set the amount Mexico owed the American oil companies.⁵⁹

When Manuel Zevada and Morris L. Cooke, Mexico City's and Washington's respective experts, went to Mexico to examine the properties in question, they concluded that the companies had grossly overestimated the amount of money they had invested in the Mexican oil industry. They determined that the properties of the American companies still remaining to be compensated were worth a mere \$23,995,991, and on 17 April 1942 they announced the terms they recommended for the Mexican government to make payments to the oil companies over five years.⁶⁰

Not long after the settlement, Ickes challenged the policy of the state department to get the oil companies back into Mexico. In December Roosevelt appointed him petroleum administrator for war and authorised him to advise

⁵⁸ Department of State, Bulletin, V, 22 November 1941, pp. 399-403; Cronon, pp 268-69.

⁵⁹ Department of State, Press Release, 19 November 1941, RG 59, Records of the Department of State [11.12/1682-2/11].

⁶⁰ Bermudez, Antonio J.: The Mexican National Petroleum Industry: A Case Study in Nationalization (Stanford: Stanford University Press, 1963), p. 25; Meyer, p. 224.

on ways to increase production. Ickes' primary concern was that few reserves had been discovered in the US in recent years while defence and domestic demands were increasing. He believed that the US would, therefore, have to turn to supplies overseas especially in South America and, ignoring nationalist sentiment in Mexico, he tried unsuccessfully to get Roosevelt's support to have Washington purchase the Mexican properties.⁶¹

THE OIL COMPANIES' ATTITUDE

The agreement infuriated the oil companies, particularly Wallace Pratt, who had been Jersey Standard's geologist before becoming a director of the company, and it took them nearly two years to accept it. The settlement failed to refer to subsoil rights and made only a vague mention of Mexico reimbursing the companies for 'all elements of tangible and intangible value'.⁶² Pratt was determined to have his company resume the role it had played in the Mexican oil industry before the expropriation. Two small companies, Titania and Mercedes, subsidiaries of a company owned by Jersey

⁶¹ Ickes to Roosevelt, 1 December, 1941, RG 48, Central Classified Files, Department of the Interior.

⁶² Wood, p. 258.

Standard, had possessed extensive leases and concessions before the expropriation and had not been named in the expropriation decree. Pratt was particularly hopeful in July 1942 when the Mexican supreme court granted an injunction to the companies against the expropriation. He tried hard to get the state department's support for his plan to get Jersey Standard to develop and operate the concessions of the two subsidiaries.⁶³

Hull, perhaps inhibited by Roosevelt's involvement in the settlement and dislike of the oil companies, and the possible need for Mexican oil, tried to convince Pratt that his hope was unrealistic. First, the supreme court and the executive in Mexico were engaged in a struggle for power, and it was doubtful, despite the decision of the supreme court, that the Mexican government would surrender Titania and Mercedes. In addition, the Mexican government was insisting that in order to finalize the Cooke-Zevada agreement, the state department should agree that Titania and Mercedes were the property of the Mexican government. Because the state department was anxious to complete the agreement, he put pressure on the companies to accept the Cooke-Zevada terms. The

⁶³ Memorandum of a Conversation, 25 June 1942, RG 59, Records of the Department of State [812.6363/7717]; Herbert S. Bursley to Hull, 11 August 1943, RG 59, Records of the Department of State [812.6363/8000].

whole matter was happening at a time when Washington was nervous about the future of US oil supplies, which had been severely strained by the Pacific war and, therefore, wanted to ensure access to well-run, nearby foreign oil fields. Washington loaned the Mexican government \$10 million in May 1943 for the construction of a high octane refinery, and the state department hoped that US companies could be of help to Mexico in running the oil industry. The fact that the state department was prepared to support any US company to help Mexico regardless of whether it had had experience in Mexico, most probably spurred Jersey Standard towards a settlement.⁶⁴

On 1 October 1943, the companies finally agreed to the Cooke-Zevada terms, and Jersey Standard, realizing it was fighting a losing battle with regard to the two subsidiaries, agreed not to press any more claims with regard to the companies. After the agreement the state department made sure the Mexican government knew how cooperative Jersey Standard had been, hoping that perhaps one day the company would again be able to exploit its former properties in Mexico.⁶⁵ While the oil companies

⁶⁴ Hull to Roosevelt, 30 August 1943, RG 59, Records of the Department of State [812.6363/8018].

⁶⁵ Messersmith to Secretary of State, 23 September 1943, RG 59, Records of the Department of State [812.6363/8021].

never did resume the role they had played in Mexico before the expropriation, the Mexican government made all of the necessary payments to the companies by 1947.

Although the US never got naval bases in Mexico because it ran up against nationalist sentiment, Mexico City was highly cooperative in defence matters. The Mexican government severed relations with Japan, Germany and Italy and froze Axis funds shortly after the Japanese attack on Pearl Harbor. On 24 December the Mexican president persuaded the senate to assent to the opening of Mexican airfields and ports to US military aircraft. In addition, in January 1942 the two governments established a United States-Mexican defence commission to coordinate the defence of both countries. On 30 May 1942 the Mexican government, after losing several Mexican tankers to German attacks, declared war on Germany and eventually sent manpower to the United States and forces abroad.⁶⁶

In conclusion, despite the fall of France, Washington did not concentrate all its efforts into the establishment of satisfactory Mexican-American

⁶⁶ Humphreys, R. A.: Latin America and the Second World War, vol. I (London: Athlone, 1981), pp. 116-119.

defence relations. The delay in coming to an oil settlement, however, was only risky until spring and summer 1941. Before then, Hitler was seen as a threat to the western hemisphere, and Mexico's role, if any, in US defence was unclear. After spring and summer 1941, US-Mexican defence relations were secure and the Nazi military threat was diverted. It also became clear to Washington that it was part of Avila Camacho's electoral platform to improve relations with the US, and his threat in early November to call the Mexican ambassador home was not a politically viable option for him. While the state department had earlier expressed willingness to agree to Mexico paying compensation to the oil companies, its new-found confidence in defence allowed it to buy time with Mexico in order to persuade the oil companies to agree to a compensatory settlement.

In light of this evidence, Cronon's claim that Daniels saved Mexican-American relations from the brink of disaster is grossly inflated. It is, however, certainly a tribute to Daniels' political skill that an oil agreement was reached in November 1941. Given the fact that Hull had so little motivation by the second half of 1941 to give way to Mexico on the oil matter, it is remarkable not that Washington took so long to come to an

agreement with Mexico, as much of the literature
remarks, but that an agreement was reached as
quickly as it was.

CHAPTER NINE

BRITAIN AND THE AMERICAN SETTLEMENT:

MAY 1940-JUNE 1943

*Any prospect of bringing the Mexican Government to terms was destroyed in 1941 by the action of the United States Government.*¹

R.A. Butler

From the Sinclair settlement of May 1940 to the Mexican-American settlement of November 1941, statesmen and officials in London diverged sharply over the appropriate policy to pursue toward Mexico. Starling, Balfour and Balfour's successor at the American department David Scott continued to see the problem in the context of British oil supplies for war. Although oil supplies were satisfactory, they believed it was vital to persuade the Mexican government to allow the foreign oil companies to work their former properties in order to dissuade more important oil suppliers from deciding to follow Mexico's example. While Foreign Secretary Anthony Eden had reservations about this policy, it prevailed for over a year. In contrast, Sir Frederick Leith-

¹ Foreign Office, Minute, 18 May 1943, FO 371 33980 [A4738/113/26].

Ross, director general of the ministry of economic warfare, and Lord Drogheda, its joint director, saw the problem in the context of Anglo-American relations. They believed it was necessary to yield to the pressure the United States was putting on Britain to renew relations with Mexico and hoped that such cooperation would secure American help in matters of economic warfare. There is no evidence that Drogheda and Leith-Ross influenced British policy. Eden in late summer 1941 nevertheless decided to renew Anglo-Mexican relations. However, his efforts failed to benefit British oil interests or the British war effort as he had hoped. Scarcely a month after he renewed relations, Washington came to an agreement with Mexico which set an unwelcome precedent for British-owned Mexican Eagle.

In this final chapter of the story, it is shown why the American and petroleum departments were able to maintain their chosen policy for so long despite opposition. It is argued not only that their most politically powerful critics initially lacked the necessary conviction about changing policy due to their preoccupation with the war, but also that until August 1941 the arguments for maintaining it were just as sound as the arguments for abandoning it, and the American department, the petroleum department and their critics had equally sound approaches to the

problem. Second, it is seen that Anthony Eden, after giving the issue fleeting attention previously, decided in August 1941 to secure the Cabinet's approval to renew relations with Mexico. It is argued that the worry about the renewal of relations causing retaliation in Venezuela and Iran had been removed, and even Starling and David Scott agreed with the proposed change. In addition, Eden's desire to win the cooperation of the US in defence matters in the Far East turned his mild hesitation about policy into concrete action.

It is shown first that Whitehall's reliance on the US in matters involving Mexico was symptomatic of Britain's increased dependence on the United States with regard to matters of defence, particularly in the Far East. Then attention is given to the following elements in turn: the criticism of the policy of the petroleum department and the American department from Washington, Lord Halifax and senior officials in the foreign office, parliament and the ministry of economic warfare; the efforts to check such challenges; Eden's decision to take charge of the issue and secure the war cabinet's approval of renewing relations with Mexico in order to gain the cooperation of Washington; London's disappointment at Washington's refusal to take its interests into account after it renewed relations with Mexico; and

finally Anglo-American competition for export markets in Mexico.

ANGLO-AMERICAN RELATIONS

Washington continued to deny Britain cooperation with regard to Mexican oil, and such unhelpfulness forced Whitehall, increasingly reluctant to challenge Washington's decisions lest it ruin any chance of cooperation, to stand by and watch events unfold. With regard to Japan and Mexico, Washington, weary of requests to salvage British concerns from perilous situations, particularly when such interests appeared imperialistic, simply ignored Britain's requests. Since the end of the phoney war, London wanted Washington to assume responsibility for defence in the Far East and Roosevelt to transfer the Pacific Fleet from Pearl Harbor to Singapore or Manila while the royal navy, with some help from US cruisers and destroyers, patrolled the Atlantic. Not only did Whitehall want to leave the British empire's vital offensive manpower from Australia and New Zealand available to protect the Middle East, but it also hoped that the presence of the US navy would deter

Japan from attacking its South Asian empire which supplied vital tin, oil and rubber.²

Washington refused to comply with Britain's request to move the fleet. The administration doubted Britain would ward off Hitler and, therefore, refused to allow the Pacific Fleet to stray too far from the United States. As a compromise, Roosevelt agreed to keep the fleet in Hawaii where it could in theory deter Japan while being close enough to the mainland to confront any possible crisis in the Atlantic. A number of highly placed Washington officials, particularly Welles, Hull and Ickes, found Britain's imperialism offensive and resented Whitehall's request to protect Britain's interests in the Far East. Even after Japan extended its control to the ports and bases of Southern Indochina on 23 September 1941, leaving Singapore within range of Japanese bombers, the US war department refused to transfer the bulk of the US navy to the area and instead fortified the Philippines with fighters, heavy bombers, men and equipment.³

² Reynolds, David: The Creation of the Anglo-American Alliance, 1937-41: A Study in Competitive Co-operation (London: Europa, 1981), pp. 224-225; The British Prime Minister (Churchill) to President Roosevelt, 7 December 1940, US Department of State: Foreign Relations of the United States, 1940, Vol. 3 (Washington, D.C.: United States Government Printing Office, 1958), pp. 18-26.

³ Reynolds, pp. 224-225; Dallek, Robert: Franklin D. Roosevelt and American Foreign Policy, 1932-1945 (New York: Oxford University Press, 1979), p. 303.

Washington was also secretive and uncooperative with regard to diplomatic matters. When Hull started meeting with Japanese Ambassador Admiral Nomura in Spring 1941, it was several weeks before the secretary of state even mentioned the talks to the British, and when he did he was far from forthcoming about their substance. After the Lend-Lease Act was passed on 11 March 1941,⁴ Whitehall wanted to issue parallel notes to Japan in which the United States would threaten military retaliation in the event of Japanese aggression in the South West Pacific. Prime Minister Winston Churchill thought he had secured Roosevelt's promise to cooperate with this plan, and was deeply disappointed when Washington's note to Japan in mid-August warned merely that further Japanese aggression would lead the United States to safeguard American interests. Not only did Washington fail to threaten Japan with war, but it had only mentioned American interests.⁵

⁴ Lend Lease gave the president the power to authorize the Secretary of War, Navy or head of other departments to procure defense supplies up to a certain amount to lend, sell or transfer to a nation at war as long as the defence of that nation was vital to the defence of the US. (Martel, Leon: Lend-Lease, Loans and the Coming of the Cold War (Boulder, Westview Press, 1979), pp. 4-5)).

⁵ Reynolds, pp. 230-31, 238-9.

WHITEHALL'S POLICY AFTER THE SINCLAIR SETTLEMENT

Whitehall nevertheless, for lack of a better alternative, continued its efforts to persuade Washington to make an example of Mexico. The change of government in May 1940 which brought Winston Churchill to power and the ministerial changes that followed had no immediate effect on policy, and officials in the American and petroleum departments, whose attitudes on the question had not changed, still largely determined the details of policy. While David Scott replaced John Balfour as head of the American department, Balfour remained involved in the Mexican issue, and Scott who had worked alongside him in the American department for several years, shared his opinions on Mexico. In addition, Frederick Starling, who went from being head of the petroleum department to principal assistant secretary in the department, remained closely involved in the formation of policy towards Mexico.

Britain's policy, however, faced more challenges than ever before. The chances of getting Mexican Eagle's properties returned even for a limited period of time were more remote than ever especially since the Mexican government mentioned several times that

the Sinclair settlement would be a good model for an agreement with the remaining companies. The only way for Britain to make an effective example of Mexico, therefore, was by persuading Washington to pressure Mexico into allowing the companies to work their former properties for a specified period of time as Richberg had unsuccessfully proposed in his five points before the Sinclair settlement. The Mexican government, however, had already rejected the points before the unwelcome precedent of the Sinclair settlement.⁶

The chances of getting support from Washington in taking a stronger line toward Mexico were also more remote than ever. The US note to Mexico of 7 October 1940 had marked a softening of attitudes toward Mexico as defence cooperation became increasingly urgent. In the same note Washington offered to help stabilise the ailing Mexican peso by resuming special purchases of Mexican silver. Worse yet for Britain, the note proposed a settlement of the oil dispute either by Mexico paying an amount of money agreed on by US and Mexican engineers, or by Mexico giving the oil companies a percentage of the oil produced in return for the companies' advice on various matters in the oil industry.⁷

⁶ Gallop, Minute, 19 July 1940, FO 371 24216 [A3595/57/26].

⁷ Berle, Diary entry, 11 October 1940, Diary, Papers of A. Berle.

Balfour in particular objected to the fact that Welles had failed to consult the companies before sending the note to the Mexican government and took this as an ominous sign of Welles' willingness to 'liquidate the oil dispute at any cost'.⁸ Starling agreed and angrily wrote:

It is all very well for Welles to stress the importance of a quick settlement in the interests of Western Hemispheric defence, but he either overlooks or intends to ignore the effect of a bad settlement on our defence problems.⁹

Mexican Eagle also dreaded the effects of Washington's policy. Frederick Godber feared that if the US agreed to compensation, it would force Whitehall to abandon its insistence upon a settlement on the basis of the five points. He also bitterly resented Welles' actions which displayed 'little regard for the views of the companies whose assets are at stake'.¹⁰

Starling, Balfour and officials in Mexican Eagle realised that a compensatory agreement involving Washington and Mexico City would do far more damage than the agreement between the Sinclair Oil Company and the Mexican government. They feared that the

⁸ Balfour, Minute, 10 December 1940, FO 371 24216 [A5037/57/26].

⁹ Starling to Balfour, 9 December 1940, FO 371 24216 [A5037/57/26].

¹⁰ Godber to Wilkinson, 28 November 1940, FO 371 24216 [A5037/57/26].

state department might force a settlement on the American oil interests that was compromising to the British oil position. Scott, Starling and Balfour realised that their only chances of salvaging the situation was to maintain the united front of British and American oil interests and persuade Washington firmly to insist on a settlement with Mexico based on the five points. Balfour wrote:

As a result of the initiative of the United States, the Mexicans have been given every encouragement to adopt an obstructive attitude towards the solution based upon the five points in the knowledge that the American companies at any rate will then find themselves subjected to pressure by the State Department to come to a dictated settlement.¹¹

Despite the odds against receiving Washington's help, Scott and Starling as well as Mexican Eagle continued to hope that Washington would eventually conclude a favourable settlement and include British interests that would set an example which would help secure Britain's oil supplies for war. In the likely event that this policy failed, they hoped that Washington's insistence on a settlement the oil companies would accept would cause a stalemate in negotiations with Mexico and delay a settlement until after the war. Although there were no shortages,

¹¹ Balfour, Minute, 10 December 1940, FO 371 24216 [A5037/57/26].

policy-makers wanted to make sure Britain's satisfactory oil situation continued.

THE AMERICAN AND PETROLEUM DEPARTMENTS' ATTITUDES TO
RESUMING RELATIONS WITH MEXICO

Britain's policy became all the more difficult to sustain once the Mexican government started overtures to resume relations while Washington was putting pressure on Britain to do so. The boycott and Mexico's economic policy of retrenchment in the oil industry had badly affected not only the industry itself but also the Mexican economy as a whole. President Cárdenas, therefore, decided that settling the oil dispute before the presidential election in June 1940, in which he was constitutionally ineligible to run, would help get his chosen candidate Avila Camacho, minister of war, into office. In June 1940 Lothian reported word from Sumner Welles that Cárdenas sought an early resumption of relations with Britain,¹² and the following February Welles informed the British embassy that it would substantially help Washington's position with Mexico City if Britain would resume relations. Helping Cárdenas repair

¹² Confidential Print, 10 October 1940, FO 371 24216 [A4486/57/26].

relations with Britain, Welles perhaps assumed, would increase America's chances of securing Mexican military cooperation.¹³

The arguments for maintaining the status quo were just as sound as those for resuming relations. Initially unopposed by higher officials, David Scott, Balfour and Starling discouraged this suggestion, arguing that it would be ill-advised to repair relations with Mexico during the war because of the problems Whitehall was having with Venezuela and Iran.¹⁴ At the time, oil supplies far exceeded tanker space, and the shipping shortage was forcing Britain to decrease purchases from the two oil-exporting countries. Starling believed that resuming relations before Mexico yielded on the oil question might provoke Iran and Venezuela to threaten Britain's access to their oil resources. In addition, both Starling and Balfour believed that renewing relations would be seen as a sign that Britain was weak enough to be blackmailed into condoning its nationalisation of the oil industry. They, therefore, continued to insist on nothing less than restoring the oil companies' right to operate their former properties.¹⁵

¹³ Halifax to Foreign Office, 17 February 1941, FO 371 26061 [A1009/47/26].

¹⁴ Balfour, Minute, 10 August 1940, FO 371 24216 [A3595/57/26].

¹⁵ Balfour, Minute, 17 May 1940, FO 371 24215 [A3198/57/26].

Nor were these the only reasons for opposing the resumption of relations in present circumstances. It would mean abandoning the boycott, which Balfour believed was starting to work well to deter other countries from following Mexico's example. It would also undermine the Allied blockade which had made Mexican oil inaccessible to Germany and to some degree Japan.¹⁶ Balfour figured that once relations were resumed Whitehall's ability to resist the pressure of the Mexican government, desperate to find markets for its oil, would be far less than if Britain continued to stand firm by making the resumption of relations dependent upon a prior satisfactory settlement of the oil matter.¹⁷

Agreeing that it was vital to put British interests in Iran and Venezuela first, Starling and the American department sought the opinions of the British ministers in Caracas and Tehran on the matter. Donald St. Clair Gainer in Caracas confirmed their suspicions that Venezuela would be 'most disturbed if they had any reason to believe that [Britain] might resume oil buying in Mexico to the detriment of Venezuela', because the country was facing an economic

¹⁶ Ibid.

¹⁷ Balfour, Minute, 24 December 1940, FO 371 24216 [A5198/57/26]; Scott, Minute, 7 May 1940, FO 371 24215 [A3198/57/26]; Scott, Minute, 16 January 1941 FO 371 26061 [A364/47/26].

crisis due to the fall in oil production and exports.¹⁸ This aroused fears in the foreign office that if Britain in any way offended the Venezuelan government, it might find other markets for its oil at Britain's expense.¹⁹

Sir R. Bullard in Tehran also shared the fear that renewing relations with Mexico would put Britain's access to Iranian supplies at risk.²⁰ The shah had been extremely upset at the decrease in Iranian exports and oil revenues due to the rerouting of ships around Africa after the closure of the Mediterranean to Allied shipping since the start of the war, the use of convoys, the delaying of tankers in port while they were armed, the destruction of Allied ships by Germans and the rationing of civilian supplies. Britain's recent failure to deliver aircraft and railway equipment under the Exports Credit Scheme had further alienated the shah who angrily cancelled the arrangement in June 1940. Sir John Cadman, chairman of Anglo-Iranian and adviser on oil matters to the British government, had presented the scheme to Iran to help the shah sustain expenditure on military and civilian projects despite

¹⁸ Gainer to Foreign Office, 17 January 1941, FO 371 26061 [A364/47/26].

¹⁹ Scott, Minute, 21 February 1941, FO 371 26061 [A1009/47/26].

²⁰ Bullard to Foreign Office, 19 January 1941, FO 371 26061 [A364/47/26].

decreasing oil revenues. Under the scheme, Iran was to buy British goods from future rather than present income by obtaining the necessary export credit licenses from the British exports credit guarantee department. The shah was all the more angry that the restrictive system of British exchange controls made it nearly impossible for Iran to convert its oil revenues from sterling into dollars so as to purchase the needed equipment from dollar sources.²¹

The situation was at its worst with the closure of the Mediterranean after Italy's entry into the war and the introduction of Britain's short haul policy, whereby the pattern of supply and shipping was rearranged to shorten the journeys of available tankers—a policy that stopped exports of Iranian oil to markets west of Suez. The Iranian Finance Minister in July 1940 warned Britain that Anglo-Iranian's concessions would be threatened unless Britain eased Iran's exchange problems. He demanded a payment for that year nearly twice the value of the year's oil production.²² Balfour and Starling were greatly alarmed by the situation since the loss of Iranian oil supplies would severely affect the Royal Navy.²³

²¹ Bamberg, J.H.: The History of the British Petroleum Company: The Anglo Iranian Years, 1928-1954 (Cambridge: Cambridge University Press, 1994), pp. 230-232.

²² Bamberg, pp. 230-232; Bullard to Foreign Office, 19 January 1941, FO 371 26061 [A364 /47/26].

²³ Balfour, Minute, 17 May 1940, FO 371 24215 [A3198/57/26].

The Make-up Payments Agreement of 21 August 1940 somewhat relieved immediate anxieties about Anglo-Iranian's concession. According to the agreement, the company would make payments to the Iranian government as compensation for decreased oil revenues. The company in fact had only wanted to agree to a loan, but Halifax insisted that it was not worth risking alienating the shah to the point of having him do rash things like cancel the company's concession or expropriate foreign oil holdings which would harm the company's and Britain's interests. The Iranian government was to receive £1.5 million in addition to the royalty for 1939, as well as further payments in whatever amounts were necessary to make the royalties for 1940 and 1941 equal to £4 million each. The British government separately agreed to provide half of Anglo-Iranian's payments.²⁴

The situations in Iran and Iraq with regard to British interests there were fairly unpredictable, and officials in Whitehall were anxious not only to have access to foreign oil but also to have British companies working foreign concessions. Scott and Starling, therefore, continued to call for a tough line against Mexico. Lord Halifax, who had been sent to Washington to replace Lothian, asked for a response

²⁴ Bamberg, pp. 232-234.

to Welles' suggestion of restoring Anglo-Mexican relations, and Scott and Starling insisted that Britain could not afford to risk its present satisfactory oil situation by taking a lenient attitude toward Mexico. Their draft showed resentment towards the US:

For the US who have no such oil problem, the question is of course a far simpler one, but it is impossible for us to dissociate our relations with Mexico and our oil supplies.

They admitted that it was in Britain's best interest for the current situation to continue rather than for Mexico to take what they considered was a more reasonable attitude. Halifax, they suggested, should inform Welles of Britain's situation and request that he cease pushing Britain in the wrong direction.²⁵

²⁵ Foreign Office to Halifax, 1 March 1941, FO 371 26061 [A009/47/26].

OPPOSITION TO THE POLICY OF THE AMERICAN AND PETROLEUM
DEPARTMENTS

Arguments for resuming relations with Mexico had merit, but at first more senior officials' criticism of Starling and Scott's policy was too mild to effect change. Halifax, like his predecessor Lothian, believed that not having relations with a country was a foolish way to show disapproval and tried to persuade the foreign office to yield to Washington's pressure to renew relations with Mexico without reference to the oil situation. He believed that the state department was on the verge of persuading the American oil companies to accept a settlement Britain would not like. He feared that if the state department knew that Britain was trying to delay a settlement, it might try even harder to persuade the American oil companies to leave the British oil interests in the lurch, thus making it nearly impossible for Britain to get a satisfactory settlement later on. Halifax, however, saw the merit of Scott's and Starling's worries and, therefore, wanted the foreign office to continue its previous policy of supporting Mexican Eagle in efforts to obtain a satisfactory settlement. This policy, he believed, would probably have the desired effect of postponing a settlement without prompting the state

department to put increased pressure on the American firms.²⁶

Sir Alexander Cadogan questioned whether it was sound logic to think that Venezuela and Iran would stop selling Britain oil because Britain was not buying enough from them, but did not press for change at that time because Scott and Starling pointed out that Venezuela could be awkward with Britain in several ways apart from denying oil supplies. For example, the country could impose unmanageable wage rates or cancel concessions. Such measures would cause Britain a great deal of anxiety about oil supplies, and Whitehall, therefore, should 'at all costs avoid giving any excuse to the Venezuelans for thinking up ways in which they could make conditions for us more onerous.' Scott continued:

We are not in fact so much afraid of their being tempted to do anything which would mean their foregoing our market but of squeezing us over the condition on which we purchase their oil.²⁷

Neither Foreign Secretary Anthony Eden nor R.A. Butler, the parliamentary undersecretary, was satisfied with the way the American and petroleum departments chose to handle matters. When Cárdenas

²⁶ Halifax to Foreign Office, 22 March 1941, FO 371 26062 [A2045/47/26]; Lothian to Foreign Office, 7 August 1940, FO 371 24216 [A3729/57/26]; Halifax to Cadogan, 26 May 1941, FO 371 26063 [A4457/47/26].

²⁷ Scott, Minute, 12 May 1941, FO 371 26062 [A3341/47/26].

attempted to discuss the resumption of relations in January 1941, Eden expressed his approval of British policy, but at the same time revealed uneasiness about its implications. When David Scott requested the opinions of British ministers in Tehran and Caracas, Eden was pleased their views were being sought but remained hesitant. 'Even in wartime I do not like giving the shah and Venezuela a veto on our relations with anybody.'²⁸ At this time, Eden, preoccupied with the war with Germany and Japanese aggression, only showed a fleeting interest in the Mexican matter and perhaps did not think it was necessary for him to change Britain's policy.

R.A. Butler believed that the case for resuming relations with Mexico was valid. First, he believed it would help counteract enemy propaganda and other bad influences in Mexico. While he understood that Britain did not need Mexican oil for the time being, he believed that Britain should keep open the option to take it in the event of a disaster in Iran and Iraq, which was likely given German aggression in the Middle East, in which case Venezuelan oil would not be enough. In addition he was highly sensitive to parliamentary opinions and realised that resuming relations would placate Labour, Independent

²⁸ Eden, Minute, 15 January 1941, FO 371 26061 [A218/47/26].

Conservative and Independent M.P.s who were accusing Britain of turning a cold shoulder to Mexico. Most importantly he knew that it would please Washington.²⁹ Yet, like Eden, Butler did not feel strongly enough to try to influence policy. While he saw the need for resuming relations, he regarded Starling's and Scott's concerns as legitimate and did not want to do it at the expense of or before a satisfactory settlement of the oil dispute was reached.³⁰

Much harsher critics of British policy existed in parliament and the ministry of economic warfare but these officials and statesmen were outside of the petroleum department and the foreign office, the channels which normally dealt with policy toward Mexico, and, therefore, had little effect on policy. In parliament where the issue of resuming relations with Mexico repeatedly came up, the Labour party, part of the Coalition government which took over in May 1940, continued to exert pressure on the government to resume relations. Butler, out of institutional loyalty responded to the critical comments of George Strauss, Labour M.P. for Lambeth, and William James Thorne, Labour M.P. for West Ham, with evasive

²⁹ R.A. Butler, Minute, 23 July 1940, FO 371 24216 [A3409/57/26].

³⁰ R.A. Butler, Minute, 22 February 1941, FO 371 26061 [A1009/47/26].

replies. But the questioning continued.³¹ Daniel Lipson, Independent Conservative for Cheltenham, was very worried about rumours of a high German official visiting Mexico and wanted relations resumed to counteract his activities there.³² Philip Noel-Baker, Labour M.P. for Derby, and Thorne expressed their disapproval of the delay in resuming relations and indicated concern about the possibility of Mexican oil going to Japan.³³

Particularly strong criticism also came from Sir Frederick Leith-Ross and Lord Drogheda, but their efforts came to little. They both insisted that the British government should renew relations with Mexico to secure the vital cooperation of both Washington and Mexico City in three aspects of economic warfare: keeping important supplies out of enemy hands by controlling them at the source, denying bunkering facilities to hostile ships, and securing Washington's support for British use of enemy shipping seized in Mexican and other ports.³⁴

Leith-Ross strongly disapproved of the instructions the foreign office issued to Halifax to

³¹ House of Commons, Parliamentary Debates (London, H.M.S.O., 1940), 30 April 1940, 11 June 1940, 25 June 1940.

³² House of Commons, Parliamentary Debates (London, H.M.S.O., 1940), 16 July 1940.

³³ House of Commons, Parliamentary Debates (London, H.M.S.O., 1940), 6 November 1940.

³⁴ Leith Ross to Cadogan, 23 April 1941, FO 371 26062 [A2972/47/26].

tell the state department that Britain could not risk its good oil situation by resuming relations with Mexico. Britain's policy of controlling important overseas supplies at the source, which the ministry of economic warfare had adopted after the fall of France, required the cooperation of both Mexico and Washington. Leith-Ross complained to Cadogan that Mexico was capable of supplying both oil and minerals to undesirable destinations and was, therefore, potentially a danger to the blockade's effectiveness. He specifically wanted supplies like oil, mercury, lead, zinc and antimony in Mexican ports to be brought under control to prevent Japan from passing them on to Britain's enemies. He realised that controlling such supplies at the source would involve huge purchases from Mexico, and because Britain could not afford them, he hoped Washington would do so instead.³⁵ He also pointed out that Mexico and the United States could lessen the effects of the blockade by providing bunkering stations for enemy ships and hoped that both countries would deny bunkering to vessels on Britain's blacklist. Drogheda was especially worried that Mexico would provide two bunker stations on the Mexican Pacific Coast, Salina Cruz and Manzanillo, thus ruining the desirable effect of the closure of

³⁵ Ibid.

the Panama Canal in stopping Japanese trade in that direction.³⁶

Both Leith-Ross and Drogheda realised what a challenge it would be to secure US cooperation in these matters since Washington had until now firmly refused to cooperate in the economic blockade out of concern to avoid being drawn into the armed conflict. Washington had objected to Britain's plan to establish a control base in Trinidad to stop the flow of contraband between the Americas and Vichy France and French North Africa, a trade that increasingly alarmed Britain. In addition the ministry of economic warfare wanted to check traffic between the Americas, the Far East and Siberia, the route by which goods passed to Britain's enemies. Washington repeatedly told officials in Whitehall that interception in the Caribbean would ruin the security provided by the Panama neutrality zone, deemed vital to US security, and perhaps encourage German warships to operate in the area. Most importantly, Hull and Roosevelt did not want to provoke the Japanese by giving the impression that they were being encircled.³⁷

In Spring 1941, Lord Drogheda became increasingly nervous about the possibility of Mexico

³⁶ Drogheda to Cadogan, 9 May 1941, FO 371 26063 [A4510/47/26].

³⁷ Medlicott, W.N.: The Economic Blockade (London: H.M.S.O., 1952), pp. 489-494.

offering oil to Spain, Japan or Vichy France on a c.i.f basis.* Mexico had interned nine Italian tankers in Mexican ports because Italy had not yet fulfilled a contract to deliver an order of ships to Pemex. Although Mexico City did this also to show Washington that it was favourably inclined towards the Allied cause, Drogheda feared Mexico might later be tempted to offer oil to enemy countries. Desperate for ships, the ministry of shipping wanted half of the ships to be chartered to Britain and secure Mexican cooperation in bunker control in exchange for British recognition of the transfer of the Italian ships to the Mexican flag. Leith Ross and Drogheda also wanted to secure Britain's use of the tankers, but believed that it was necessary first for Whitehall to secure Washington's support by heeding the American request to renew relations with Mexico.³⁸

Drogheda particularly feared Mexican oil going to Japan because British naval forces in the Pacific were not strong enough to intercept vessels headed toward the Far East. A c.i.f. contract between Japan or Japanese-occupied China and Mexico would nullify Britain's success in restricting Japanese imports by preventing Japanese access to foreign tonnage. He

* cost, insurance, freight.

³⁸ Leith Ross to Cadogan, 23 April 1941, FO 371 26062 [A2972/47/26]; Drogheda to Cadogan, 9 June 1941, FO 371 26063 [A4510/47/26].

also wanted to prevent two Japanese companies from completing arrangements to supply Mexican oil to occupied China. The considerable French tanker fleet available to Vichy France was yet another worry:

Unless we are prepared and able to intercept ships conveyed through the Straits of Gibraltar by the French Navy the possibility of France importing up to 2 million tons of Mexican oil a year must be reckoned with.³⁹

DEFENCE OF BALFOUR AND SCOTT'S POLICY

Cadogan, despite his earlier, mild criticism, defended the policy pursued by Starling and the American department. He wrote to Leith-Ross explaining that Britain could not jeopardise its future access to oil from Venezuela and Iran by giving in to Mexico.⁴⁰ Starling and Scott were worried that as a result of the short haul policy the British had upset the governments of Iran and Venezuela by purchasing less oil than usual.⁴¹ Renewing relations with Mexico might, they feared, further offend Caracas and Tehran, who would probably assume that Britain

³⁹ Drogheda to Cadogan, 9 May 1941, FO 371 26063 [A4510/47/26].

⁴⁰ Cadogan to Leith Ross, 29 March 1941, FO 371 26062 [A1928/47/26].

⁴¹ Payton-Smith, J. D.: Oil: A Study of War-time Policy and Administration (London: H.M.S.O., 1971), pp. 161-2.

would soon purchase oil from Mexico. Buying oil from a country whose policy had directly gone against Britain's interests while reducing the amount of oil purchased from Venezuela and Iran might set a bad example to important oil suppliers contemplating expropriation.⁴²

Starling, Scott and Balfour questioned the strategy of the ministry of economic warfare to resume relations with Mexico to secure the cooperation of the United States. Balfour accepted that it was important to please the Americans, but had little faith in Washington giving the support Britain needed and remained focused on punishing Mexico with the boycott to deter other nations from expropriating oil properties. He remembered with bitterness the occasions when Britain had fallen in with Welles' recommendations in its dispute with the Guatemalan government over Belize and with the Brazilian government over the *S.S. Siquiera Campos*, only to find that effective US support was still not forthcoming.⁴³ When the *S.S. Siquiera Campos*, containing war material from Germany, sailed from Lisbon for Brazil in November 1940, the British had intercepted it and taken it to Gibraltar. The Brazilian government

⁴² Starling to Balfour, 1 May 1941, FO 371 26062 [A3244/47/26]; Balfour, Minute, 3 May 1941, FO 371 26062 [A2972/47/26].

⁴³ Balfour, Minute, 24 March 1941, FO 371 26062 [A1928/47/26].

greatly resented the interception and persuaded Washington to support it in getting an exemption on the grounds that the arms were for defence of the western hemisphere. After detention of nearly a month, Washington's pressure secured the ship's release.⁴⁴ R.A. Butler agreed with Balfour and wanted to avoid following Washington's recommended line of policy too closely because it would do Britain little good.⁴⁵

Cadogan pessimistically warned the ministry of economic warfare against hoping that Britain could exercise some influence over US policy:

We have nothing to show that Welles or the administration in general would be likely, if we were to meet their wishes over Mexico, to adopt a more cooperative attitude towards us in regard to economic warfare questions or indeed surpluses if it did not suit them to do so for other reasons.⁴⁶

Washington would support Britain in export control 'as far as but no further than their Good Neighbour policy and domestic preoccupations permit them to do so', he believed, but it was 'hopeless' to expect Washington to bring any pressure on the Mexican government however much the British tried to please Welles. He

⁴⁴ Medlicott, pp. 459-460.

⁴⁵ R.A. Butler, Minute, 22 March 1941, FO 371 26061 [A1009/47/26].

⁴⁶ Cadogan to Leith Ross, 29 March 1941, FO 371 26062 [A1928/47/26].

cited the example of the enemy ships seized in neutral ports; the decision of the inter-American economic and finance committee on 26 April to allow countries which seized the ships full use of the vessels in international and national trade made it almost impossible for Washington to single out Mexico for different treatment to please Britain.⁴⁷

As Balfour put it, Washington had effectively:

lent the full weight of their authority to an arrangement by which Latin American governments [would] take all the ships for themselves and dare us to intervene.⁴⁸

Washington acted according to its own interests and largely disregarded British attempts to curry favour.⁴⁹ R.A. Gallop, a clerk in the American department, and Balfour also doubted that renewing relations with Mexico would help the economic warfare situation. They did not believe that diplomatic relations with Mexico would give Whitehall control of Mexican oil at the source nor did they believe that Britain would be able to prevent American companies from selling to whomever they wanted. On the other hand, they also doubted that Washington would let its

⁴⁷ Cadogan to Leith Ross, 9 May 1941, FO 371 26062 [A2972/47/26].

⁴⁸ Balfour, Minute, 2 May 1941, FO 371 26062 [A3463/47/26].

⁴⁹ Balfour, Minute, 3 May 1941, FO 371 26062 [A2972/47/26].

unhappiness at Britain's Mexican policy influence the broader issue of US collaboration with Britain.⁵⁰

Starling addressed the ministry of economic warfare's fears about Mexican oil going to Japan or Vichy France by angrily stating that the United States was more of a threat to the boycott than those countries. He was particularly irate that after Italy entered the war, most of Mexican oil exports had gone to the US. He believed that without the American market, Mexico would have serious trouble finding any markets for oil. He doubted that Mexican oil would go to Japan in sufficient quantities to have any real effect on the boycott because Japan and Mexico faced serious shortages of tanker tonnage which forced them to resort to short haul policies. The Japanese government had recently asked for an extension of an agreement with the Anglo-Iranian Oil Company to take 100,000 to 150,000 tons of crude oil from Abadan because of the shortage of tankers. Besides, if the United States entered the war, it would prevent Japan from having access to Mexican oil supplies. As for France, it was unlikely to import large quantities of Mexican oil for fear of having its tankers captured in the Atlantic.⁵¹

⁵⁰ Gallop, Minute, 22 March 1941, FO 371 26062 [A1928/47/26].

⁵¹ Starling to Balfour, 27 June 1941, FO 371 26063 [A5010/47/26]; Balfour, Minute, 3 July 1941, FO 371 26063

REACTIONS TO WASHINGTON'S IMMINENT SETTLEMENT

News that Washington was about to conclude a financial agreement with Mexico caused Scott, Starling and officials of Mexican Eagle finally to re-evaluate their policy in August 1941. Godber informed Halifax that according to a reliable source in Washington, the US treasury and state department had worked out a plan to settle all outstanding questions with Mexico including oil.⁵² Sir Ronald Campbell, British minister in Washington, confirmed the news later that month when he spoke to Welles, who admitted that Washington and Mexico City were discussing the matter, and an overall settlement was likely. He would not, he said, allow the American oil companies to stand in the way of a settlement with the Mexican government.⁵³ According to Campbell, Washington seemed desperate to have an immediate settlement with Mexico, and nothing Britain or the British oil interests could do, despite their large stake in the matter, would influence

[A5010/47/26]; Balfour, Minute, 17 June 1941, FO 371 26063 [A4510/47/26].

⁵² Godber to Wilkinson, 8 August 1941, FO 371 26064 [A6509/47/26]; Halifax to Foreign Office, 13 August 1941, FO 371 26063 [A6426/47/26].

⁵³ Campbell to Washington, 21 August 1941, FO 371 26064 [A6580/47/26].

Washington's feelings to the contrary.⁵⁴ As Starling warned Butler:

Our stake in Mexico is very much larger than the US oil companies, and there is a danger that an attempt may be made to clear the US oil interests and to overlook the greater importance of our interests there.⁵⁵

Butler in reply called for a re-examination of the assumption that the Persian and Venezuelan governments would react badly to a British deal with Mexico.⁵⁶ From Caracas, Gainer reported that in the event that relations with Mexico were renewed, Venezuela would not restrict supplies so long as the British government promised to continue buying the usual amount of oil. He reassuringly added that even if the Venezuelan government nationalised the oil industry, Britain's access to supplies would not be affected so long as it continued to purchase reasonable amounts of oil.⁵⁷ British and Soviet occupation of Iran in August 1941 in response to Nazi activities in the Middle East removed any anxiety British officials had about Iran.⁵⁸

⁵⁴ Campbell to Washington, 20 August 1941, FO 371 26064 [A6580/47/26]; King, Minute, 23 August 1941, FO 371 26064 [A6580/47/26].

⁵⁵ Starling to Butler, 18 August 1941, FO 371 26064 [A6509/47/26].

⁵⁶ Butler, Minute, 23 August 1941, FO 371 26064 [A6580/47/26].

⁵⁷ Gainer to Foreign Office, 28 August 1941, FO 371 26064 [A6792/47/27]; Gainer to Foreign Office, 29 August 1941, FO 371 26064 [A6792/47/26].

⁵⁸ Butler, Minute, 23 August, FO 371 26064 [A6580/47/26].

Although Starling, Scott and Godber on 25 August 1941 approved the idea of renewing relations with Mexico, they had neither given up hope of making an example of Mexico nor abandoned their desire to insist on an agreement whereby the oil companies would work their former properties for a specified amount of time or at least to delay a settlement until after the war. They hoped that bargaining with Washington would achieve these goals despite Balfour and Cadogan's warning that, no matter what the British did, they would not be able to influence the actions of Washington and despite the repeated statements of the state department that it would not allow the American oil companies to affect its decisions. Although the chances of Washington's cooperation were slim, they hoped that Washington would conclude a satisfactory settlement which would include British interests.⁵⁹ Mexican Eagle used the united front to ensure such a settlement, and several times officials of Standard Oil of New Jersey told the state department that it was essential for a satisfactory settlement of the oil matter with Mexico to include Mexican Eagle.⁶⁰

⁵⁹ Minute of a Meeting with Starling, Scott, Godber, Leigh Jones, 26 August 1941, FO 371 26064 [A6580/47/26].

⁶⁰ Memorandum of a Conversation with Duggan, Thomas Armstrong of Standard Oil of New Jersey and Bursley, 21 August 1941, RG 59 [812.6363/7346-8/9]; Farish to Hull, 27 August 1941, RG 59 [812.6363/7329]; Memorandum of a Conversation with Welles, Hull, Duggan Farish, Armstrong and Judge Frank Feuille and Bursley, 27 September 1941, RG 59 [812.6363/7365].

The most important change in late summer 1941 was Eden's decision to become more involved in Anglo-Mexican matters and achieve the renewal of relations. Instead of shaping British policy in accordance with Britain's oil needs as the petroleum department continued to do, he subordinated decisions about Mexico to the broader issue of Anglo-American relations. Following the initial success of Hitler's attack on Russia in June 1941, British officials became anxious about Russia's ability to withstand a renewed German offensive in Spring 1942. The prospect of German defeat diminished as did optimism about the US entering the war. Hopes raised by the meeting between Roosevelt and Churchill in early August in Placentia Bay off Newfoundland had been followed by disappointment when it became clear that Washington was not close to entering the war, and Eden's decision to renew relations with Mexico was an attempt to secure US cooperation in matters of defence.

Eden secured the war cabinet's approval on 28 August to resume relations with Mexico, and the very same day he informed the US ambassador of Britain's decision. He mentioned nothing about resuming relations in exchange for a certain type of oil settlement, but he expressed his hope that Washington would help Britain by coming to a satisfactory

agreement with Mexico and include British interests.⁶¹ A fortnight later, the foreign secretary explained to the cabinet why he did not present the news to Washington in the form of a bargain. Like the ministry of economic warfare, he wanted to get as much cooperation from Washington as possible on war matters and believed that the resumption of relations with Mexico was the best way to get such cooperation. He was convinced that Washington would be more willing to respond to British needs regarding Mexico if Whitehall renewed relations than if it put an obstacle in Washington's path by bargaining.⁶²

Almost one month after Britain re-established relations with Mexico on 21 October 1941, the state department concluded the agreement of 19 November 1941 with Mexico which set an unfavourable precedent for Mexican Eagle. Whitehall and the British oil interests had failed to achieve what they had hoped for: an advantageous settlement from Washington and the option to be included in it, or, failing this, a stalemate in Mexican-American negotiations with regard to oil until after the war. As they appreciated, it was only a question of time before the American oil interests broke the united front, upon which Britain

⁶¹ Eden to Halifax, 28 August 1941, FO 371 26064 [A6580/47/26].

⁶² Extracts from War Cabinet Conclusions, 6 September 1941, 41 (215).

had precariously come to rely for a satisfactory solution of the problem.

The foreign office and Royal Dutch/Shell deeply resented the agreement which they believed was an American attempt to drive British oil interests out of Mexico. Furthermore, it conceded far too much to Mexico, and they dreaded the precedent it set which not only ruined their chances of getting British oil interests back into Mexico to work their former properties but also included an American loan, a concession which the British government would not be able to grant.⁶³ It was enormously frustrating, but there was precious little they could do. Charles Harold Bateman, the British minister to Mexico, echoed the foreign office's bitterness on 23 January 1942 when he reported that the Mexican government could scarcely offer a better settlement to the British interests than it gave to the American companies and that the Mexican government would in no circumstances agree to abandon control over the Mexican oil industry.⁶⁴ In May 1943 R.A. Butler summed up opinion in Whitehall: 'Any prospect of bringing the Mexican

⁶³ Campbell to Foreign Office, 3 November 1941, FO 371 26024 [A6967/47/26].

⁶⁴ Bateman to Foreign Office, 23 January 1942, FO 371 33980 [A930/113/26].

Government to terms was destroyed in 1941 by the action of the United States Government'.⁶⁵

ANGLO-AMERICAN RIVALRY OVER TRADE IN LATIN AMERICA

The decision to renew relations with Mexico was a sound one for reasons other than those Eden had put forward. The board of trade had for a long time regarded increased export trade with Latin America as highly important after the war because of the region's purchasing power. In 1938 there was already a substantial volume of trade between Britain and the region: Britain's imports from South and Central America totalled approximately 8 percent of British imports, and 8 percent of Britain's exports went to the area.⁶⁶ The board of trade resented US competition which had made deep inroads into both German and British markets in the region, particularly Brazil, during the war.⁶⁷ To British businesses and the board of trade, this trend was most unfair because much of it had taken place when British industry was

⁶⁵ Foreign Office, Minute, 18 May 1943, FO 371 33980 [A4738/113/26].

⁶⁶ Report on South and Central America and Mexico, 7 October 1940, BT 11-1466.

⁶⁷ Beith, General Observations from the Point of View of the Foreign Office regarding British Trade Relations with Latin America, January 1940, BT 11-1395.

on a wartime footing and dedicated to the manufacture of armaments rather than machinery which could profitably have been sold in Latin American markets.⁶⁸ As Halifax noted, while the Americans had gained the upper hand in the Mexican oil settlement, 'The Board of Trade and the Department of Overseas Trade have no intention of adopting a defeatist attitude in regard to post-war commercial activities (in Mexico)'.⁶⁹

The commercial rivalry between Britain and the US in the region was very obvious during the Lend-Lease negotiations. From the winter of 1940-41, Britain's ability to pay for US supplies became very doubtful because of the dollar shortage facing Whitehall, and British officials hoped Washington would grant them credits. On 8 December 1940 Churchill wrote to Roosevelt expressing Britain's desperate need for finance for US munitions, aircraft and shipping as well as US naval escorts to keep open supply routes, particularly after the closure of the Mediterranean and the Suez Canal to merchant shipping. The memory of Britain defaulting on war debts from World War I in 1934 was still fresh, however, and Cordell Hull among others simply could not understand how an imperial power could not afford to maintain its

⁶⁸ H.H. Bellot, Minute, 30 November 1941, BT 11-1477.

⁶⁹ Halifax to Foreign Office, 13 June 1943, FO 371 33981 [A5102/113/26].

security. Churchill's plea, therefore, never received a formal reply, rather suggestions from US officials that Britain sell off its assets in the US and Latin America.

The British treasury, however, was highly reluctant to sell off British overseas assets only to have them purchased by US competitors especially in Latin and South America. The treasury also believed that it was vital for Britain to retain a minimum of gold reserves to operate the sterling area and have a successful postwar recovery and maintain a stable currency. It was, therefore, reluctant to continue paying for US goods with its gold. Despite the treasury's concerns, Washington refused to grant Britain credits and sent a warship to Cape Town to collect £50 million of British gold to cover some of Britain's US purchases.⁷⁰ Churchill was furious, but could not do anything at a time when US cooperation in war was so vital.⁷¹

Furthermore, Lend-Lease was hugely disappointing to the British treasury. Presidential adviser Harry Hopkins had led Whitehall to believe that it would pay for Britain's purchases from the US between the first

⁷⁰ David Reynolds analyses London's reaction to Washington's policy in chapter six of The Creation of the Anglo-American Alliance.

⁷¹ Dobson, Alan P.: US Wartime Aid to Britain, 1940-1946 (London: Croom Helm, 1986), p. 27.

of the year and March 1941. After Lend-Lease became law, however, Washington continued to try to persuade Britain to sell assets to pay for the orders, and on 13 March Britain was told that Roosevelt had despatched another vessel to collect £120 million in British gold held in South Africa. Even though the gold had been promised as cover for other British purchases from abroad there was nothing Whitehall could do.⁷²

Press reports that the British were using Lend-Lease goods to capture markets in South America by selling them to compete with goods from US businesses did nothing to alleviate Washington's anxieties about British commercial aspirations in the region. Although there was little evidence of these sales, Whitehall agreed not to export goods from the US which were in short supply, Lend-Lease goods or even similar goods into new markets. Such a restriction left Britain in a weaker position to pay for essential purchases from the Americas and to balance international payments after the war.⁷³

In conclusion, the British archives reflect far less bitterness about the Mexican-American agreement of November 1941 and the subsequent America oil

⁷² Reynolds, pp. 162-3.

⁷³ Reynolds, pp. 273-4.

companies' willingness to adhere to the agreement in October 1943 than one might have expected at the conclusion of a problem which had caused Britain so much frustration. Britain never stood a chance to achieve US cooperation in the Mexican oil matter whether or not it chose to renew relations with Mexico, because of Washington's determination to protect the Good Neighbor policy from association with Whitehall. British officials most likely realised this fact and only continued to try to get US cooperation for lack of a viable alternative and out of concern to maintain Britain's overseas oil supplies. After the worries attached to oil from Venezuela and Iran were removed, making an example of Mexico was much less of a priority, and Eden was right to try to win US cooperation in larger defence matters by renewing relations with Mexico given the gravity of defence concerns.

CONCLUSION

The analysis of policy in both Washington and London toward the Mexican oil expropriation provides a useful comparison of policy-making in the two countries. Unlike Washington where internecine conflict on a personal level was an integral part of politics, British officials worked more closely together because Britain had potentially a great deal at stake strategically in securing oil supplies abroad. While different departments wanted to diverge from the chosen policy of Balfour, Starling and later David Scott, the differences of opinion were not usually born of inter-personal strife, except perhaps in the case of critics in parliament who tried to embarrass the government and critics in the treasury who had long-standing disagreements with the foreign office.

In Washington, however, differences of opinion on policy were often born of struggles for influence. Welles seemed highly aware of the importance of endearing himself to Roosevelt to further his own political standing, often at Hull's expense, and, despite the fact that Hull and Welles broadly agreed on the basic policy to pursue toward Mexico, he would support the views of Roosevelt and

Daniels on the Mexican matter when either of them was paying attention to his work. The competition for influence between Hull and Welles became so acrimonious in the autumn of 1941 that they failed to work together at all over the Mexican situation.

Daniels was also highly aware of the importance and potential power of his connection to the president, and this realisation led him to take bold initiatives in the formation of policy toward Mexico by not delivering Hull's note of 26 March and using the president's influence to persuade Hull to sign the agreement with Mexico in November 1941. O'Malley also had great influence on policy in Britain. Unlike Daniels, however, O'Malley was influential because matters of defense had consumed the attention of senior officials in the foreign office, allowing him considerable independence in his note of 11 May 1938 which provoked Mexico to sever diplomatic relations with Britain.

Policy was formed at different levels in each country. At the same time that the war increased the concerns of officials in Whitehall about oil supplies and made them realise the importance of handling Mexico effectively, it also eclipsed the importance of the expropriation. Therefore, apart from the cabinet's brief involvement in approving both the basics of policy in 1938 and Eden's decision to renew relations with Mexico in 1941, policy was mostly decided at the departmental level

by Starling, Balfour and David Scott. While the foreign secretary rarely gave input on policy and the prime minister stayed aloof completely, in Washington, the secretary of state and undersecretary were central to policy-making in the US, and Roosevelt's involvement was intermittent yet significant.

The relationship between the government and companies was different in both countries. Whitehall never deviated from the wishes of Shell with regard to the Mexican matter because the interests of the company coincided with Britain's defense needs. Whitehall's close relationship with British business led it to support Shell by securing widespread cooperation in the City for the boycott. Unlike London, Washington did not have a close relationship with American business like Whitehall had with the City of London. Furthermore Washington did not necessarily insist on defending the oil companies who had lost their properties in Mexico. The US' plentiful oil supplies allowed Washington to pursue the broader goal of securing respect for Americans investing overseas in order to establish reciprocal trade agreements with Mexico and other countries.

Although Britain paid the price for Owen O'Malley's actions in Mexico, Whitehall's position would not have been much better had Britain retained a legation in Mexico City. The US had

more power to affect change in Mexico and geography dictated that Whitehall rely on Washington to take the lead in the Mexican problem. However, the Good Neighbor policy ruled out military intervention in Mexico, and allowed Mexico City to decide Mexico's fate. Given Britain's lack of alternatives and Britain's dependence on oil supplies abroad, Balfour and Starling and later Scott emphasised the need to try to make an example of Mexico to maintain access to the large supplies of oil in Venezuela.

While the issue of Mexican oil provided a mild irritant in Anglo-American relations, in the broader context of Anglo-American relations, the Mexican oil issue had little effect. For Washington, feelings of animosity toward British interests which made officials unwilling to help the British in this case were more symptoms than causes of wider resentment. Washington found what seemed to them to be Whitehall's efforts to get the US to help Britain cope with German and Japanese hostilities before Britain tried to help itself offensive and also resented British imperialism generally. Whitehall, however, continued approaching Washington for help, and Britain's attitude toward the Mexican matter partly reflects Britain's attitude to the growing crisis in Europe and the Far East. David Reynolds argues in The Creation of the Anglo-American Alliance that with

regard to defence Whitehall desperately needed substantial US help but at the same time feared that such help would compromise British interests.¹ With regard to the Mexican situation, mistrust of the US certainly existed. However, Whitehall, feared the lack of US cooperation far more. Not only were British officials desperate for US support, but Washington's cooperation was a way to try to ensure that the US would not come to a settlement without Mexican Eagle as Washington ended up doing.

Despite Washington's refusal to cooperate with London, Britain did not experience problems of supply as a result. Whitehall was able to resolve situations in both Iran and Venezuela which could have led to those countries restricting Britain's access to the oil fields, and the US ended up supplying nearly 90 percent of Allied needs of oil during wartime. Apart from Mexican Eagle's lost investment in Mexico, Britain's exclusion from Mexico's oil industry was not nearly regarded as the loss it had been at the start of the war when officials in Whitehall were reflecting on Mexico's importance as an oil supplier during World War I. The centre of world oil production was shifting from the US and the Caribbean area to the Middle

¹ Reynolds, David: The Creation of The Anglo-American Alliance, 1937-1941: A Study in Competitive Co-operation (London: Europa, 1981), p. 10.

East, and the focus of the Anglo-American oil rivalry was shifting with it. War in the Pacific had substantially drained US oil supplies, and the rate of discoveries of domestic oil fields had plummeted since the boom of the late 1920's and early 1930's. The fact that the US started to feel reliant on overseas supplies pitted the US against Britain in the Middle East and detracted from the importance of the Mexican oil issue after the American settlement.² It is the subject of another study to determine the influence of the Anglo-American oil rivalry in Mexico on the abortive attempts to negotiate an Anglo-American oil agreement about managing the world oil market and Middle Eastern oil development.

² Yergin, Daniel: The Prize: The Epic Quest for Oil, Money and Power (New York: Simon & Schuster, 1991), p. 396.

HULL'S NOTE TO MEXICO CITY OF 26 MARCH 1938¹

Telegram Sent

DEPARTMENT OF STATE

Washington

March 26, 1938

Embassy
Mexico City (Mexico)

Please deliver, not later than Monday to the Minister of Foreign Affairs a note reading textually as follows:

In his First Inaugural Message in 1933 President Roosevelt announced that QUOTE in the field of world policy I would dedicate this Nation to the Policy of the good neighbor - the neighbor who resolutely respects himself and, because he does so, respects the rights of others - the neighbor who respects his obligations and respects the sanctity of his agreements in and with a world of neighbors. UNQUOTE

During the last five years, I feel sure Your Excellency will agree, my Government has repeatedly evidenced its fulfilment of that pledge, both in general and in specific cases. Moreover, because of the universal applicability of the basic principles upon which this policy is premised, they have had the support of other governments of this hemisphere. These principles include a real friendship between nations, complete confidence of the respective governments and peoples in each other, the adjustment of difficulties by processes of negotiation and agreement, fair play and fair dealing, and the whole-hearted disposition to cooperate each with the other for the promotion of their mutual interests and mutual welfare. My Government has repeatedly expressed to the Government of Mexico its conviction that, as has been generally recognized by other governments, this policy of equity and of reasonable and just treatment cannot of its nature be a one-sided policy. As shown in its application by the American Republics generally

¹ Cordell Hull to Josephus Daniels, 26 March 1938, RG 59, Records of the Department of State [812.6363/3190A].

this policy must of its very essence have reciprocal character if the peoples of the New World are to progress steadily toward a higher level of international relationships.

It will be agreed, I think, that my Government has been mindful of the high social objectives of your Government. Both of our Governments have endeavored to better the conditions of living of their respective citizens. My Government is confident that the American people, who have been giving frequent indications of their friendship for and good-will toward Mexico and the Mexican people fully sympathize with these objectives.

It is apparent from the statements which His Excellency the President of the United Mexican States has repeatedly made that he believes that in order to improve the standard of living of the Mexican people as a whole, a development of national resources is essential. For such development, capital has been required. Very substantial amounts of American capital have in the past been made available to the Mexican people, resulting in the development of natural resources and the establishment of industries not previously existing which have provided an increasing scale of wages for the Mexican people and increased revenue for the Mexican Government.

His Excellency the President of Mexico has frequently stated, even during the present year, that the Mexican Government welcomed the investment of this capital, to which it would give all guarantees under Mexican law.

My Government recognized the obligation of all American interest in Mexico to play their reasonable and relative part in promoting the policy of the Mexican Government and the welfare of the Mexican people, but despite the consistent endeavours of the Government of the United States to cooperate in every mutually desirable and profitable way with the Government of Mexico, my Government has noticed with anxiety the increasing number of instances of disregard of legitimate and uncontroverted private property interest of its nationals. This has been particularly true with respect to the carrying out of the agrarian policy of the Mexican Government, pursuant to which land holdings, both large and small, owned by American citizens, in many instances, have been taken and turned over to Mexican nationals without the payment of compensation to the American owners of such lands. My Government has made repeated representations to the Mexican Government regarding this situation and has pointed out in all such representations that, while it has not been disposed to question the right of the Mexican Government to take over and distribute large holdings of real

property, such action should not amount - as it has in effect - to the confiscation of such property, but that under every rule of generally recognized law as well as equity the rightful owners are entitled to the payment of just compensation, having a present effective value to the owners from whom the properties are taken.

In addition to these difficulties pertaining to the agrarian policy, a large group of American claims against Mexico, some of which date back over a long period of years, remain unadjudicated despite efforts of this Government to reach some satisfactory adjustment of them.

Finally, we have the occurrence of recent date of the taking over by the Mexican Government of large investments of American nationals in the oil industry of Mexico, amounting to many millions of dollars. The position which my Government has so frequently presented to the Mexican Government regarding the payment of just compensation for land taken pursuant to the agrarian policy applies with equal force with respect to the oil properties that have just been expropriated. This does not mean that the Government may later pay as and when it may suit its convenience. Having in mind the treatment that has been accorded the American owners of land, my Government must of necessity view with concern and apprehension the most recent act of the Mexican Government.

My Government reserves for itself and for its nationals all rights affected by the proceedings under which the oil companies have recently been faced with an award of the Labor Board, sustained by the Supreme Court of Mexico. Furthermore, my Government reserves for itself and its nationals all rights affected by the decree of expropriation.

My Government has taken attentive note of the statement that President Cárdenas is quoted as having made on March 23 that QUOTE We are not going to refuse to pay for what is expropriated. We are acting on a high legal and moral plane in order to make our country great and respected. UNQUOTE

In view of that statement by the Chief Executive of Mexico, my Government directs me to inquire, in the event that the Mexican Government persists in this expropriation, without my Government undertaking to speak for the American interests involved, but solely for its preliminary information, what specific action with respect to payment for the properties in question is contemplated by the Mexican Government, what assurances will be given that payment will be made and when such payment may be expected. Inasmuch as the American citizens involved have already been deprived of their properties, and in view of the rule of law

stated, my Government considers itself entitled to ask for a very prompt reply to this inquiry.

My Government also considers that the time has arrived for a similar understanding regarding the payment of American nationals whose lands have been, and are being, taken pursuant to the agrarian policy of the Mexican Government.

Signed.
Hull

O'MALLEY'S NOTE FROM HIS MAJESTY'S GOVERNMENT
TO THE MEXICAN GOVERNMENT²

11 May 1938

1. I have the honour under instructions from His Majesty's Principal Secretary of State for Foreign Affairs to direct your Excellency's attention to the sum due by the Mexican Government to His Majesty's Government in regard to British special claims for losses arising from revolutionary actions between the 20th November, 1910 and the 31st May, 1920.
2. Your Excellency will recall that in notes exchanged on the 31st December, 1935, between yourself and the late Mr. Murray, the Mexican Government undertook that the amount of 3,795,697.53 pesos payable by them to His Majesty's Government, as provided for in the Anglo-Mexican special claims conventions, should be paid in Mexican national currency in eleven annual instalments beginning the 1st January, 1936. The first two instalments were punctually discharged and a third payment of 370,962.71 pesos fell due on the 1st January, 1938. Four months have now passed and I have received neither payment nor any reply to the numerous oral and written communications to your Excellency's department, of which the most recent was my note No. 25 of the 22nd of March. In this note I drew your Excellency's attention to the fact that it had not escaped the notice of His Majesty's Government that a similar debt to the United States Government had been punctually discharged and that His Majesty's Government were at a loss to understand the apparently discriminatory treatment of two Governments with equal title.
3. The unexplained delay in making this payment has obliged His Majesty's Government to review the position in the light of the attitude manifested by the Mexican Government towards government indebtedness generally. The conclusions to which this review points are far from reassuring.

² O'Malley to the Foreign Office, 26 April 1938, FO 371 [21468 A3296/10/26].

4. According to information at their disposal Mexico's public external debt excluding all foreign claims not represented by Mexican Government securities amounts approximately to 248 million United States dollars of principal and 267 million United States dollars of accrued interest, to which must be added about 240 million dollars principal and 226 million dollars interest in respect of foreign debt dependent on railways for which the Mexican Government assumed responsibility when they expropriated them on the 24th June, 1937. A substantial proportion of this debt is held by British subjects who in the last quarter of a century have received no interest in twenty of these years, and only part of the interest due in respect of five of them. In addition, there are also outstanding against the Mexican Government claims amounting to approximately £9,400,000 which were not included in the Oca-Lamont Agreements.

5. In the second place, in addition to the internal debt estimated at about 285 million pesos (not including, of course, the internal loan of 100 million pesos shortly to be placed on the market) the Mexican Government have assumed very extensive internal obligations of which only an insignificant proportion have yet been met towards the landowners, foreign as well as Mexican, whose agricultural properties...have been expropriated for the purpose of agrarian reform. His Majesty's Government know of no case where dispossessed British landowners have received any compensation whatever. The amount of total agrarian indebtedness of the Mexican Government is not clear but may be assumed to be in proportion to the area expropriated which on the 1st January was stated by the President of the Republic to amount to just under 18,000,000 hectares.

6. In the third place, the Government have recently declared expropriated the properties of seventeen oil companies, and according to their own statements they consider themselves to have incurred an additional financial liability, of which the total amount is as yet unascertained but could in no circumstances be anything but very large.

7. His Majesty's Government, without prejudice to the view on expropriation of the oil companies expressed in their notes of the 8th April and 20th April, cannot but regard the failure of the Mexican Government to discharge even their existing obligations as in itself rendering unjustified an expropriation an essential condition of the validity of which would be the payment of full and adequate compensation amounting in this case to a very large sum.

8. My Government must in any case request the immediate payment of the sum of 370,962.71 pesos which fell due on 1st January last.

DRAMATIS PERSONAE

Pedro Aguirre Cerda-president of Chile, 1938-1941

Juan Andreu Almazán-oil companies' favoured candidate in the Mexican presidential election of July 1940 who lost to Manuel Avila Camacho

Thomas Armstrong-a manager of Standard Oil of New Jersey, 1937-1938

Manuel Avila Camacho-Mexican president, 1940-1946

John Balfour-head of the American department of the foreign office, 1938-1940

Charles Harold Bateman-British minister to Mexico, 1941-1944

Adolf Berle-one of the original brain trust, assistant secretary of state, 1938-1944

Ramón Beteta-Mexican under secretary of state for foreign affairs, 1937-1940

T.K. Bewley-assistant secretary in the British treasury, 1933-1939

Pierre de L. Boal-counsellor of the US embassy, Mexico, 1937-1940

Reader Bullard-British envoy extraordinary and minister plenipotentiary in Tehran, 1939-1944

Herbert Sidney Bursley-assistant chief of the division of American republics in the state department, 1938-1942

Richard Austin Butler-parliamentary undersecretary at the foreign office, 1938-1941

Sir John Cadman-chairman of Anglo-Iranian, 1923-41 and adviser on oil matters to the British government, 1939-1941

Sir Alexander Cadogan-permanent undersecretary at the foreign office, 1938-1946

Plutarco Eliás Calles-president of Mexico 1924-1926

Carlos Calvo-(1824-1906) 19th century, Argentine lawyer whose writings inspired Venustiano Carranza, Mexican president, 1914-1920, to include a clause in the constitution of 1917 which stated that foreigners could only acquire property in Mexico if they agreed formally to relinquish their right to request support from their governments in the event of a dispute regarding their affairs in Mexico

Roger Cambon-counsellor in the French embassy in London, 1937-1944

Sir Ronald Ian Campbell-British minister in Washington, 1941-1945

Lázaro Cárdenas-Mexican president, 1934-1940

Venustiano Carranza-nationalist Mexican president, 1914-1920, who drafted the constitution of 1917

Francisco Castillo Nájera-Mexican ambassador to Washington, 1935-1945

Saturnino Cedillo-governor of San Luis Potosi who launched an abortive revolt against Cárdenas, May-June 1938

Neville Chamberlain-prime minister, 1937-1940

General V. Emiliano Chamorro-former president of Nicaragua, March-October 1926, and head of the conservative party who tried to restore the conservatives to power between 1937, when Somoza assumed the presidency, until 1950 when he entered a political pact with his former political adversary

Winston Churchill-prime minister, 1940-45; 1951-1955

Tom T. Connally-US democratic senator from Texas, 1929-1953

Morris Llewellyn Cooke-Washington's expert sent to appraise the oil properties in Mexico, 1941-1942

Charles Corbin-French ambassador to Britain, 1933-1940

E. David Cronon-author of Josephus Daniels in Mexico (Madison: University of Wisconsin Press, 1960)

Captain H. F. C. Crookshank, secretary of the mines department, 1935-1940

Josephus Daniels-US ambassador to Mexico, 1933-1941

William Rhodes Davis-American independent oil man with interests in US and Europe who wanted to purchase Shell's interests in Mexico in 1936. He lost his company, Sabalo Transportation, during the expropriation after which he negotiated agreements for the German government to purchase Mexican oil refined at his refinery in Hamburg.

Porfirio Diaz-Mexico's dictator, 1877-1880; 1884-1911

Edward L. Doheny-prospected for oil near Tampico, Mexico in 1900 and found rich oil fields

Lord Henry Charles Drogheda-joint director of the ministry of economic warfare, 1940-1942

Laurence Duggan-chief of the division of American republics, 1935-1944

Anthony Eden-foreign secretary, 1935-1938

William S. Farish-president of Standard Oil of New Jersey, 1937-42

Sir Alfred Edward Faulkner-under secretary of the mines department, 1927-1942

Dr. Herbert Feis-economic adviser to the state department, 1931-1943

Hamilton Fish-republican representative, 1920-1945

Gerald Gray Fitzmaurice-acting first secretary in the diplomatic service, 1939-1943

Donald St. Clair Gainer-British minister in Caracas, Venezuela 1939-1944

Rodney Alexander Gallop-British charge d'affaires in Mexico, 1936-1937; clerk in the American Department, 1941

Frederick Godber-managing director of Royal/Dutch Shell, 1929-1946

Ivor Guest-chairman and director of Harris and Dixon's, 1937-39

Green Hackworth-legal adviser to the state department, 1931-1946

- Viscount Halifax (Frederick Lindley Wood)**-foreign secretary, 1938-1940; ambassador to the United States, 1941-1946
- Eduardo Hay**-Mexican foreign minister, 1935-1940
- Thomas C. Hennings, Jr.**-democratic representative of Missouri, 1935-1940
- Adolf Hitler**-Fuhrer of the German Reich, 1934-1945
- Adrian Holman**-a clerk in the American department. 1937-8
- Herbert Hoover**-United States president, 1929-1933
- Harry L. Hopkins**-United States presidential adviser, 1941-45
- Victoriano Huerta**-Mexican president, 1913-1914
- Cordell Hull**-US secretary of state, 1933-1944
- Patrick J. Hurley**-assistant secretary of war in the Hoover administration, 1929-1933; an attorney on retainer by Sinclair Oil who negotiated a settlement of its claims with the Mexican government in 1940
- Harold Ickes**-US secretary of the interior, 1933-1946; petroleum administrator for war, 1941-46
- Lord Inverforth**-director, Parent Petroleum Interests, Ltd., 1936-1949
- C.G. Jarrett**-a principal in the admiralty, 1938-1944
- Joseph Patrick Kennedy**-US ambassador to Great Britain, 1937-1940
- Martin Kennedy**-democratic representative from New York, 1930-1945
- Frank Knox**-US secretary of the navy, 1940-1944
- Frederick Leith-Ross**-general director of the ministry of economic warfare, 1939-1942
- Sir Ronald Lindsay**-British ambassador to the US, 1930-1939
- Daniel Lipson**-independent conservative M.P. for Cheltenham, 1937-1950
- Thomas Lockett**-American commercial attache in Mexico, 1936-1940

Lord Lothian (Philip Henry Kerr)-British ambassador to the US, 1939-1940

Fin Lund-head of the Danish legation in Mexico who was representing British interests in Mexico after O'Malley was called home in 1938 until he left Mexico in 1939

John McCormack-Catholic member of the house of representatives from Massachusetts, 1928-1971

Robert McGregor-American consul general in Mexico, 1939-1940

Samuel Davis McReynolds-democratic representative from Tennessee, 1923-1939

Francisco I. Madero-young member of the Diaz establishment; Mexican president, 1911-1913

Adam Denzil Marris-an official of the ministry of economic warfare, 1939-1940

Karl Marx-(1818-1883) author of *Das Kapital*, published in 1867, developed theories of the class struggle and the economic laws of capitalist society

Walton Moore-counsellor of the US state department, 1937-1941

Henry Morgenthau Jr.-US secretary of the treasury, 1934-1945

Sir George Mounsey-superintending under secretary of the American department, 1938-1939

Lord Newton-(1857-1942) former assistant under secretary of state for foreign affairs, 1916; conservative in the house of lords

Philip Noel-Baker-labour M.P. for Derby, 1936-1950

Admiral Kichisaburo Nomura-Japanese ambassador to the US, 1940-1941

Owen St. Clair O'Malley-British minister to Mexico, 1937-1938

Weetman Pearson (Lord Cowdray)-labour M.P. for Colchester, 1895-1910, who discovered a rich oil field in Mexico in 1910 and formed what later became the Mexican Eagle Oil Company

General John J. Pershing-sent by US President Woodrow Wilson to hunt rebel forces of Pancho Villa in Northern Mexico, 1916-17

Sir Eric Clare Edmund Phipps-British ambassador to France, 1937-1939

Henry Clay Pierce-head of Waters Pierce Oil Co., an affiliate of Standard Oil of New Jersey, 1877-1913

Senator Key Pittman-senator from Nevada, 1913-1940; chairman of the senate foreign relations committee, 1933-1940

Wallace Pratt-director of Jersey Standard, 1941-1942

Joseph Pyke-British consul general, Mexico City, 1934-1937

Thomas Ifor Rees-British consul general, Mexico City, 1938-1943

Donald R. Richberg-lawyer, railway labour expert, and former chairman of the defunct National Recovery Administration who tried to negotiate a settlement on behalf of the oil companies, 1939-1940

Francis William Rickett-an English businessman of Thames Haven Company who tried to buy oil from the Mexican government after the expropriation but stopped after the British government intervened in 1938

Franklin D. Roosevelt-US president, 1933-1945

Sir David John Scott-assistant under secretary of state, foreign office, 1938-1944; head of the American department, 1940

Morris Sheppard-democratic senator from Texas, 1913-1941

Dewey Short-republican representative from Missouri, 1929-1931, 1935-1957

Ben Smith-American businessman involved in a deal in 1938 with British citizen F.W. Rickett of the Thames Haven Company who tried to buy oil from Mexico

Anastasio Somoza-dictator of Nicaragua, 1937-1947; 1950-56

Joseph secretary of the Communist Party of the USSR, 1922-1941; Soviet Prime Minister, 1941-1953

Oliver F.G. Stanley-president of the board of trade, 1937-40; secretary of state for war, 1940-42

Frederick Starling-a principal in the mines department who headed the petroleum department, 1931-1940; principal assistant secretary and director of petroleum supplies, 1940-1946

Henry Stimson-United States secretary of state for war, 1940-1945

Rt. Honorable George Russell Strauss-labour M.P. for Lambeth north division, 1929-31, 1934-50

Sir Francis William Stronge-British envoy extraordinary and minister plenipotentiary to Mexico, 1911-1913

Eduardo Suarez-Mexican secretary of the treasury, 1935-46

D.A. Thomas-director of Centralamer, 1937-40

Geoffrey Harrington Thompson-first secretary, foreign office, 1938-1941

William James Thorne-labour M.P. for West Ham, 1906-1945

John G. Townsend-republican senator from Delaware, 1929-1941

Lev Davidovich Trotsky-revolutionary under Stalin's dictatorship, expelled from the party in 1927, deported in 1929 and later settled in Mexico where he was murdered in 1940

B.T.W. Van Hasselt-president and managing director of Mexican Eagle Oil Co., 1938-39

Sir Robert Gilbert Vansittart-permanent under secretary of state to the foreign office, 1930-38; chief diplomatic adviser to the foreign secretary, 1938-1941

S. D. Waley-principal assistant secretary in the treasury, 1931-1939

Henry A Wallace-secretary of agriculture, 1933-1940; vice president, 1941-1945

Benjamin Sumner Welles-US assistant secretary of state, 1933-1937; under secretary of state, 1937-1943

Harry Dexter White-adviser to the secretary of the treasury, 1934-1945

Henry Lane Wilson-American ambassador to Mexico,
1903-1913

Woodrow Wilson-US president, 1913-1921

Arthur Woodburn-labour M.P. for Clackmannan,
1939-50

Manuel Zevada-Mexico City's expert on oil
properties, 1941-1942

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Intelligence
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Henry Morgenthau, Presidential Diaries
Cordell Hull Papers

Franklin Delano Roosevelt Library, Hyde Park, New
York²

Henry Morgenthau, Jr., Diaries
Franklin Roosevelt, Papers as President
Office Files
President's Secretary's Files
Adolf Berle Papers

¹ The papers of the treasury department were closed at the time this thesis was being researched.

² The papers of Sumner Welles were unavailable at the time this thesis was being researched.

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