Having completed the marketing arrangements for the Mexican Petroleum Company by the summer of 1915, Doheny was ready to push his way into the front ranks of the international oil trade. With the eastern half of the organization in place, he needed only to bring his California properties into the mix. Up to this point, Doheny had been forced to set aside his West Coast operations to deal with more immediate problems in Mexico—a surfeit of oil and an unsettled political situation. But as early as 1912, just before Mexico fell into the chaos of the post-Madero civil war, he made the first move toward a consolidation of his California businesses. Then, a few years later, as the dust of the Mexican revolution started to settle, Doheny made a bold move to take control of the California oil market. Although he ultimately failed in the attempt, the episode revealed much about Doheny's overall strategy and ambition, in which he employed methodical tactics in pursuit of almost limitless objectives.

He began in the spring of 1912, when he created the California Petroleum Corporation to recapitalize his West Coast operation. Although selling stock in the new holding company generated needed cash for Doheny, it also worked as a financial reward for the associates of William Salomon & Company, who had just finished placing the Mexican Petroleum Company on the New York Stock Exchange. And because a number of investment bankers and stock brokers made a quick profit floating California Petroleum, it received unwanted attention from the start. The details of the transaction were made public in a larger government investigation of Wall Street practices in 1913. Directed by Arsene Pujo, a subcommittee of the House Banking and Currency Committee took up allegations that a
“money trust” existed among the members of the nation’s financial establishment. Near the end of those hearings, the subcommittee called George Henry to testify about the mechanics of the California Petroleum deal as an illustration of the problem.¹

For the most part, Henry’s testimony confirmed suspicions that a few large organizations controlled and manipulated the stock market and the public’s money to their own advantage. In the case of California Petroleum, an original banking group made up of William Salomon & Company, Hallegarten, and Lewisohn Brothers paid Doheny $8,215,662 for approximately 175,000 shares of stock in the new company: 100,000 shares of preferred and 75,000 shares of common. Then, with Doheny out of the picture, Salomon distributed the issue in three phases. First, it sold $5 million worth of stock (50,000 preferred and 25,000 common) to a syndicate in London which listed Calpet (the trade name of the company) on the Paris exchange. Next, Salomon sold the same amount to a sub-syndicate made up of preferred customers in New York, Chicago, and Detroit, in which each participant received a specified allotment of shares to be purchased at $91½ for the preferred and $40 for the common. Finally, having earned $1,784,328 in cash from the preceding sales, Salomon held back 25,000 shares of common for itself as profit for putting the deal together.²

With the stock distributed in this manner, Henry directed the brokers at Lewisohn to make a market for the new issue on the exchange. They began by trading the stock at $40 to $50 a share on the curb market for the first week. Then, just before it went on to the big board, Salomon released an appraisal of the property, conducted once again by Ralph Arnold, stating that the stock was worth over $100 a share. Despite his earlier dispute with Doheny over the value of Mexpet properties, Arnold was still the leading geologist in California, and his opinion mattered. This time, he was genuinely enthusiastic about the new company.³

With this sort of advance billing, it was no surprise that Calpet had a sensational opening on the exchange, and it was all the brokers could do to hold back the tide and keep the stock from going up too quickly. As it was, it closed out its first day at $72, with a volume of 52,200 shares traded. Over the next three weeks, the entire issue turned over three times, with 362,270 shares traded out of a total of 105,729 shares outstanding. Lewisohn’s effort to place a floor under the stock accounted for most of those trades, and, between October 5 and October 21, the brokers sold 172,000 shares and repurchased 149,000. According to market experts, a firm could expect to buy and sell 100,000 shares of a new issue for every 20,000 it placed in the market.⁴
Samuel Untermeyer, a wealthy Wall Street attorney acting as counsel for the subcommittee, accused Henry of simply manufacturing a false market for the stock. As Untermeyer saw it, the brokers boomed the stock and then relied on a series of manufactured trades to drive up the price. To the contrary, Henry insisted that they had only been responding to inordinate public demand, not creating it, and that they had actually lost money trying to steady the price. To keep the stock in bounds, however, Henry admitted that they had someone on hand everyday to give “buying orders on a scale down and selling orders on a scale up.” Untermeyer interpreted this as a ruse to make the stock appear active; Henry considered it essential to “give the stock a real market.” In the end, the committee saw it as yet another example of “unwholesome speculation and manipulation.”

Regardless of the promotional activities of the investment bankers, the demand for California Petroleum was not wholly artificial. Certainly, based on the previous performance of Mexican Petroleum, a new Doheny company was bound to attract attention, especially when Mexpet common, which entered the market at $62 3/4 six months earlier, was trading at over $90 when Calpet first appeared. And, except for the Texas Company, whose stock was expensive and lightly traded, Doheny had the only oil stocks on the market. In general, as one writer explained a few years later, investors came to expect marvelous things from Doheny and claimed to see a special sort of luck where he was concerned: “Mr. Doheny goes in where good judgment justifies a reasonable expectation of success and comes out saturated with richness, staggering under a heaped up load of results . . . A truly scientific person would be compelled to define ‘Doheny luck’ as good sound sense plus a gorgeous abundance not anticipated.”

Doheny’s choice of an Irish shamrock for the Mexpet logo suggested that he, too, had come to believe in his own good fortune. But such confidence seemed misplaced in the case of the California Petroleum Corporation, which came together just as the oil market hit another downturn. Although it was never in financial difficulty, the company failed to meet the high expectations of its investors. A snapshot of the industry in July 1913 showed that Calpet’s producing subsidiaries, American Oilfields and American Petroleum, were among the strongest independents in the state. At that time, American Oilfields, which operated in the Midway oil district, was the largest and most important member of the Independent Oil Producers Agency. Of the 129 companies belonging to the Agency, American Oilfields alone produced 264,906 barrels of oil that month, or roughly 27 percent of the Agency’s total production. In comparison, the next largest
company was Nevada Petroleum, at 75,000 barrels a month, while the remaining companies averaged about 5,000 barrels apiece. The situation in Coalinga, where American Petroleum produced 186,317 barrels on contract with the Associated Oil Company, was not quite as strong. Still, American Petroleum accounted for 12 percent of the Associated's business. Overall, for the month under review, the combined production of the two companies made California Petroleum—at 451,223 barrels—fifth among the seven largest producers on the West Coast, after Union Oil at 843,871 barrels, Standard Oil at 751,906, Kern Trading and Oil Company (Southern Pacific) at 678,302, and Associated Oil Company at 564,840. Santa Fe (formerly a combination of Chanslor & Canfield Midway Oil and Petroleum Development) and General Petroleum Company were right behind, with 397,143 and 362,559 barrels, respectively.¹

Facing another oil glut, however, Doheny used the cash received from floating Calpet to build an extensive storage network and cut back production to just meet his contract obligations. Planning for the future, though, he continued to buy up prospective oil land outside of the San Joaquin Valley. In doing so, Doheny was able to open and close various fields according to the market and, thus, gain control of a strategic combination of proven, but undeveloped, properties. This left him free to rely on his long-term contracts to the Independent Oil Producers Agency and Associated Oil during the bad times, and to open up new “freelance” properties, outside the control of either marketing organization, when prices went back up.²

At the other end of the scale, the remaining members of the Agency were almost always out of step with the market. They sold oil at a loss during times of depression and produced too much when conditions started to improve. Although their ability to upset the situation at almost any point gave them a negative power, the small independents survived on the sufferance and superior market intelligence of the large companies. Supposedly, the IOPA had been formed to keep the independents in line, but the small producers defied efforts at full control and continued to pose a danger to themselves and to the fortunes of the state. For that reason, the worsening conditions in 1914 inspired another plan to reorganize the independent oil companies into a stronger combination.

This latest idea came from Mark L. Requa, a San Francisco mining engineer and president of the Nevada Petroleum Company. As a frequent writer and public speaker on oil issues, Requa was a well-known figure on the West Coast. He was also a long-standing critic of the small-minded
attitude of the independent producers. In fact, he wanted to get rid of them altogether. Outlining the problem to the assembled membership of the IOPA in July 1914, Requa was blunt, if not insulting:

I am telling no secrets when I say that to the average producer of oil a continuation of existing conditions spells ruin, nor do I exaggerate in saying that unless conditions are changed, the oil properties in the hands of the average small company are, relatively speaking, without value. We are exhausting one of the State's greatest assets without any adequate return... The individual producer, from early ignorance, creates a condition that spells financial suicide. He immolates himself upon the altar of his own ignorance and short-sighted avarice and blames his troubles, not upon himself, where they belong, but upon the marketing companies that merely buy his product at prices set by himself in competition with his neighbor.10

The marketing companies, by contrast, stood above the fray and prospered accordingly. The Agency, Requa believed, needed to do the same: “It seems to me obvious that we can do no better than emulate the example set for us. Let us determine the value of what we have and thereafter so weld together the various units... to reap the benefits that are justly ours.” But instead of relying on cooperative association alone, Requa proposed the creation of a new company made up of independent producers who would exchange their individual properties for stock in a new corporation. By cutting overhead and other duplicated costs, including the salaries of the people responsible for the crisis in the first place, the new organization would be able to approach Standard Oil, Associated Oil, and Union Oil on equal, if not better, terms. Of course, many people thought that it would be “utterly impossible” to convince the officers of the existing companies to give up their meal tickets for stock in the new corporation, but Requa believed they were facing a life or death situation that demanded a drastic solution.11

The first step, to which the Agency members reluctantly agreed, was to conduct a thorough appraisal of each member’s assets. Requa warned that “this valuing will mean a complete investigation of your records and the collecting of all available statistics concerning your property.” Unfortunately, despite fifteen months of work, Requa discovered that the producers did not have anything to reveal but their own incompetence; there was no reliable information about the historical development of the various California oilfields and almost no financial data for any particular organization. Of the 130 companies under review, no more than a half dozen
had adequate records. Despite his own suspicions, Requa was thoroughly appalled at the “dense ignorance” of oilmen about basic business concepts. Most of the independents did not even know how much it actually cost them to produce a barrel of oil, so it was a wonder that they had stayed in business as long as they had.\footnote{12}

In a previous investigation, Requa had determined that most California oilmen based their production expenses on the direct cost of pumping oil from an existing well, without considering previous outlays for exploration, the price of materials, or additional factors such as interest and depreciation. When those elements were added in, he estimated that the true cost of producing a barrel of oil was approximately thirty to thirty-five cents—almost as much as the normal bulk price for oil at the wells. Requa suggested that, by figuring costs the way they did, some producers were deliberately fooling the public about the health of their companies and living off of the lie. Thus, to rationalize the production cycle and promote the public interest, Requa became an early advocate for mandatory standards of cost accounting for oil companies.\footnote{13}

In the meantime, the best he could do was to assemble the accounting data and production curves for Doheny’s companies in Coalinga and Midway and extrapolate from them to find a suitable base for Kern River, Orange County, and a handful of smaller fields for which he had no information at all. By its very inadequacy, Requa’s valuation of the independents’ holdings reinforced his call for a massive reorganization of the Agency itself. Consequently, in 1915, Requa, along with L. P. St. Clair, the head of the Agency, and T. A. O’Donnell, vice-president of California Petroleum, met with W. L. Stewart, president of the Union Oil Company, to discuss a merger.\footnote{14}

Up to this point, Doheny had deliberately been absent from these discussions, although it became clear later on that, from the beginning, he and George Henry had been behind the effort to roll the independent companies into a competitive organization. In fact, in 1914, William Salomon hired Ralph Arnold to evaluate several potential combinations among Union Oil, Associated Oil, General Petroleum, and California Petroleum. While Doheny tried to stay out of public view for as long as possible, there was growing suspicion within the industry that he was the power behind the merger effort in California.

Thus, in line with Doheny’s plans, Requa hoped to purchase a majority share of Union Oil on behalf of the Agency. Instead, because of a number of intervening factors, he settled for an option on the United Petroleum Company, the principal holding company through which the Stewart
family controlled the larger organization. But there was trouble from the start when Andrew Weir, an English investor who owned a large share of the company's stock, opposed the deal. Weir was also a major shareholder of the General Petroleum Company, which was in serious financial trouble at the time, and his presence made for a messy combination of interests and personalities.\(^{15}\)

To complicate the situation even further, a group of disgruntled Union stockholders opposed to any merger filed suit in federal court to dissolve United Petroleum and wrest control from the Stewart family. The actions of this insurgent group, led by John Garrigues, the former treasurer of the company, threw a pall over any plans for the future. Garrigues was a strident critic of the Stewarts' management decisions and characterized Union's arrangements with the Agency as a series of "invidious contracts" that imperiled the health of the entire company.

O'Donnell recalled that Garrigues had repeatedly tried to browbeat and intimidate the Agency's executive committee during negotiations with Union Oil. And Garrigues was notorious for having made some statements about the Stewarts during a news conference that were so libelous that the local papers refused to print them. Not surprisingly, Garrigues interpreted the proposed sale of the company to Requa as an underhanded way for the Stewart family to inflate the value of its stock and cheat everyone else. Though the merger documents stipulated that all shareholders would participate in the deal equally, Garrigues managed to rattle the nerves of Union stockholders by bringing the legality of the holding company itself into question.\(^{16}\)

A similar, but less volatile, struggle occurred within the ranks of the Doheny organization as his participation in the California merger became better known. Doheny first tipped his hand in this regard in September 1915, when he informed the stockholders of Mexican Petroleum that he wanted to form a seven-year voting trust so that the company could take advantage of war-time changes in the European market. Ostensibly, a trusteeship made up of Doheny, Herbert Wylie, and J. M. Danzinger would better serve the interests of the company by being able to take immediate action without seeking stockholder approval at every turn. In the context of Doheny's simultaneous efforts in California, however, many shareholders interpreted the move as a possible threat to their capacity to control the future of the company. Just prior to the annual meeting in December 1915, anonymous petitions appeared in New York brokerage houses urging stockholders to hold firm against Doheny's proposal. Although these messages usually wound up in the wastebasket, they raised eyebrows about
management's plans. In the end, this short-lived rebellion was incon­sequent except as an indication that not everyone was comfortable with Doheny's ulterior motives.\textsuperscript{17}

The first public information about Doheny's intentions came to light on December 10, 1915, when he announced that he was forming a $100 million petroleum and transport company and that it would be the greatest enterprise of its kind in America. At this point, Doheny's efforts and those of the IOPA were finally recognized as one and the same. That revelation led to increased speculation among industry analysts that Union Oil, Associated Oil, and the General Petroleum Company would all come together under the Doheny umbrella, along with the Agency itself. At least W. L. Stewart confirmed that Requa's option for United Petroleum shares was on behalf of the new Doheny company. By the middle of January 1916, the \textit{San Francisco Examiner}, which had been following Requa's progress in some detail, reported that Doheny's Mexican Petroleum Company would be the nucleus of the largest oil combination in the world.\textsuperscript{18}

Apart from that with Union Oil, any direct connection with the other companies was less certain and subject to speculation. The clearest statement came from L. P. St. Clair, who confirmed the negotiations between the Doheny interests, Union Oil, General Petroleum, and the IOPA and claimed that "the situation looks encouraging for a definite conclusion of the transaction." The \textit{Wall Street Journal} was just as certain that the Associated Oil Company had to be included in any combination.\textsuperscript{19}

In support of that position, the \textit{New York Times} reported that Doheny held a short-term option on $20 million worth of Associated stock owned by the Southern Pacific Railway. But for reasons not stated, Doheny allowed the option to lapse at the end of the January. According to William Sproule, the president of Associated Oil, there was "absolutely no truth in the report that negotiations are in progress with Mr. Doheny or anyone else for a change in control of the Associated Oil Co." Nevertheless, a subsequent report noted that Sproule, who also had assumed control of the Southern Pacific in 1914, viewed the oil company as an unnecessary burden for the railroad and had been trying unsuccessfully to find a buyer.\textsuperscript{20}

At the same time, Requa's negotiations with Union Oil ground to a halt, after he spent a month in New York trying to work out an acceptable arrangement with an investment banking committee. Requa's option called for Doheny to make a $1 million cash payment toward the purchase of $4 million of United Petroleum stock owned by the Stewart family. United Petroleum sat at the top of a pyramided structure, where it controlled the shares of the Union Provident Company, which in turn
controlled the $34 million of outstanding stock of Union Oil. Perhaps the impending stockholder suit against this holding company arrangement caused Requa to give up his option before the deadline of February 15, 1916.21

By the end of 1915, there had also been a dramatic change in the West Coast oil market, which allowed Union Oil to earn a sizable profit for the year and quieted many of its critics. To their credit, the Stewarts took advantage of the situation to voluntarily dissolve United Petroleum prior to any court ruling and, hence, regained the support of most shareholders—except for Garrigues, of course, who was unceremoniously dumped from the board of directors along the way. In October 1916, a Los Angeles court formally ordered the liquidation of the holding company as an unlawful form of control, but by then the crisis had long since passed.22

For the first time in five years, oil consumption outpaced production on the West Coast, and the contract price rose above seventy cents per barrel. These improvements, coupled with the congenitally short memory of most oil producers, forced the marketing companies to shelve any merger plans for the moment. The members of the Agency, on the other hand, stuck with long-term contracts at less than fifty cents a barrel, did not see any immediate benefit from these changes. For that reason alone, Doheny was still planning to combine the members of the Agency into a single entity in order to eliminate the competitive deficiencies of the independent companies. But once having renegotiated their contracts at higher prices, the recalcitrant producers turned him down and voted to maintain the Agency as it was, with California Petroleum firmly ensconced at the center.23

In the light of improved conditions, Doheny's plans were seen as too ambitious and threatening to his fellow oilmen. No doubt, he had been thinking on a scale that challenged the imagination of his most ardent supporters and scared the devil out of his enemies. Had the merger gone through as planned, it would have been an amazing accomplishment. As of December 1915, the combined assets of California Petroleum, Associated Oil, Union Oil, and General Petroleum totaled $214,778,310. A company of that magnitude would have been more than twice the size of Standard Oil of California, which had $98,543,332 in assets, and roughly three-quarters the size of Standard Oil New Jersey, with $281,903,777. By adding the Mexican Petroleum Company to this California combination—at $63,051,445—to say nothing of the smaller members of the Agency, Doheny would have been able to compete one-to-one with the Rockefeller dynasty.24
In retrospect, Doheny might have been able to complete each of these mergers by taking them one at a time, but trying to capture three different organizations simultaneously was virtually impossible. Yet Doheny and Requa took advantage of a particular moment in the development of the California oil industry when such an idea was given serious consideration. Unfortunately, despite having purchase options for all the major prospects, they simply ran out of time before the market turned around once again, due largely to the unforeseen consequences of the war in Europe. In the end, Doheny accepted the circumstances in California for what they were and refocused his attention on Mexico, where he still had an opportunity to push his company to the forefront of the industry.

Even with his California plans falling down around him, however, Doheny still needed a way to consolidate his existing operation. To do that, he incorporated the Pan American Petroleum & Transport Company of Delaware on February 2, 1916. Although capitalized at $150 million, the company's initial capital stock was approximately $40 million, divided between $10 million preferred and $30,494,750 common. Acting as a pure holding company, Pan American Petroleum derived its income from its constituent companies in the following proportions: 45 percent of Mexican Petroleum common; 75 percent of Mexican Petroleum preferred; 97 percent of the Petroleum Transport Company common; 59 percent of Caloric Company common (a South American marketing subsidiary based in Brazil); 66 percent of Caloric preferred; and 100 percent of Buena Fe Petroleum, a small California subsidiary.

In return for financing this new organization, Wall Street gained a sizable constituency on the board of Pan American Petroleum. Doheny retained active control of the company's management, with 60 percent of the members of the board under his command, but investment bankers filled out the remaining positions. The outside directors included Thomas Cochran Jr., president of the Liberty Mutual National Bank; Edward R. Tinker Jr., vice-president of the Chase National Bank; Eugene Meyer Jr., of Eugene Meyer and Company; and two partners from William Salomon & Company.

In a letter to Salomon & Company at the time of incorporation, Doheny justified their faith in the new organization by claiming that Pan American Petroleum would soon control "the largest area of proven oil territory in the world under one ownership." As it turned out, this was no idle boast. In fact, just eight days later, the Huasteca Petroleum Company drilled in Cerro Azul No. 4, the largest oil well in the world at the time. In this instance, Doheny had literally been banking on the new well coming
in when it did, having drilled down to the cap rock the year before. At that time, the company suspended operations in the face of increased political turmoil in Mexico and did not obtain permission to resume drilling until after Carranza received de facto recognition by the Wilson administration in October 1915. Meanwhile, after gauging the pressure in the well, they knew they had another tremendous gusher on their hands when they went to work again in February.27

Doheny was so confident that the well would be a prize that he had a photographer camped out in the jungle with cameras, moving-picture equipment, and a portable darkroom to record the event. With everything in place, the drilling crew hit a large pocket of gas on February 9, which gave further indication of what was to come. Early the next morning, the bit plunged through the protective layer of rock, the drill cable went slack as the pressure of the gas lifted the tools back up the casing, and the well began to rumble and roar with volcanic ferocity. Taking that as their final cue, the drilling crew ran for their lives but managed to get only about twenty feet away before the well erupted in an explosion of gas that shot the 4,000-pound string of tools straight out of the hole. When they came down, they were 125 feet away from the well and a mere nine feet from the photographer, who, in an understandable moment of panic, missed filming the initial blowout.

Over the next few days, however, as the well spewed out a column of oil 600 feet into the air, the photographer captured the dramatic images of Cerro Azul that appeared under the caption “World’s Greatest Oil Well” in almost every major newspaper in the country. To celebrate the occasion, George Henry hosted a lavish dinner in New York in Doheny’s honor, featuring a motion picture of Cerro Azul blowing at full strength before it was brought under control. As incredible as it seemed, the maximum flow of the well was estimated at more than 260,000 barrels a day—more oil, as Herbert Wylie pointed out, than was produced by the entire state of California.28

Of course that much production, all at once, again overwhelmed the company’s infrastructure, despite its best efforts to prepare for a large well. In this instance, the crew had a complete valve system installed on the pipe before they drilled in the well and had storage tanks set up for a half-million barrels of oil. But when the gas pressure blew the drilling tools out of the well, they ripped apart the valve, the derrick, and everything else in the way. As a result, there was no way to shut in the flow, and the well ran wild for seven days before the crew was able to screw a new valve over the casing and bring it under control. In the meantime, they burned off what
excess oil they could while the rest overran the storage facilities and satu­rated the ground for two miles around the well. Other preparations paid off handsomely, however—especially the twin eight-inch pipelines from Tampico. Those lines had been only about fifty feet short of the well when the company suspended the initial drilling campaign in 1915 and were easily completed once the new gate valve was in place.29
Obviously, Doheny had been incredibly shrewd to have all of this work come together as it did, and, in his deliberate attempt to showcase the well, he even managed to have Dr. I. C. White on hand when Cerro Azul roared to life. As before, White had been chosen to appraise the property for the investment bankers, and he followed the same procedures that he had used four years earlier, allowing $300 a barrel for the settled daily production of the Ebano and Casiano properties and $500 a barrel for Cerro Azul. He raised the number for the new well because the old figures had been proven to be even more conservative than he had intended in 1911. Previously, White had appraised the Ebano field at $2 million and Casiano at $10,674,000. By 1916, however, those properties had already returned net earnings of $2,080,349 and $12,810,861, respectively, and were still producing oil at approximately the same rate without any water.

The prospects for Cerro Azul were even brighter, since White found that the basin around the well was ten times bigger than the one around Casiano and that the adjacent oil seepages were 100 times as large and much more active. Furthermore, White noted that Cerro Azul sat in the middle of a 52,000-acre tract of land that the company held in fee, unencumbered by government concessions. This virtually eliminated the likelihood of competitive drilling, since the nearest boundary line was more than five miles away. Taking all of these factors into consideration and using Casiano as a yardstick, White predicted that Cerro Azul would produce at least a billion barrels of oil.

Assuming a settled production of 200,000 barrels a day, White calculated the value of the new well at $100 million, or just ten cents a barrel for oil in the ground. White added $12.6 million to that amount for Ebano and Casiano combined and $19,721,000 for the remaining camp property, fixtures, and machinery. Because Cerro Azul by itself exceeded the value of White's previous estimate for all the undeveloped oil lands, he tripled his initial figure to arrive at $162 million for properties held in reserve. Consequently, according to these calculations, which were still relatively conservative, the Mexican Petroleum Company was worth $294,321,000, or four times its 1911 value. After a detailed examination of the oil fields, White predicted the probable future production of the company at 5,140,500,000 barrels of oil, or sixty-eight years at 200,000 barrels a day. Given these extraordinary numbers, White admitted that his greatest difficulty in presenting his estimates was making them "small enough to appear reasonable." 30

Just when Doheny hoped to capitalize on this vast productive capacity, however, the political situation in Mexico worsened once again. Ironically,
Cerro Azul's fantastic potential made many investors increasingly nervous about the situation. In particular, the rebel activities of Francisco "Pancho" Villa, who lashed out against the United States for its recognition of Carranza in the fall of 1915, made conditions even more volatile than they had been before. Villa believed that the Wilson Administration's decision to recognize the Carranza government was based on a secret pact that granted concessions to the Americans and compromised Mexico's sovereignty. An attempt at such a plan had been made by Mexican and American representatives, but Villa was mistaken about Carranza's complicity in the scheme. Believing as he did, however, Villa tried to compromise the relationship between the United States and Mexican governments through various acts of terror, including the murder of a number of American civilians and businesspeople.31

By January 1916, the rumors of possible intervention by United States troops led many investment houses to discourage customers from buying shares of Mexican Petroleum. The best policy, according to one, was simply to "lie low and await developments." But tensions increased dramatically after the infamous raid at Columbus, New Mexico, by Villa's forces on March 9, 1916, and they reached the breaking point when Pershing's Punitive Expedition crossed into Mexico in pursuit of the rebel forces a short while later. All of this looked like some sort of bizarre conspiracy to one reporter, who noted that the periodic instability in Mexico managed to "stifle enthusiasm whenever it seemed likely to creep out." The whole situation was so fraught with danger that, for a time during the early spring of 1916, it almost crowded out the war news from across the Atlantic. In Europe, according to this same observer, it would take a deliberate attack by a German submarine to cause a sudden change of events, "but the case of Mexico is entirely different. Any hour may bring forth a crisis."32

The effect of this situation, combined with the merger-induced speculation about the disposition of Doheny's California operations, ratcheted up the activity in Mexican Petroleum common on the New York Stock Exchange. The anticipated merger caused both Doheny companies to take a dramatic jump in December 1915: Mexpet common went from $96 to $125, and Calpet common went from $29 to $39. At the beginning of 1915, Mexican Pete had been as low as $51, and California Petroleum had been down to $8 in July. In terms of total volume, Mexican Petroleum consistently led the market as one of most active stocks. For example, on the final trading day of 1915, 95,700 shares of Mexpet changed hands, a volume second only to that of U.S. Steel, and the stock closed at $123. It started the new year at $127 with 102,200 shares trading hands, having doubled
its opening price from three years earlier. Then, from its high point on January 4, the price dropped as low as $95 by the end of February. On average, there were over 31,000 shares of Mexican Petroleum traded every market day from January through March. California Petroleum also enjoyed a brief resurgence, when it opened the year with a volume of 36,000 shares, although at $38, the price was disappointing.\textsuperscript{33}

Apparently, the Mexican political situation not only tempered the market's enthusiasm for the newly formed Pan American Petroleum company but commanded much of Doheny's attention. And those constraints, coupled with the failure of the West Coast merger, led him to resign his position as president of the California Petroleum Company in April 1916 and sell off his stock holdings in the company. Although Doheny did not completely cut his ties to Calpet, retaining a seat on the board of American Petroleum, he reduced his responsibilities as much as possible. Herbert Wylie and J. M. Danzinger stayed on as directors for each of the subsidiaries, while T. A. O'Donnell became the new president of California Petroleum.\textsuperscript{34}

Doheny did not retire from California as much as he freed himself to be more creative and spontaneous in making smaller investments across the state, when he had the time, and many of these subsequent acquisitions were initiated in partnership with California Petroleum. In that way, Doheny was able to assume an entrepreneurial role once again and concentrate his efforts in the newest oil districts. To begin, he created the Fairfield Petroleum Company to operate wells in Kern County and to hold new producing properties in Texas. Next, he formed the Pan American Petroleum Investment Company to purchase $2 million worth of oil lands on the Bell Ranch in Santa Barbara County, considered by most experts to be one of the choicest pieces of oil territory in the state. At the same time, in the fall of 1916, he formed the Pan American Petroleum Company of California to acquire 6,000 acres and thirty operating wells from the Bard Oil and Asphalt Company. Finally, he set up the Doheny Pacific Petroleum Company to control smaller holdings from North Midway to Simi Valley. Although some of the funding for these purchases came from corporate sources, most of the money came directly out of Doheny's pocket. Once again, Doheny was taking advantage of changing conditions in the California oilfields, which placed a premium on increased production, rapid drilling, and the acquisition of new territory.\textsuperscript{35}

For its part, California Petroleum became a corporate orphan within the Doheny organization after 1916 and maintained a weak but steady position in the market behind the Associated Oil Company, Union Oil, and
The Pan American Petroleum & Transport Company, 1916

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Standard Oil. Over time, the gap between it and the others widened as the top three companies developed into fully integrated operations. Apparently, the failure of the merger froze Calpet into position as a large producing company only. In terms of overall growth for the rest of the decade, the total assets of California Petroleum rose by a scant 2 percent, while Associated Oil increased by 21 percent, Union Oil by 67 percent, and Standard Oil by an aggressive 253 percent. For the same period, net earnings went up 82 percent for California Petroleum, 314 percent for Associated Oil, 429 percent for Union Oil, and 465 percent for Standard Oil. The return on assets (net earnings/total assets) averaged just 7 percent for California Petroleum, 13 percent for Associated Oil, 16 percent for Union Oil, and 22 percent for Standard Oil. Having begun in 1913 with such bright prospects, investors were left to wonder what had gone wrong. The company was either incredibly conservative or seriously mismanaged, and no one seemed to know which was the case.36

Initially, the company’s poor earnings were a consequence of two factors: its long-term contracts with the Agency, and a decline in production caused by water seepage in Kern River. Consequently, its total monthly output, which included several Doheny companies half-owned by California Petroleum, fell slightly in 1914 to 415,055 barrels, dropped sharply to a low of 276,041 barrels in 1917, and recovered to 486,400 barrels by 1919. Its share of the state’s total production varied accordingly: 4.8 percent in 1914, 3.4 percent in 1917, and 5.8 percent in 1919. Calpet actually had considerable capacity tied up in its reserves, and, when those properties came on line in the early 1920s, oil production doubled almost immediately. At that point, one market expert suggested that “the company evidently enjoyed a sagacious management from the beginning.”37

Although California Petroleum’s overall position among the large oil companies remained about the same, there was a marked consolidation of the market into the hands of the top organizations. Primarily, this involved the emergence of Standard Oil California, whose share of total production went from 13 percent in 1914 to 25 percent in 1919. Standard’s rapid growth also accounted for the rise in the combined output of the seven largest companies over this same period—from 48 percent to 71 percent of the total. Calpet remained part of that group but at the lower end of the scale. And despite Doheny and Requa’s best efforts, the smaller independents grew even more dependent upon the marketing giants.38

In the end, however, the dramatic improvement in the West Coast oil market after 1916 helped inaugurate a national role for the California oil industry. While the formal entry of the United States into the European
war gave the state its first chance to export oil outside of the region, it was even more important for giving the leaders of the local industry a national forum from which to promote their own interests. In particular, Requa, O'Donnell, and Doheny were soon headed to Washington as industry representatives, charged with coordinating the nation's petroleum supply during the war. While Doheny benefitted most from circumstances that highlighted the value of Mexican fuel oil over the California product, local oilmen still had a chance to make a case for their state. In this way, at least, the preceding few years had been excellent preparation for a situation that demanded a cooperative effort on all fronts. And after twenty years in the oil business, Doheny got a chance to become one of the titans of the industry.