With the advent of the gusher era in Mexico in 1911, everyone wanted to get in on the action. According to a promotional advertisement in *The Oil Age*, Tampico had become the “new storm center for oil investments and land speculation” and was likely to be the world’s leading oil port within the next five years. As it was, Tampico had already developed from a languid, backwater port into a burgeoning distribution center for crude oil, if not a full-fledged boomtown. By this time, most of the exported petroleum was bound for the new refineries that were springing up along the Gulf coasts of Texas and Louisiana, although delivery routes reached as far north as Boston and across the Atlantic to London. Without question, Doheny and Pearson dominated this business, as they would for the rest of the decade, but they were joined by subsidiaries from every major oil company in the world along with an increasing number of independent operators.¹

According to one report, there were twenty oil companies actually engaged in production in Mexico in the fall of 1911 and at least two to three times that number operating as promotional fronts to sell prospective oil lands. Almost all of this activity centered on an area in the Tampico district some twenty-five to forty-five miles inland from the city. Specifically, the new oil zone ran along both sides of the Pánuco River near the small towns of Topila and Pánuco, where producers could send their oil out by barge without having to build railroad or pipeline facilities. Doheny’s 450,000-acre property at Ebano sat like a separate kingdom to the northwest of these small lots. The big wells drilled by Doheny at
Casiano and by Pearson at Potrero del Llano were in the Huasteca district 75 to 100 miles to the south.

By contrast, the companies operating along the Panuco fought over small leases of a few thousand acres, and most of the wells averaged less than 100 barrels per day. Of the better-run operations, there was the Mexican Fuel Oil Company, controlled by the Texas Company, which had a total production of 400 barrels a day, and the East Coast Oil Company, owned by the Southern Pacific Railroad, which had an impressive gusher near Topila capable of producing 6,000 to 10,000 barrels a day. The problem for the latecomers, however, was not the lack of oil but the impossibility of securing adjoining tracts around an oil well to protect it from competitors. Consequently, the small parcels of land in the area between Topila and Panuco became the bargaining chips of land speculators, and strategic properties within a few hundred feet of a producing well became the "sweeteners" added to deals for larger properties away from the river. It was the revolving trade for these leases that kept the market humming and gave the area its notorious reputation.2

The competition for land in the oil districts south of Tampico was not nearly as vicious because of the Herculean efforts required to transport oil out of the area. Consequently, the Tamiahua district, west of the Tamiahua Lagoon and the port of Tuxpan, stayed primarily in the hands of the Huasteca Petroleum Company, except for the tract containing Pearson’s Potrero well. Farther south, Pearson still held oil lands in both the Tehuantepec and Tabasco districts, but he had abandoned his efforts to develop the properties.

Along the Panuco River, however, things moved quickly. By the end of 1912, Everette DeGolyer, an American geologist working for Pearson’s Mexican Eagle Company, counted eighty-nine oil companies at work in some capacity. American operators led the list with fifty, followed by the British with twenty-one and the Mexicans with thirteen. DeGolyer also estimated the total amount of money invested in the oil fields so far at $175 million. Once again, the Americans were first with $97.5 million, the British second with $75 million, and the Mexicans third with $2.5 million. For the most part, this money represented the value of the leaseholds rather than direct investments in plant and equipment, since only Doheny and Pearson had yet to build up any infrastructure. As it stood, 252 wells had been drilled in the Tampico district; sixty-four of those were producing oil, with the five largest accounting for 90 percent of the total output.3

Still, the speculators and small operators continued to pour into Tampico over the next few years, pushing the number of oil companies listed
in Mexico to almost 200. Of the fifty that were actually producing oil, most
were either direct subsidiaries of the large companies or independent
outfits working on their behalf. For the period up to 1913, the list of
major organizations included the Continental Mexican Petroleum Com-
pany (General Petroleum, California); Corona Petroleum Company (Royal
Dutch Shell); East Coast Oil Company (Southern Pacific Railroad, which
sold its Mexican production to the Texas Company in exchange for fuel oil
in Texas); Interocean Oil Company (U.S. Asphalt Company/Barber Asphalt
Company); Magnolia Petroleum Company (Standard Oil New York); Mex-
ican Gulf Oil Company (Gulf Refining Company); Penn Mex Fuel Com-
pany (South Penn Oil Company/Standard Oil); and the Tampico Company
(Texas Company).  

Doheny not only helped usher in the new age of Mexican oil when he
drilled in Casiano No. 7 in September 1910, but he completed the process
when he exported the first load of Mexican crude out of Tampico in May
1911. And that shipment, 32,000 barrels of Huasteca oil headed to Texas
for the Magnolia Oil Company, confirmed the growing fear among Gulf
Coast producers that their days were numbered. Doheny's action initially
set off another round of complaints about the "Menace of Mexican Oil," as
one article put it. But this time, before the independent producers could
mobilize in self-defense, a curious thing happened: Mexican crude turned
out to have a positive effect on the Texas oil market. Instead of driving out
local producers, it allowed them to substitute the Mexican product for fuel
oil, while refining their lighter-grade oil into more profitable products.
Before long, the influx of Mexican oil was "hailed with delight" and demand
increased dramatically. The problem now was getting it there. 

By the end of 1911, Doheny was producing about 42,250 barrels of oil
a day with the output of Casiano No. 7 cut back to less than half its poten-
tial. At the same time, the company's sales contracts called for about 26,650
barrels a day, equal to the shut-in flow of Casiano No. 7 by itself. These
contracts were with the National Railways of Mexico, Standard Oil (New
York and New Jersey), the Waters-Pierce Refinery, the Santa Fe Railway,
Gulf Refining Company, and the Mexican Petroleum Company's asphalt
and gas subsidiaries in Mexico City. Unfortunately, without his own ship-
ing facilities Doheny could not take advantage of potential American cus-
tomers waiting for Mexican oil and was in grave danger of drowning in
his own production. Already, the company's storage facilities were 95 per-
cent full with over six million barrels of oil in steel tanks and concrete
reservoirs. 

This was a critical moment for Doheny's Mexican business, since he
was turning down large contracts for Mexican oil in Texas and in the East for lack of transportation. Yet he desperately needed those sales to soak up his vast production and generate revenue for additional capital improvements. Facing a short-term financial bottleneck that limited his ability to keep pace with the market and threatened the profitability of his business, Doheny had no choice but to take the Mexican Petroleum Company public to raise the necessary funds—a decision not easily accepted by the directors of the company.

Prior to the rapid development of the Huasteca property in 1909, Doheny had operated almost entirely with internal financing. Until 1904, the bonded debt of the company had been limited to $250,000, used to finish the storage facilities at Ebano. Then, as the plans for drilling the Casiano wells took shape in the summer of 1909, the company needed money to construct the pipeline to Tampico. To complete that project, the directors approved $2 million in Huasteca Petroleum Company, Coast Pipe Line bonds, which were only marginally successful despite the attached participation certificates that returned ten cents for every barrel of oil sent through the pipeline. Less than half of the bonds were sold, and those that were proved to be an unacceptable drain on the company's cash flow with the pipeline operating at full capacity from the moment it opened.

In the summer of 1910, as both Casiano No. 6 and No. 7 were about to be drilled in, Doheny knew he needed additional funds to complete the pipeline and build as much storage as possible. To meet these escalating demands, the board of directors issued a third series of bonds for another $2 million: $250,000 to pay off the first issue and $1.75 million for the storage facilities. Up to this point, these bond issues had been aimed at a small core of stockholders and investors in California and were lightly traded on the Los Angeles Stock Exchange.7

Fortunately, as Doheny pressed on with the pipeline project, he received some unsolicited financial support from Mike Benedum and Joseph Trees, former employees of Standard Oil's South Penn Oil Company who enjoyed a reputation similar to that of Doheny and Canfield as two of the shrewdest oil drillers in the United States. Benedum and Trees had been responsible for opening up major fields in West Virginia, Illinois, and Oklahoma in the face of stiff opposition from several Standard Oil subsidiaries. And in every case, they managed to sell their holdings to Standard Oil for a considerable profit.8

In the early summer of 1910, they earned a multi-million-dollar profit from the sale of oil leases in the Caddo field of Louisiana and were looking for a new investment. Trees ended up going to Mexico to investigate Do-
109

heny's work for two Pittsburgh businessmen who wanted to "take a flyer in oil." Doheny arranged for him to go down to the Huasteca field, and, by amazing coincidence, Trees was standing on the drilling floor of Casiano No. 6 when it blew in on July 26. He was still trying to assimilate the experience a few days later when he wrote to Benedum and exclaimed, "Mike, You've never seen an oil well. Those things we drilled in Illinois and Caddo were just little creeks of oil. I tell you these Mexican wells are oceans."9

From a distance, Benedum hesitated. "I wasn't much for going in," he recalled, "but Joe was so anxious he made a deal with Doheny." That arrangement involved a cash payment for $500,000 worth of Mexican Petroleum stock and a seat on the board of directors. Harry Brown, the Pittsburgh coal man who had persuaded Trees to go to Mexico in the first place, also became a director with a somewhat smaller investment. These were sorely needed funds in the fall of 1910, as the company raced against the clock to complete the Huasteca pipeline in advance of Casiano No. 7. If anything, Benedum understated the situation when he remarked that their money must have "relieved Doheny to a certain extent."10

The financial pressure worsened even more, however, after they brought in the well and discovered that they could close down production by only one half. This initiated what Doheny described as a period of "very active scrambling . . . for a market for immediate delivery of oil," which included sending Benedum to negotiate a contract with Standard Oil New Jersey to buy Huasteca crude. Benedum met with Henry Rogers in New York, described Doheny's operation in detail, and testified that the oil had been thoroughly tested and proven. Knowing Benedum's reputation, Rogers did not hesitate in the least: "If that's true and I know you think it is, we want that oil." When he left, Benedum had an agreement with Rogers for Standard Oil to purchase 12,000 barrels of oil a day at fifty-two cents a barrel.

At almost the same time, Doheny met with the Mellon interests in Pittsburgh, hoping to get a contract with the Gulf Oil Company. When he and Benedum met later to compare notes, they apparently got into a heated argument over the arrangements with Standard Oil. As Benedum remembered it, Doheny was "cursing and sanding to beat the band" because he thought he could make a better deal on his own. Benedum also believed that Doheny wanted to pit Gulf and Standard against each other to bid up the price. Regardless, Benedum took the dispute personally and telephoned Rogers to say that he was through with Doheny and to warn him that he was going to have to fight for the oil with Gulf. "Leave that to me," Rogers told him. The next day, according to Benedum, Gulf Oil
turned down Doheny's offer and Benedum believed his conversation with Rogers had something to do with it. Supposedly, Doheny then had to crawl back to Standard Oil and renegotiate a deal at a much lower price.¹¹

There are several things wrong with Benedum's recollection of events. First, Doheny had too much oil on hand to get into a bidding war over the price. Second, instead of negotiating for a maximum amount per barrel, Doheny apparently wanted something closer to a loan in exchange for oil. And for that, he was practically willing to give away the oil. In the end, according to Doheny, the “efforts to sell oil at a reduced price in consideration of . . . large sums of money in advance, resulted in the acquisition of $650,000.”¹²

Specifically, Doheny's deal with Rogers called for 6,000 barrels a day at thirty-nine cents a barrel for three years, and it could be renewed for five more at Standard's request. In return for these generous terms, Rogers paid an undisclosed amount in cash. Next, contrary to Benedum's account, Doheny also made a two-year contract with Gulf Oil to provide 2,000 barrels a day at forty-four cents a barrel. In addition, he had a three-year contract with the Santa Fe Railway for 2,500 barrels a day at forty-six cents and a three-year contract with Waters-Pierce for 2,900 barrels at sixty-six cents plus an additional 700 barrels of refined oil at ninety-three cents. Waters-Pierce made an initial payment of $250,000 to Doheny on its first million barrels, with the remaining $400,000 in advance payments divided among the other three companies.¹³

The Santa Fe Railway's interest in Mexican oil presented an interesting dilemma because of president E. P. Ripley's personal involvement with the Mexican Petroleum Company. Before he contracted with Doheny for Huasteca oil, Ripley explained to the chairman of the executive committee that, when he first invested in Mexican Petroleum, there was no thought of using the oil on the Santa Fe because of the prohibitive duty on oil imports. The recent elimination of the duty, however, made it economical to buy Mexican crude, although it put Ripley in the position of asking the railroad to purchase oil from which he would personally profit: “We have always insisted that none of our officers should occupy this dual relation, but in this case it could not be foreseen.” To solve the problem, he delegated the responsibility for purchasing oil to the officers of the Gulf, Colorado, and Santa Fe Railway, who had “no other interest than to buy on the most favorable terms possible,” since they would actually be using the fuel.¹⁴

From all indications, aside from Benedum's initial meeting with Standard Oil, Doheny made all of these contracts on his own. In fact, he and Benedum parted company immediately after their fight outside of Rog-
ers's office. Soon thereafter, Benedum and Trees sold out their stock in Doheny's company and struck out on their own, taking their profits and the first-hand information they had gained about Mexico with them. They capitalized on the experience the next year when they put together the Penn-Mex Fuel Company. And true to form, they sold a majority of the stock to Standard Oil through the South Penn Oil Company. With those connections, Penn-Mex advanced rapidly over the next few years to become the third largest oil company in Mexico, behind Mexican Petroleum and the Mexican Eagle. In the end, had he not needed financial help from all quarters, Doheny might have complained that Benedum and Trees took advantage of him from the beginning.15

The total of the cash advances on the contracts, the sale of preferred stock to Benedum and Trees, and an additional sale of over 20,000 shares of common stock on the Los Angeles Stock Exchange produced about $1.75 million, barely enough to complete the Huasteca pipeline and begin work on the storage tanks. To make up the shortfall and keep from assuming more debt, a committee of the largest stockholders decided to pass the dividend on the common stock for the next six months, and possibly for the rest of the year, which would generate another $600,000 to $1.2 million for expansion. Actually, the bulk of the company's earnings had been going back into capital improvements anyway, although they returned $3,239,969 on the preferred stock from February 1907 to March 1911. The common shareholders bore the burden of expansion, except for $305,241 paid out in dividends in 1910. Ultimately, however, even these efforts proved inadequate.16

To finally put the company on a strong financial base, Doheny went to New York in the spring of 1911 to ask for a $12 million line of credit from the investment bankers at William Salomon & Company. The money would be used to consolidate the outstanding bonds, buy back the Huasteca participation certificates (which cost the company $2,800 a day), and purchase a small fleet of tank steamers. To investigate the proposal and value the assets of the Mexican Petroleum Company, Salomon sent Ralph Arnold, a young consulting geologist from California who had worked for the U.S. Geological Survey, to Mexico in June. Arnold and his assistant, V. R. Garfias, made a thorough examination of the property and came back with an estimate so low that it almost ruined Doheny's plans. Specifically, Arnold was unwilling to credit Mexican oil lands with more potential than what he could see in front of him. The current state of geological knowledge about the Mexican oil fields was extremely limited, and Arnold had little to go on except his observation that "no commercially productive
well has been drilled farther than one-fourth of a mile distant from some sort of surface evidence such as seepages, asphalt deposits or gas emanations.” Arnold did not assume that no wells would be found in the outlying areas; he just refused to credit them with anything but nominal value until proven. However, he seemed to take caution a bit too far by categorizing probable oil land within a quarter-mile of a surface indication as “speculative,” making his estimates particularly low. He valued the Ebano and Casiano fields at $1.2 and $2 million, respectively, and credited $9.5 million for seventeen other probable sites combined. After accounting for the pipelines, refinery, oil camps, and storage facilities, Arnold estimated the value of the company at $20,122,817.

Doheny was justifiably frustrated, if not angered, by Arnold’s “ultra-conservative” appraisal. And it was certainly true, as he noted, that since the Huasteca company made forty-one cents a barrel profit from its current sales, the proceeds from Casiano No. 7 alone would exceed Arnold’s estimate in less than six months. In his rejoinder, Doheny wrote that “we not only do not accede to the approximate valuation given to the properties, but we do not agree with the opinion of the geologist as to the area of land, at the different localities, which will prove to be oil-containing.” Then, Doheny invited the bankers to come to Mexico and judge the property for themselves.17

At least a dozen East Coast financiers accepted his offer and descended on the properties of the Mexican Petroleum Company in the fall of 1911, with a number of geologists and oil experts in tow. By the end of December, a new appraisal was submitted by Dr. I. C. White, the state geologist for West Virginia. Previously, White had earned widespread acclaim as the main proponent of the anticlinal theory of oil and gas accumulation, which fundamentally proved the value of geological knowledge in hunting oil. In Mexico, where the sources of oil were more obvious, White followed the same procedures he had used to determine the value of Pennsylvania oil lands, where proven oil property sold for $800 to $1,000 per barrel of daily settled production—an amount which returned two or three times the initial investment. To ensure that his Mexican estimates were “entirely within conservative lines,” White reduced this figure to $300 per barrel, although that still left his numbers four times greater than Arnold’s. As for the prospective oil lands, White calculated the original cash value of the Ebano field at $6 million and used that number as the basis for everything else. But to be absolutely certain of his estimates, he assumed that only half of the thirty undeveloped properties would prove viable, and then he further reduced all of his figures by 40 percent to come up with a final value
Creating an International Oil Company, 1912–1915

of $50 million for the probable oil lands alone. Excluding both the Mexican Asphalt Paving and Construction Company and the Mexican National Gas Company, White believed that the Mexican Petroleum Company was worth $73,624,000.

For Doheny, the disparity between Arnold's nominal value for prospective oil land and White's $50 million was the difference between success and failure, and the West Virginia geologist was duly enshrined into the pantheon of company heroes for his faith in Mexican oil. Incredibly, even White's conservative estimates grossly undervalued the potential of the company, given that the largest oil well in the world, Cerro Azul No. 4, would be located on one of those prospective properties four years later. But White at least hinted at such a possibility in the final comment of his report: "The Mexican oil fields," he concluded, "appear to be the greatest and richest the world has ever seen."18

White's declaration still did not make instant believers out of all of the bankers, but it did confirm the belief of George G. Henry, Doheny's major ally. Henry, a former vice-president of the Guaranty Trust Company, was Doheny's only friend on Wall Street in 1911. Barely thirty years old, Henry was young and ambitious, and he recognized an opportunity in Mexican oil when everyone else hesitated. Doheny recalled that, after he had made his initial pitch to the young banker, Henry was able "to pierce through the veils of ignorance, of novelty, of doubt." Doheny added that, "where others had been blind, George Henry saw." For the next six years, until his death in 1917, Henry guided all of Mexican Petroleum's financial arrangements as Salomon's representative on the board of directors.19

For their initial transaction, Salomon & Company underwrote a $4 million bond issue in early April 1912, which paid down the existing debt and put a million dollars into Mexican Petroleum's treasury for future needs. Then, on April 20, 1912, the bankers placed the company on the New York Stock Exchange. As one of the first oil companies to be accepted on the exchange, "Mexican Pete" (listed as Mexpet) was an instant success, and over the next decade it became one of the most heavily traded stocks and a bellwether for oil shares in general. The dramatic political events occurring simultaneously in Mexico during this period also made it the most volatile issue on the market.20

This situation began in 1908 when Porfirio Diaz announced that he was going to retire after more than two decades of dictatorial rule. Having raised the hopes for democratic reform among Mexicans of all classes, Diaz dashed them again when he reneged on his promise to allow an open presidential election in 1910. Instead, hoping to cut short an incipient political
reform movement, Díaz jailed his chief rival, Francisco Madero, and had himself reelected in another staged contest. Madero was released on bond and fled north to San Antonio, Texas, where he prepared for an open rebellion against the Díaz government, ultimately forcing the aging dictator from office in May 1911. Díaz took refuge in France but left behind a fractured and divisive atmosphere among his opponents. An interim government took over after Díaz's departure and held another election in the fall, which Madero won by a wide margin.

When Madero assumed office as the new president of Mexico in November 1911, his triumph unwittingly set the stage for several years of bloody fighting, as an array of ambitious regional leaders, disgruntled military officers, and angry peasants rose up against him from all sides. Although no single group had the power to overthrow the central government, their competing demands robbed Madero of any chance to consolidate his position. The oil companies were rumored to be part of this process, and the Standard Oil Company, the “Lucifer of the corporations,” was under suspicion of having conducted an anti-Díaz propaganda campaign because of his opposition to the oil trust. Supposedly, Standard hoped to soften up American public opinion to accept a new government in Mexico.²¹

Although Wall Street avoided taking sides, the political turmoil in Mexico threatened to shake up the market when Mexican Petroleum appeared on the New York Stock Exchange in the spring of 1912. While the mixture of revolution and profit-taking inherent in Mexpet stock kept some investors at bay, the added risk made it all the more enticing for others. According to one market analyst:

If any recent tip has been more widely circulated than the advice to buy Mexican Petroleum common I do not know of it. Both in and out of the street the advice has been given to “load up,” and, judging by the extent of recent transactions, that advice seems to have been taken by a considerable number of those who have received it. It takes courage in these days . . . to commit oneself to an investment based on property in that country. Not only that, it requires an unusual combination of optimism and courage to inaugurate a market campaign in a security of this kind at a time when holders of some Mexican securities are suffering a loss of income as a result of the disturbed condition in that country.²²

Obviously, Doheny had little choice about the timing, but he did not believe the situation would last very long or threaten the foreign companies operating in Mexico. Like most Americans, he underestimated the level of
political disaffection in Mexico and was overly optimistic about prospects for peace. Mexpet's record on the Los Angeles exchange reflected this general attitude, since the value of the common stock more than doubled over the course of the Madero rebellion. And confidence ran so high among American investors in the summer of 1911 that many believed the revolution was "now probably a thing of the past." Other observers attributed Mexican Petroleum's continued advance through the beginning of 1912 to Madero's ability to "run his government with a firm hand and also to the high character of the principal American operators in the field and the moral influence of their financial strength." This faith in the Mexican government slipped a bit when Madero's countermeasures proved to be feeble efforts in comparison to those of his predecessor. "Madero," wrote the Oil Age, "is too gentle a ruler for the turbulent breeds whom Díaz ruled with an iron hand; but it is hoped that the federal forces may yet be able to bring about peace."  

More troubling was Madero's intention to tax foreign businesses in Mexico, especially the oil companies. Industry spokesmen responded to the prospect of reform with preemptive arguments against the need for a fundamental change in Mexican society and government. These sentiments revealed an underlying fear of the future without the immutable rules of the Díaz era: "[The oil companies] are aware that they have obtained valuable concessions in a foreign country without much trouble and on liberal terms and they are willing to accede to what is just . . . [however] it is by no means likely that the matter of taxation would have come up even now had it not been for the revolution. Things had been running along smoothly under Díaz, at least as far as the companies were concerned. There had been no need for special taxation on the oil industry. With the revolution everything was changed."  

Even appeals such as this, however, failed to have an impact, and Madero insisted on a petroleum tax of at least three cents a barrel. The oil companies grumbled about the precedent but admitted that any tax up to five cents a barrel could be absorbed without effect. In this instance, Madero's halfhearted attack seemed like a prudent decision not to kill "the goose that laid the golden egg."  

Nevertheless, as the reports of chaotic conditions in Mexico grew more insistent by the summer of 1912, it was difficult to remain calm. For the most part, the oil press dismissed alarmist opinions with assurances that Madero would "eventually hunt down the last insurrecto and establish a stable government." And the oil companies themselves continued to "pursue their way calmly and confidently." Although the oilmen did not
complain too loudly about the limited demands placed upon them by the Madero government, they recognized that the altered political environment after the overthrow of Díaz contained the seeds of a more forceful reaction against the foreign oil companies. For the time being, they were thankful for what they had gotten.26

However, as Madero tried to assume the mantle of power as a moderate reformer, he became the first victim of change. Madero lacked both the charismatic appeal and the military muscle needed to hold the country together, and he was also unable to recognize the political enemies who were operating within his own administration, including close advisers, military commanders, and even the Ambassador of the United States. As one historian concluded, “All, save Madero, must have gagged on the stench of treachery.” It was not surprising, therefore, that fifteen months into his presidency Madero was removed from office by General Victoriano Huerta, one of several military holdovers from the Díaz administration. What was shocking, however, was Madero’s assassination outside the gates of the federal prison in Mexico City on the night of February 21, 1913.27

As so often happens in such circumstances, Madero achieved the kind of stature in death that had eluded him in office. As a martyr to the cause, his name became a rallying cry for the competing factions to take arms against General Huerta and the threat of another iron grip on Mexico’s political future. Unfortunately, the reaction against Huerta was yet another temporary union among predominantly local and often antithetical factions. When that coalition broke apart, it resulted in a civil war that took several years to run its course.

Although the oil zone sat to the side of the major theater of military operations, Tampico and the surrounding oil camps were a financial magnet for both the established government and the local rebel groups, who needed money and supplies to keep their troops in the field. As the revolution progressed, the oil companies endured successive rounds of federal and state taxes on production and exports as well as random forced loans and protection payments extorted by enterprising rebel organizations. To head off the “destructive tax legislation,” in June 1913 the oil companies formed the Mexican Oil Association, headed by C. W. Hayes, vice-president of El Aguila, to negotiate their position with the Huerta government. Although the Penn Mex and the East Coast Oil Company joined this effort, Doheny was conspicuously absent, perhaps because the Association only succeeded in calling greater attention to the industry.28

Fortunately, the same economic factors that made the oil companies
such an attractive target also made them immune to wanton destruction, since no Mexican leader could afford to choke off a steady source of income. The United States government also refused to sanction military intervention on behalf of the American oil companies, although company representatives used the threat of such action in dealing with the Mexicans. Under the circumstances, very little physical damage occurred in the oil fields, but they became an important element in the ideological war over the role of foreign business.

Yet the sporadic rebel attacks in the oil zone were not inconsequential. They slowed down the growth of the oil industry, frequently interrupted field work, and occasionally forced oil camps to shut down for their own protection. And each occurrence sent out waves of fear that reached both Washington and New York. Naturally, reports of random violence eroded the former sense of confidence that the oil zone would be spared the ravages of civil war. This change in attitude was most apparent on the financial market, where the fluctuating value of Mexpet shares served as a barometer of anxiety about the safety of the oil wells. After reaching a high of $84\frac{3}{4}$ in the fall of 1912, Mexpet common dropped to $44\frac{3}{4}$ a year later. Thereafter, the stock wavered in response to every crisis but fell to its lowest level when Doheny and his directors decided to suspend the quarterly dividend in November 1913 because of their own uncertainty about the political situation in Mexico. To no one's surprise, Mexican Petroleum stock dropped another twenty points in four days of panic selling and continued to fluctuate by almost that much in an afternoon, depending on the conditions.

The first mention of serious trouble in the oil region came in May 1913, when anti-Huerta raiders on the Gulf Coast burned the railroad bridges between Tampico and Monterrey to cut off transportation links to the United States and telegraph lines to Mexico City. Another group tried to intercept the pay shipment to Ebano but had to settle for a few hundred dollars and a complement of horses, saddles, and rifles taken from the camp. Similar incidents occurred across the oil zone, raising fears about an impending attack on Tampico. Sure enough, a rebel group infiltrated the city on December 10 and fought with federal troops before retreating into the countryside three days later. Expecting the worst, about 500 American residents took shelter aboard American warships anchored in port. In this instance, the federal troops managed to drive off the rebels without incident. While the government soldiers often appeared totally inadequate to the task, they were still the only security Americans had against the rebel forces, and thus far no foreigner had been harmed, and no oil company
had sustained any property damage. But President Wilson jeopardized that protection when he made it clear that he had no intention of recognizing the legitimacy of the Huerta regime, despite the fact that other nations had already done so. His decision came as a major blow to the Mexican Petroleum Company and other businesses that were solely dependent on federal troops to guard their interests in the field.

In light of this attitude, the real concern for the oil companies was to avoid getting caught on the wrong side of any particular engagement, leaving them to deal with each situation as circumstances warranted. This was a strategy for survival, not for making friends, and it often led to simultaneous alliances with one group in Tampico and another in the oil fields. In March 1914, for instance, Herbert Wylie and his nephew, J. Oswald Boyd, the superintendent of the Ebano camp, could not return from a trip to California because of unfriendly relations with the rebel troops in Tampico after they allowed government soldiers to stand watch over the company’s oil properties. And this was not the first time Boyd had been advised to beat a hasty retreat “as a matter of wisdom.” With the formal recognition of General Huerta in doubt, the situation grew even more ambiguous. Over time, however, the ad hoc policy allowed for a subtle interplay between contending sides which proved more effective than relying on either the Mexican or the American government for protection. Besides, it was apparent that any appeal to President Wilson was likely to fall on deaf ears.\footnote{30}

This did not mean that Wilson had no intention of intervening in the Mexican situation; he just refused to do so on behalf of American business interests. Instead, Wilson based his opposition to Huerta on personal distaste for the general’s complicity in Madero’s murder. Wilson declared in private that he would never “recognize a government of butchers.” This attitude had a profound effect on American policy over the next year and resulted in a diplomatic stalemate between the United States and Mexico, as other nations recognized Huerta’s de facto control while Wilson waited for an opportunity to get rid of the man. From his perspective, Wilson was engaged in a type of moral diplomacy which gave him the right to intervene at any point to plant the seeds of democracy.\footnote{31}

Wilson thought he saw such potential in the reform movement of Venustiano Carranza, the governor of Coahuila, who had assumed nominal control of the rebel forces in Mexico. Carranza came from an established family, had a good education, and projected a studious persona guaranteed to catch the eye of the American president. Wilson was particularly beguiled by the “Constitutionalist” banner under which Carranza waged war
against the Huerta dictatorship, calling for free elections and a popularly constituted government. But Carranza’s hold on the rebellion was tenuous at best, and his position at the head of the movement was under attack by Francisco “Pancho” Villa, the wily guerrilla leader from Chihuahua, and Emiliano Zapata, the champion of the peasant rebellion in the central state of Morelos. Still, Carranza’s success represented the best chance for positive change in Mexico, and Wilson was determined to help, despite a warning from Carranza that any intervention by the United States, regardless of its motive, would be judged a hostile act.  

Undeterred, Wilson seized upon a minor diplomatic squabble involving Mexican troops and American sailors at Tampico in April 1914 to manufacture an incident worthy of a military reprisal. Admittedly, Wilson told a reporter after the fact, “it was a psychological moment” and not a great crisis, but that was all he needed. The American community in Tampico at first prepared for an invasion, after the senior naval officer in command announced an attack, but then was left confused and frightened when he changed his mind and aborted the evacuation of more than a thousand Americans from the city. A week later, ostensibly to stop the flow of arms—headed to Huerta’s forces—into that port, Wilson decided to send troops ashore in Veracruz rather than in Tampico. With that campaign underway, the Navy ordered its three gunboats out of the river at Tampico to keep them free from attack, leaving the American civilians to fend for themselves and their property.  

The worst moment came when a crowd of enraged citizens surrounded a local hotel and threatened the 150 Americans holed up inside. They were saved by an intrepid German commander who intervened on their behalf. With the help of British and German ships, along with the private vessels of some of the oil companies, including Doheny’s private yacht, hundreds of American refugees made it out of the city and onto the American gunboats in the Gulf. As if their ordeal had not been bad enough already, the refugees were then evacuated to Galveston against their will, where they sat in bureaucratic limbo for a month before they were allowed to return to Tampico. “The feeling of every American coming out of Tampico,” as one survivor testified later, “is that he was deserted by his country.”  

When the whole affair was over, Tampico was in the hands of the revolutionary forces, and the Americans were left to deal with a group of people whom they alternately feared and ridiculed. The rebel troops guarding the Huasteca terminal station, for example, lacking the accoutrements and demeanor of trained soldiers, were described in the oil press as little more than “comic opera pirate[s].”
On a larger scale, the invasion and occupation of the port of Veracruz allowed the United States to take false credit for Huerta's resignation in July 1914. But a protracted battle of wills between Wilson and Carranza over the ultimate withdrawal of American troops went on for months. By the time the marines left in November, the rebel forces had splintered into contending factions, leaving Carranza's leadership as First Chief of the revolution in doubt and Wilson's objective of free elections in shambles. Furthermore, the intervention heightened tensions between Americans and Mexicans of all political persuasions and threatened to create an anti-American backlash that had not been present before. Still, there was little agitation against foreign business in Mexico and no evidence of any "long incubating resentment against American economic interests." 

Wilson, like most progressives, defined the enterprises he would support according to his own moral calculus and had no use whatsoever for the oil companies. Commenting on the causes of social unrest in Mexico, Wilson criticized the foreign business community in general for wielding disproportionate power, thereby creating the conditions for revolution. But he went out of his way to disparage American interests, in particular: "I shall fight every one of these men who are now seeking and who will then be seeking to exploit Mexico for their own selfish ends. I shall do what I can to keep Mexico from their plundering. There shall be no individual exploitation of Mexico if I can help it." 

In June 1914, Doheny responded to these attacks in his annual message to the stockholders of the Mexican Petroleum Company by dismissing the allegations of exploitation leveled against the "grasping corporations owned and controlled by foreign capitalists." Referring to his initial acquisition of oil land in 1900, Doheny assured his shareholders that he had never stolen anything from the Mexicans. On the contrary, he maintained, "every land owner who sold us land during the early years of our operations was the envy of his neighbors, and was convinced that he had made a good bargain." Furthermore, Doheny stated that he had paid at least the going market rate—and usually a lot more—for every acre of land the company owned and that, during those negotiations, the Mexicans had been "shrewd traders" capable of dealing sharply on their own behalf. They had not been hapless victims of his personal greed. Doheny pointed out that his Mexican attorneys, who doubted the success of his oil business, thought he paid far too much for the land. Certainly, Ralph Arnold would have agreed with them. 

Doheny also attacked the idea that all foreign companies exploited Mexican workers and treated them with contempt. Without denying that
such abuse occurred in many organizations, he blamed it on an erroneous stereotype of the Mexican as an indolent peon who needed to be pressed into service. From his own experience, Doheny considered native workers to be very satisfactory employees who performed “with as much fortitude and much more good humor” than their American counterparts. And in return for their dedication and loyalty, the Mexican Petroleum Company paid its Mexican employees twice the standard wage for industrial labor. In addition, he continued, the company provided adequate housing, modern sanitation and bathing facilities, and schools for the children, and it also prohibited consumption of alcohol on company property. Mexican Petroleum also maintained a store to provide basic foodstuffs and necessary items for the oil workers, and, although such company stores were generally notorious for overcharging workers and stealing business away from local merchants, Doheny emphasized that the Mexican Petroleum outlet did not sell goods at a profit and stocked only daily necessities. Wherever possible, he wanted his workers to spread their bimonthly wages among the local shops and businesses as a boon to the local economy.

Doubtless, Doheny painted the rosiest picture he could of labor conditions, but there is no denying that his companies provided a relatively decent working environment. In particular, the oil company employees fared much better than those in the mining industry, where conditions ranged from barely adequate to deplorable. But the well-ordered world that Doheny described was not the norm, either, for the petroleum industry by 1913. The first generation of oil workers, who had moved from the hacienda to the oil camp, did not experience an abrupt change in lifestyle or habits. In the beginning, the company was not yet on a rigid work schedule, and workers had some control over their daily activities. These allowances disappeared, however, as the company put its five oil camps, refinery, and loading wharf into full operation to meet the demands of a fully diversified industry. Large-scale oil production for export necessitated a highly stratified, time-conscious labor system that led to increasing discontent from the native work force.39

At that point, workers chafed under an economic system that gave the highest rewards to the foreign employees and a small core of skilled Mexicans. For the most part, the common workers were left with little in comparison. Over time, most Mexican oil workers, skilled and unskilled, began to see themselves as being caught in an ever-tightening economic vise, as the rampant inflation of the oil zone and the precarious nature of industrial life combined to erode any sense of security. They eventually solved the problem through unionization, which gave the oil workers an
opportunity to link up with the larger political elements of the revolution. Obviously, Doheny did not concede any of these factors in 1914, and the argument over the impact of the foreign oil companies on Mexico has continued unabated.\(^{40}\)

It is enough to point out that the economic significance of the oil industry in Mexico became all the more apparent as the corrosive effects of the revolution ate away everything else around it. And during the darkest days of the conflict, the oil companies represented one of the only bright spots in the economy. Incidentally, Doheny received an unusual testimony to this effect in a poignant letter from Porfirio Díaz Jr., written from his home-in-exile in France in 1915: “Some time ago I wrote to our friend Mr. Norman Bridge telling him that owing to the difficult circumstances in which I find myself on account of the dreadful condition of my poor country, I am now obliged to sell my shares of the Mexican Petroleum (preferred). The little I had in Mexico has been either stolen, dreadfully damaged or ruined by the bandits, and of what is left, nothing produces, and for my living I am compelled to sell the only [thing] that has been left, that is my shares.”\(^{41}\)

Without question, even under the worst conditions during the initial period of civil war, the Mexican Petroleum Company continued to earn a reasonable return despite losing much of its domestic business. The railroads, in particular, suffered repeated attacks by rebel bands who tore up the tracks and destroyed rolling stock. Internal conditions on the Mexican railway system were so bad that the National Railways took as little as 400,000 barrels of oil on their yearly contract of 3.5 million. The total sales of Mexican Petroleum during the first years of the revolution were as follows: 8,662,700 barrels in 1912; 12,325,228 in 1913; 8,231,348 in 1914; and 6,287,528 in 1915. The company also experienced a 22 percent drop in export sales, from 7,602,058 barrels in 1913 to 5,933,488 in 1914, and a further decline of almost 25 percent, to 4,457,147 barrels, in 1915.\(^{42}\)

With the exception of the National Railways, most of these reductions in sales came from conscious corporate decisions to curtail activity in response to increased disturbances in Mexico. According to Doheny, those conditions “caused the management to refrain from extensive contract undertakings,” which included not renewing several agreements that expired in 1913 and 1914. This was due in part to fears that shipments could be cut off at Tampico at any time and also because the company lacked sufficient storage facilities outside of Mexico to ensure a safe supply of oil for its customers. It also had to do with the political situation itself, since in
April 1915, an unidentified official of Huasteca Petroleum, presumably Herbert Wylie, stated that, for the past two years, "we have been marking time, so far as taking on any new or large contract is concerned, preferring to run along as we were, rather than to direct attention and possibly invite hostile attacks by too big a showing of business and earnings." Although these deliberate reductions represented a significant percentage of oil sales, the company still earned a profit each year. But the disposition of those funds further underscored the extreme caution taken by the management after 1913. Net profits for the years 1912 to 1915 were $2,849,771 for 1912; $5,182,767 for 1913; $2,718,021 for 1914; and $2,888,101 for 1915. Of these amounts, the company returned in dividends $1,923,545 in 1912 and $2,173,100 in 1913, or roughly 67 percent and 42 percent of net income, respectively. After suspending dividend payments for the next two years, the company had $11,260,808 in total surplus (cash and investments) by the end of 1915, or roughly twice the figure for 1913. And given the potential for chaos during the civil war, Doheny held an ever increasing amount of that money in a cash reserve that grew from $167,000 in 1913 to as much as $7 million by 1918.

Clearly, Doheny hoped to be able to cover any unforeseen disasters and to fund the bulk of his expansion plans entirely out of retained earnings. As it was, no emergency developed, leaving him with a margin of safety he had never known before. In general, these conservative policies won the company a solid reputation on the New York Stock Exchange and shares of Mexpet common increased in value after the initial shocks in 1912 and 1913. By employing sound business principles, as one director put it, Doheny finally proved "that the stock is an investment, [and] not purely speculation."

Now was the time to complete the plan for a large-scale transportation and storage network that was first begun in 1911. Since that time, there had never been enough storage to meet the capacity of the wells or enough ships to meet the demand of the Gulf Coast market. This left the major companies to fight over the available charter vessels. Doheny’s efforts to acquire the necessary tankers for the Mexican Petroleum Company were, he admitted at the time, "unremitting and unsuccessful." In the first months of 1912, for example, there were only six vessels available to carry oil out of Tampico: one small tanker belonging to the Texas Company, three British tankships, and two tank barges, one each from Germany and Belgium. Doheny chartered a British tank steamer to supply the Magnolia Petroleum company at Sabine, Texas, and filled a German ship chartered
by Standard Oil for deliveries to Perth Amboy, New Jersey. Various smaller shipments went aboard another British vessel to the Gulf Refining Company at Tampa, Florida.\textsuperscript{46}

In March 1912, Doheny placed his first order for two large tankers for the Huasteca Petroleum Company from an English shipyard. Later that year, he incorporated the Petroleum Transport Company (of Maine) to take over the shipping operations and contracted for more tankers and oil barges. The Huasteca Company’s first big ship, the \textit{Herbert G. Wylie}, arrived at the Gulf Refining Company dock at Port Arthur, Texas, with its initial load of oil in February 1913. Wylie, who was on board for the maiden voyage, announced that the company was ready to enter the marketing end of the business with full force and was not confining its efforts to any specific area: “The Huasteca Company will sell oil and deliver it wherever profit is visible. I consider the European market attractive, and while I am not saying that our fleet is being assembled for any particular line of distribution, yet I will say that the European market for Mexican crude is attractive and the Huasteca Company is selling oil.”\textsuperscript{47}

Before Doheny could extend his reach that far, however, he had to complete the existing work on plans for a distribution network in the United States, which included a number of sales outlets along the Atlantic Coast and an American refinery. He paid for it by selling another 14,660 shares of common stock instead of tapping the company’s well-stuffed surplus account. In searching out potential sites, Doheny and Canfield had investigated the oil terminals along the Texas and Louisiana coasts in 1912 and finally settled on the old Destrehan Plantation on the Mississippi River, twenty-two miles above New Orleans. As the location for a new refinery and storage depot, Destrehan had many advantages. In particular, the property had more than a mile of river frontage and extended back far enough to reach the tracks of the Illinois Central Railway, providing direct access to markets throughout the southeastern and midwestern states.

Doheny’s new 6,000-barrel-a-day refinery specialized in Mexpet (also a brand name for Mexican Petroleum’s products) road oil and asphalt, which were marketed from a southern sales office in New Orleans. Mexpet road oil was sold primarily to cities and railway companies that used it to control the dust along their lines. The asphalt needed no introduction, since it had been used for years on the East Coast with excellent results. Within a short time, the company was making deliveries as far north as Milwaukee, and in 1915, it added another station at Tampa, Florida, which included facilities for bunkering large ships and served as a distribution center for rail deliveries from Destrehan.\textsuperscript{48}
Creating an International Oil Company, 1912–1915

To promote its operations along the eastern seaboard, Mexican Petroleum set up a main sales office in New York City and smaller outposts in Boston, Portland, Maine, and Providence, Rhode Island. Since oil was cheaper and cleaner to use than coal, this area became a prime location for securing industrial customers. In Portland, the largest purchaser was the International Paper Company. In Providence, the Jenckes Spinning Company kept Mexpet’s three delivery trucks busy throughout the day. Mexpet also had smaller contracts with the American Woolen Company, the Manville woolen mills, D. Goff & Sons textile mill, and the Loutitt Home Hand Laundry Company.

Apart from economy, the conversion from coal to oil provided unique benefits to each of these customers. Goff & Sons, for example, ran their boilers at full capacity only for half of the day but needed a minimum level of steam around the clock. Previously, the coal fires had to be banked at night, which consumed fuel during non-production hours. Converting to oil allowed the company to shut the burners off completely, except for one fifteen-minute interval, and still maintain the required amount of steam without any waste of fuel. Abandoning the use of coal at the laundry achieved a minor revolution by setting loose for other tasks a large group of workers who had been needed to pick the soot off the collars and clothes handled at the plant.

To control these northeastern marketing and distribution centers, Doheny organized another subsidiary in 1915, the Mexican Petroleum Corporation of Maine. That company took over the existing outlets and added one more—at Carteret, New Jersey, located along the west side of Staten Island Sound. There, they constructed an oil storage depot and a large deep-water wharf capable of handling ships of any size. In addition, they employed a fleet of tugs and barges to supply Mexpet fuel oil to ocean liners at their respective piers anywhere in New York Harbor. By the end of the year, Doheny had fuel oil contracts with the International Mercantile Marine for its ships going from New York to California via the Panama Canal and with the Eastern Steamship Company for several of its lines, as well as a large contract to deliver crude oil to the Atlantic Refining Company in Philadelphia.49

Negotiations for transatlantic business began in the spring of 1914, when Doheny met with Lord Pirrie, Chairman of the Board of Harland & Wolff, one of Britain’s largest shipbuilding and engineering firms. Pirrie headed an investment syndicate representing almost all of the major companies: Cunard, White Star, American, Red Star, Atlantic Transport, Dominion, National, and Leyland. And these organizations represented
dozens of smaller steamship lines around the world. In April 1915, Doheny and Pirrie agreed to form the British-Mexican Petroleum Company to handle fuel oil sales in western Europe. This was an incredible opportunity, since the British investors involved were linked to a variety of manufacturing and railway enterprises in addition to their shipping interests. Although the first draft of the incorporation papers was ready by the summer of 1915, the agreement had to be put on hold when World War I diverted everyone’s attention, and the company did not begin operations until 1919.50

The ability of the war to alter present circumstances was particularly evident when Doheny, Herbert Wylie, and George Henry returned from England on the final voyage of the Cunard liner *Lusitania*, before it was torpedoed by a German U-boat on May 7, 1915. During the trip, Doheny was still conducting business as he and Wylie inspected the *Lusitania*’s engines and boiler rooms in preparation for turning it into one of the first commercial vessels to burn oil. Doheny then outlined his plans for the British-Mexican company to Leonard Fanning, a well-known journalist for the oil press, as the *Lusitania* steamed into New York Harbor for the last time. Fanning wrote that two English companies would be formed: one to build tank stations and refineries throughout Europe and another to handle oil deliveries from Tampico. The Mexican Petroleum Company had a half-interest in the latter and a one-third share of the refining and sales operation. Mexican Petroleum would also receive a twenty-five-year contract for crude oil as soon as the parties signed the agreement.51

Doheny explained these arrangements to his stockholders a few months later and gave some specific reasons for taking the company’s business so far afield. First of all, Doheny believed that they now owned “the greatest of all oil properties” in the world, which had already produced 50 million barrels of oil from a handful of wells. And since so many other wells were either closed in or seriously cut back, production could be increased fivefold at a moment’s notice. This excess capacity demanded an extraordinary effort to find outlets for the oil. Ordinarily, Doheny would have preferred to push his operations in the United States, but he anticipated that the growing production from the mid-continent oil fields would choke off that option. The combined effect of these conditions, Doheny continued,

moved the officials of your Company to seek and develop a market for its petroleum-fuel product as largely as possible in an entirely new field, where it would not come into destructive competition with the production of other regions, but by supplying a new want, create a new and large
market for fuel-petroleum. Our new associates who own the patent rights for the construction of the most successful internal-combustion engine for maritime uses, and who also are interested in freight carrying vessels which ply the seven seas, have agreed to construct all their new boats as oil-users.52

He characterized the arrangement between Mexican Petroleum and the British investors as a coalition between the “most influential fuel-consuming interests of the world for maritime uses” and the “largest area of proven bonanza oil territory under one ownership and control.” Barring the intervention of “unforeseen insurmountable obstacles,” Doheny envisioned the creation of a market that could handle not just the output of the Mexican Petroleum Company but the surplus petroleum of the entire world. He concluded that the introduction of oil as a maritime fuel “will as surely revolutionize the character of ocean travel as did the introduction of steam displace, to an enormous extent, the sailing vessels of former times.”53

Although dramatic, the impact of liquid fuel on the maritime industry was actually a long time in coming, and serious efforts calling for the adoption of oil fuel on both merchant marine and military ships had been going on for at least a decade. Russian ships had started using oil in the 1870s, and the Shell Oil Company had been operating oil-fired tankers since 1900. Yet, by the summer of 1914, less than 5 percent of the world’s merchant ships used oil for fuel. At the same time, however, under conditions of war, the naval forces of both the United States and Great Britain were converting to oil burners as quickly as they could. Fuel oil solved the military’s need for speed, efficiency, and clean operation, while the continual sinking of coal-fired vessels cleared the way for modern oil-burners in the post-war years.54

As early as 1904, the United States Navy had released a report based on its own extensive experiments which detailed the superior results of fuel oil versus coal. But due to the unreliability of the supply, the navy had been unwilling to use oil except for “special purposes and in particular localities.” At the time, the navy concluded that the commercial demand for petroleum products was so large that only about 3 percent of the world’s requirements for marine (merchant and military) fuel could be offset by using oil. By the early 1910s, however, almost all of the military ships under construction had oil burners.55

The British Navy had been following the same path, and Weetman Pearson—now Lord Cowdray—made an aggressive bid to tie up his excess
production from Mexico with the British Admiralty. Like Doheny, Cowdray hoped that his newly founded Eagle Transport Company would capture a major share of the oil-bunkering business that was just beginning to refashion the maritime fuel industry. The sixty oil tankers under construction in Britain during the summer of 1912 provided evidence of this transformation.56

Naturally, both Doheny and Cowdray wanted to promote this situation with their respective governments. In December 1913, Cowdray even tried to get the Royal Navy to invest in the Mexican Eagle Oil Company. But British officials had no interest in propping up Cowdray's enterprise at a time when Mexico was in turmoil. Furthermore, the Wilson Administration was hypersensitive about British relations with the Huerta regime and looked upon the British government as a pawn of Lord Cowdray. Then, when the British acquiesced to American control in Mexico in November 1913, they had no desire to prove Wilson right by signing an agreement with the Mexican Eagle. Given these constraints, the British Admiralty turned to the newly formed Anglo-Persian Oil Company and signed a long-term contract for naval fuel in May 1914. In the meantime, the British purchased fuel oil from the United States, and especially from Texas distributors, to meet their current demand. While heavy Mexican crude offset these shipments, it did not meet British fuel oil standards on its own.57

Doheny also understood the importance of tying Mexican oil to the fuel requirements of the United States Navy and hoped to fund some of the expansion costs for the Mexican Petroleum Company through an arrangement with the government. In 1914, he made a proposal to the Navy Department to supply it with 7,000 barrels of Mexican crude per day at 40 percent below the market rate. In return for this discount, Doheny wanted a $2 million loan to purchase oil tankers and storage facilities in Louisiana or Mississippi. The navy declined the offer. But having already acknowledged a future dependence on oil, the federal government was also in the process of setting aside designated oil lands in the western United States for emergency use.58

In particular, the navy pinned its hopes for a future supply of petroleum on the control of public land in California. Unfortunately, the disposition of this land, withdrawn from the public domain in 1909 and 1910 and established as a naval reserve two years later, was already being challenged in federal court by the Southern Pacific Railway and a number of oil companies with prior claims to the property. Although the American Oilfields Company had a few leases in dispute, Doheny was only margin-
ally involved in these early fights, and there was nothing to suggest his later role in the controversy over the Elk Hills oil reserve. For the time being, he concentrated on the development of his other properties in California and Mexico and redoubled his efforts to promote the use of fuel oil as a vital component of both military and industrial efficiency.\textsuperscript{59}