In the three years between the end of the World War I and Doheny's acquisition of his first contract for the large oil properties in the Elk Hills Naval Petroleum Reserve in 1921, many people became convinced that the Mexican oil supply was all but exhausted. Since Mexican production reached its peak at the end of that year and declined thereafter, it is logical to assume that Doheny leased the oil reserve to offset a shrinking supply in Mexico. But, as this chapter will show, the situation was more complex than that, and Doheny never conceded that his Mexican properties were running dry. On the contrary, he engaged industry pessimists, stock market raiders, and the Mexican government in a running battle to prove his point. In doing so, he was pulled into an even wider range of activity than what has been described previously.

To begin, the dire predictions about Mexican oil were based on the rapid invasion of salt water into some of the largest wells. This process was by no means unanticipated in Mexican gushers, since it was the force of pressurized salt water beneath the oil that gave the wells their tremendous output. But that spectacular production, which had been going on for a decade, also meant that even the largest pools of oil could be exhausted fairly quickly. There was also the risk that the speed of the oil rushing into the well would pull the water layer up high enough to choke off the flow. If production were managed properly, this would not happen until most of the recoverable oil had been expelled, but there was always the danger of ruining a property through overproduction, as was the case in Mexico.

Unfortunately, all of these issues were twisted out of proportion by the contending parties, and reporters played up the seemingly unanticipated
demise of wells as the beginning of the end of the Mexican oil industry. From the public’s perspective, as Herbert Wylie complained, the salt water scare “has been pictured like a roaring lion going about eating up all the wells.” But there was no denying the fact that the oldest Mexican fields were beginning to run dry. The Mexican Eagle’s largest well, Potrero del Llano, stopped production in December 1918, and Huasteca Petroleum’s Casiano No. 7 went to water in November 1919, after producing one hundred million barrels of oil. In his annual message for 1920, Doheny tried to ease the anxiety of his shareholders over this situation. Losing these fields was natural and inevitable, he said, and was no more indicative of some alarming condition “than is the death of a nonagenarian or even an octogenarian indicative of a lack of sanitary or health conditions in the vicinity where he had lived.”

While this was obviously a correct geological assessment of the situation, it did nothing to stop various individuals from playing up the crisis and circulating rumors about the impending demise of Mexican oil. Some gloomily predicted that the loss of cheap Mexican fuel oil would force American shipping and industrial interests back to coal. Gulf Coast producers, on the other hand, tired of competing against low-priced Mexican crude as their own output increased dramatically, were ecstatic over the possibility of capturing the fuel oil market for themselves. But those concerned with America’s international position worried that the loss of Mexican production would give England a distinct advantage in the global race for petroleum, since the British government had been actively supporting commercial oil ventures around the world while the United States took virtually all of its imports from Mexico.

To make matters worse, the continuing political battle with Carranza and the lack of support from the Wilson Administration had almost forced Doheny to sell his Mexican holdings to the British after the war. At that time, as the oilmen pointed out during Senator Fall’s investigation of Mexican affairs, the real problem in Mexico was not the loss of the old wells but the inability to drill new ones in undeveloped territory because of the legal conflicts over property ownership and drilling permits. By presidential decree, Carranza had denied those permits to foreign-owned companies unless they relinquished title to lands acquired from the Diaz government and took new concessions and leases, based upon Article 27 of the constitution, in their place. It was at that point, in January 1919, when Mark Requa, who was still in charge of the nation’s fuel resources, warned the State Department that Doheny was ready to sell out. According to Requa, representatives of Royal Dutch-Shell had been interested in the Mexican
Petroleum Company for some time, and, were it not for Doheny’s promise to the government not to sell during the war, he might have done so already. Now that he was free of that commitment, he was supposedly headed to London to make a deal.3

He was also going to Europe as a member of a committee selected by the National Association for the Protection of American Rights in Mexico to discuss the Mexican situation with the American peace delegation in Paris. Before he left New York, Doheny told the press that he was going to Paris to ask one question only:

Will the Governments that will be established in the many new states that will be formed out of the future great nations of Eastern Europe be permitted to ignore the vested property rights of citizens and foreigners that have been established for years; and if not, will Mexico, which is in the same category, while not a combatant in the great war, be allowed by the powers to issue confiscatory decrees and by overt acts not only to ignore vested property rights but to enact legislation that is against all law, equity and justice. . . . Vested property rights in Mexico are inalienable, no matter what the Carranza or any other government of that benighted country may declare.4

Despite the fact that this group of American industrial and banking interests was denied a forum at the Paris Peace Conference, Doheny gave no hint that he was ready to give up the fight. But, according to Requa, the very idea that he was thinking about it caused the State Department to suggest that either Bernard Baruch, the head of the War Industries Board, or John Davis, the U.S. ambassador to Britain, intercept Doheny when he got to London and persuade him not to sell his company to any foreign interest. And Doheny presumably received a guarantee that businessmen with interests in Mexico would not be abandoned after the Peace Conference in return for another promise to that effect.5

Because so little of Requa’s information can be corroborated, his warning about Doheny was probably more of a scare tactic than anything else, although there was a report from a London correspondent stating that Doheny’s negotiations with the Shell organization had been broken off at the last minute over the terms of the deal. Perhaps the United States government had intercepted him in time after all. For its part, Royal Dutch-Shell was still interested in Mexican oil and purchased working control of the Mexican Eagle Oil Company two months later. This was a tremendous boon for the European conglomerate, which produced approximately 27 million barrels of oil in 1918 and could anticipate adding another 17 mil-
lion barrels from the Mexican Eagle. (The purchase of Mexican Petroleum, on the other hand, would have increased the amount to 21.5 million barrels.)

Writing from London in March 1919, Clarence Barron, Doheny’s close friend and editor of the *Wall Street Journal*, worried over the British government’s oil policies. While Doheny had been publicly and privately insulted by the Wilson Administration in Washington, Barron observed that he was being “welcomed with open arms by every shipping interest in Britain.” Doheny was in London primarily to complete the arrangements for the British-Mexican Petroleum Company, which had been postponed during the war. This company, co-owned by English investors and Pan American Petroleum, ultimately signed a twenty-five-year, fixed-rate contract with Doheny for Mexican fuel oil, the longest running obligation ever undertaken by an oil company at that time. Clearly, in Barron’s opinion, the American government was “not alive to the Mexican situation” and had allowed itself to be outmaneuvered by the British.

Early the next year, Requa, who had since become an engineering consultant for the Mining Bureau and a vice-president of Sinclair Oil, tried one more time to get the administration’s attention. In a lengthy report to the chairman of the United States Shipping Board, Requa offered an extensive appraisal of domestic oil resources, which concluded that fuel oil imports from Mexico provided the only margin of safety given current market conditions and anticipated demand. As in his earlier reports during the war, Requa maintained that the geographical location of most large American oilfields and the lack of transportation facilities prevented an easy substitution of Mexican crude. In this case, the fuel oil for American shipping, as for the British, had to come from Mexico. But the salt water invasion of the old wells and the inability to drill new ones threatened that source. For that reason, Requa suggested, Carranza’s legal stratagems, as well as any other “forcible interference” by Mexican authorities to hinder the oil industry, should be seen as an obvious “attack upon the national welfare of the United States” and treated as an act of war. Such a policy, Requa asserted, should be “as fixed as the Monroe Doctrine.”

At the same time that Requa was pleading with the United States government to recognize the impending crisis in Mexico, American producers were appealing to Carranza for some resolution to save the industry. On January 14, 1920, the oilmen sent a telegram to the Mexican president outlining the situation: “Within the last few months there has been a steady encroachment of salt water. . . . Numerous wells have ceased to produce petroleum; others are failing rapidly, and still others will be lost in the
near future. . . . As a result of what has occurred, the Mexican petroleum industry . . . faces a crisis, and is about to suffer a severe loss which can be avoided without prejudice to the rights of either side.” Ignoring the issue of land titles for the moment, the companies asked Carranza to grant them provisional drilling permits to tide them over until the Mexican Congress met in September to consider the petroleum law once again. Carranza formally accepted the oilmen’s proposition three days later, and news of this agreement reached Washington on January 21, the day after Requa had delivered his latest report. A few days after that, the United States Shipping Board notified the secretary of state that a scheduled conference on the Mexican oil supply was no longer necessary. For the moment, at least, the crisis had passed.9

Taking advantage of this lull in the storm to resolve the questions about the future of the Mexican oil supply, Franklin Lane recommended that the government send a team of oil geologists and engineers from the Geological Survey and the Bureau of Mines into Mexico to conduct a definitive appraisal of the industry. The State Department endorsed Lane’s proposal and passed it on to the Mexican ambassador. After some diplomatic wrangling, Carranza also agreed to allow a scientific study of the Mexican oilfields so long as the Mexican authorities were able to deny any official knowledge of the investigation. For some reason, perhaps having to do with the upcoming presidential election, the plan was never implemented, even though Congress had approved the funds.10

Lacking such an appraisal, the best that anyone could come up with was a report by J. A. Phelan, an investigator for the United States Shipping Board who had spent four months during the fall of 1920 evaluating the Gulf Coast oil supply in the United States and Mexico. As one of the largest consumers of Mexican oil, the Shipping Board found itself squeezed out of the fuel oil picture after the major oil companies signed long-term commitments to other organizations. As an alternative, the Shipping Board hoped to negotiate a deal for royalty oil from the Mexican government based on Phelan’s information. While Phelan substantiated the stories that the existing Mexican fields were “fast going into salt water,” he went on to emphasize that “there [were] oil indications in practically every county in Mexico, and the possibilities in the state of Vera Cruz [were] almost beyond conjecture.” On the whole, Phelan gave a fairly accurate and encouraging assessment of the situation, concluding that Mexico had “the most promising oil output of any country in the world.”11

In almost every respect, then, Phelan’s confidential report paralleled Doheny’s efforts to bolster confidence in the future of the Mexican oil sup-
Contrary to the "dire predictions of the ill-informed" oil experts and the "doubting Thomas" geologists, Doheny insisted that the undeveloped regions of Mexico were full of "hidden pools" of oil. When the time was right, Doheny concluded, the "genius, courage, faith and industry of the oil pioneer will put [them] at the service of mankind." The only thing standing in the way was President Carranza and his criminal attacks on the industry.12

In the meantime, the Mexican Petroleum Company seemed to be doing quite well. Since 1916, the company had averaged about 1.5 million barrels of production a year and exported anywhere from 1 million barrels a year during the war to over 3 million by the end of 1920. Recent net earnings had gone from less than $7 million in 1918 to $12.5 million in 1921. As a reflection of this process, the price of the common stock moved up dramatically, from an average of $90 a share during the war years to over $250 in the fall of 1919, and then dropping only to around $180 for most of the next year. Yet, during the spring and summer of 1921, the salt water scare drove the price below $90 almost overnight and brought the vitality of the company into question.13

Rumors that various investigators thought the Mexican oilfields would "soon be a matter of history" started circulating in April 1921, including a story that new Secretary of Commerce Herbert Hoover believed that Mexico would exhaust its oil within eighteen months. Hoover denied it, but the effect remained.14 Much more damaging was an article published at the same time by Ralph Arnold, a "doubting Thomas" of long standing when it came to Mexico, which directly compared the oil resources of the United States and its southern neighbor. In particular, Arnold emphasized the physical differences between the respective oilfields which accounted for the astonishing productivity of the Mexican gushers: proven oil territory in the United States was 4,500 square miles as compared to 25 square miles in Mexico; oil production for the United States in 1920 was 443,402,000 barrels versus 185 million barrels for Mexico; the United States had 258,000 producing wells, while Mexico had just 200; the average daily production of an American well was 4.9 barrels, while in Mexico it was 2,600 barrels; and, finally, the estimated proven oil reserves in the United States were 5 to 6 billion barrels, and those in Mexico were 300 to 400 million barrels. Under these conditions, Arnold believed, the American fields would last for at least twenty years. The Mexican supply, on the other hand, was entirely at the mercy of its exploiters and "may be exhausted in a few months, or at most in one or two years at the promised rate of development."15
By presenting this information in the way he did, Arnold hoped to convince domestic producers that their oil was a valuable commodity not to be wasted. For him, the worsening situation in Mexico was the best argument for conservation at home. What he did instead, however, was to provide ammunition for another round of attacks on the Mexican Petroleum Company. Stock manipulators, in particular, took advantage of the situation through well-timed, rumor-fed raids on Mexpet shares, which affected the whole market. In the weeks that followed Arnold’s story, the financial situation worsened as the press hunted for information to corroborate the Mexican situation. In response to repeated requests from reporters for an authoritative statement from the government, Stephen Porter, chairman of the House Foreign Affairs Committee, promised to release an official report on the expected depletion of the Mexican oilfields. But in his haste to placate the media, Porter never checked to see whether such a report existed. When he went looking for it, all he found was Phelan’s earlier material written for the Shipping Board.\textsuperscript{16}

Initially, Porter refused to use the Shipping Board report, after one analyst from the Foreign Trade Office, W. W. Cumberland, formerly of the Doheny Research Foundation, characterized Phelan’s work as “loosely prepared, inaccurate and misleading.” In fact, because of the explosive nature of the topic, Phelan had been under government investigation since February 1921. Incredibly, the special agent in charge believed that certain “English-Jewish” financiers were working through Phelan to undercut the price of Mexican Petroleum Company stock. But Porter was under the gun to live up to his promise, and he ended up delivering an abstracted version of Phelan’s report to the Associated Press. Not surprisingly, newspapers around the country ran a story the next day stating that Mexico had but one large pool of oil, which could be exhausted overnight. Phelan’s observation that Mexico actually had an enormous untapped potential for oil appeared in a follow-up story several days later—too late to undo the damage. The price of Mexpet common dropped immediately from $130 to $101 and continued going down.\textsuperscript{17}

Overall, for the preceding year, a reduction in the industrial demand for oil products since January 1921 and a steady erosion of fuel oil prices to their lowest levels in five years had combined with the Mexican crisis to depress the value of all the oil shares on the market by about 40 percent. But given the special circumstances, the Doheny companies suffered the most: Pan American was off by 55 percent and Mexican Petroleum was down by 49 percent. Of the remaining petroleum stocks, Sinclair Oil dropped 48 percent, Royal Dutch-Shell 39 percent, and Texaco 24 percent.
But where Mexpet previously had moved in conjunction with the market, it now appeared to be dragging everything else down with it. Just one raid in mid-June, for instance, that forced Mexpet down another five points supposedly accounted for a paper loss of $40 million on the general list.\textsuperscript{18}

The big question on Wall Street was how a stock like Mexican Petroleum, with just over 100,000 shares outstanding, could trade at a volume as high as 90,000 shares a day. With Pan American Petroleum moving with it, at about the same level of activity, the two stocks were the most active issues for several weeks and accounted for as much as 10 to 15 percent of the overall market volume. Suspicion fell on Doheny first, and he was accused of loaning out treasury stock for speculation. The situation was so tense that Clarence Barron, who had been waging a daily battle to prop up Mexpet with positive stories in the \textit{Wall Street Journal}, suggested that Doheny take an auditor into the vault at Pan American Petroleum’s headquarters in New York to count the number of shares held by the company. Clearing himself in this way, though not to everyone’s satisfaction, Doheny then petitioned the New York Stock Exchange to conduct its own investigation of the case. Despite their best efforts, officials of the exchange never discovered who had been using Mexican Petroleum shares for what they described as “pure unadulterated market manipulation.”\textsuperscript{19}

There were some likely suspects, however. One of them, who accused Doheny of putting out the stock himself, was Jesse L. Livermore, probably the most notorious stock raider of his day. Livermore was known as the “Boy Plunger of Wall Street” for some immensely profitable and daring short sales in railroad and copper stocks which had made him a millionaire at a very young age. In 1921, Livermore told Barron that he had become interested in Doheny’s company as a result of some privileged information he had received about the supply of Mexican oil. After asking him a few direct questions, however, Barron was convinced that Livermore “had never talked with an intelligent person from Mexico familiar with the Mexican oil field.” Nevertheless, Livermore acted on the information and apparently sold Mexican Petroleum short several times when it was trading above 160 and bought it back when it bottomed out below 90. The unconfirmed estimates of his profits on these transactions ranged as high as $15 million.\textsuperscript{20}

A more pernicious source of trouble was W. C. Moore, the owner of a monthly Wall Street investment guide. Beginning in the spring of 1921, Moore began publicizing the salt water stories about Mexican Petroleum and telling his subscribers to sell the stock short whenever they could. Later, Moore bragged that his customers had “made a killing” on the
trades. But along with his advice to sell the stock, Moore went on to accuse Doheny of “lying about the oil situation” and said that information from Mexican Petroleum could not be trusted because there was “a large corps of liars on ‘Dough-eney’s’ staff.” As it turned out, Moore was interested in the company only as a way to prevent Doheny from using his profits to support the movement for Irish freedom. As a self-proclaimed “100 per cent American,” Moore was “dead set against Sinn Fein.” His attack on Doheny even went so far as to include a letter to Obregón, asking him to stick to his plan to increase the export tax on oil. Once Moore’s activities were discovered, he was indicted for criminal libel by a New York Grand Jury. Two years later, after a series of legal confrontations, Moore made a public apology in court that the statements in his market letter had been “unfounded and untrue,” and the judge ultimately dismissed the incident, to Doheny’s satisfaction.

But Mexican Pete’s saga on Wall Street made a dramatic turnaround in 1922, when Doheny decided to end the trouble by having Pan American Petroleum buy back shares of Mexican Petroleum to get the stock off the market. That tactic, and a continued rise in corporate earnings, sent the short traders scrambling to cover their losses when the stock price soared as high as $322 by the end of the year. Things got so tight that one desperate trader even attempted suicide in the Mexpet offices in New York. Ultimately, the stock dropped off the market in 1923, with only about 28,000 shares left in the hands of the public. Afterward, Doheny noted with satisfaction that “we made the bears get down on their knees and beg for mercy.”

Underlying all of these problems in the early 1920s were the continued political attacks launched by the Mexican government against the American oil companies. Aside from the constant battles over drilling rights and land titles, oil taxation, as Moore had suggested, became the weapon of choice. The new government, under Alvaro Obregón, not only increased the rate of taxation but based its new export tax on the value of oil products in the United States instead of at the port in Tampico. Adding this export tax to the production tax, stamp tax, bar dues, and the license and inspection fees already collected more than doubled the amount exacted by the Mexican government. To make matters worse, Obregón announced these new tax regulations at the same time as the Phelan and Arnold reports on Mexican oil hit the press. Because he was also worried about overproduction, Obregón wanted to launch a preemptive strike to keep foreign governments from raising tariff duties against cheap Mexican oil and to stop the oil companies from operating in a manner that was “contrary to
a policy of moderate exploitation.” Of course, higher taxes were also a strategy for chipping away at the “big profits” that Obregón saw leaving Mexico.\(^2\)

As before, Doheny objected to these provisions because they were presidential decrees that had not been submitted to, or approved by, the Mexican Congress. The existing export tax of over fifteen cents a barrel was, he said, uncomfortable but legal. On the other hand, the combined tax rate under Obregón's decree, which increased the amount to thirty cents, was “so excessive as to be confiscatory.” Carranza had tried the same tactic earlier, and the oil companies had successfully challenged the constitutionality of his decrees in court. They would have to do the same thing with Obregón. Looking for the motive behind that pattern, Doheny stated that “the whole thing appears to me to be a monumental bluff on the part of the Mexican government and I don't believe they feel they can get away with it. . . . Apparently, Obregón is trying to do indirectly, by means of increasing taxes, what they have been trying to do directly for years—confiscate American property.”\(^2\)

Doheny also protested the charge that the oil companies made excessive profits from their Mexican operations. Obregón justified the new exactions because he claimed that, in 1920 alone, the Mexican Petroleum Company had sucked $28 million of pure profit out of the Mexican oilfields. In response, Doheny cited the published annual report of the company: Mexican Petroleum had made $17,410,000 in profits from operations, out of which they had paid $5,695,000 in cash dividends to the stockholders, $5,744,000 in taxes to the Mexican government, and $1,898,700 into a reserve fund for United States taxes. It was obvious, Doheny asserted, that Obregón arrived at his number “by merely juggling the figures and adding and overlapping dividends in a way that an American school boy would not be guilty.” Furthermore, 1920 was also a year in which the company expended $7,800,000 in Mexico to construct the largest topping plant in the world, including all the roads, pipelines, and support facilities necessary to keep it operating. In conclusion, Doheny chided Obregón for his ingratitude as well as his math: “Without the progress that the development of petroleum is responsible for, the condition of Mexico would indeed be that of vast plains without cattle, of valleys without farms, of mountains without operating mines.”\(^2\)

In this sense, Doheny was right to see the tax hike as a political bluff. The Mexican government could not afford to choke off the sale of oil when petroleum taxes were the only means of staying afloat and paying off its foreign debt. Still, Washington was worried enough about the situation to
send American gunboats back to Tampico in early July in case of trouble. And sure enough, a military revolt by one of Manuel Pelaez's lieutenants on July 12 added another twist to a thoroughly confusing situation. Fortunately, this was not a major upheaval, and Obregón's troops put down the rebellion in just four days. The question of its origin, however, was harder to solve. Pelaez, of course, was the immediate suspect, although he had been traveling in the United States as an agent of the Obregón government at the time. And although his complicity in the revolt was never proven, it signaled the end of his political career when he was hauled back to Mexico City to answer questions. Suspicions also fell onto Doheny and the oil crowd, as well. On the day the revolt ended, Doheny wrote to Albert Fall: "I note by the morning papers that Green and I are responsible for the latest revolt in Mexico. They have not even paid me the compliment of associating me with your good self this time, and I am sore about it. It is however just as false as if they had said that the U.S. Government was behind it all. What won't those fellows charge up to the Huasteca Company and its officials?"  

As the self-appointed expert on Mexican political affairs in Washington, however, Fall received reports from agents of the Justice Department, private investigators, and numerous individuals operating along the political fringes in Mexico, and, without a doubt, he knew as much about the plots swirling around as anybody. Among the materials in his possession were surveillance reports from Los Angeles for the first two weeks of July, stating that Pelaez had been seen visiting Doheny's office and meeting with Esteban Cantu, the former Governor of Lower California, and a well-known opponent of the central government. Many of the reports suggested that a conspiracy to overthrow the Mexican government was in the offing. But part of Pelaez's unofficial mission was also to discuss Obregón's diplomatic recognition with American officials and businessmen, especially the executives of the oil companies.  

One frequent informant, William F. Buckley, an attorney and independent oilman who spoke for the small producers in Mexico, received a letter from Pelaez two weeks before the rebellion, stating that he suspected one of his men of plotting a coup—"aided he thought by the Doheny crowd." Pelaez did not know whether to return to Mexico and warn Obregón or to wait and see what happened. Then, as soon as he learned that he was under suspicion in Mexico City, Pelaez went back with information that the recent rebellion had been engineered by William Green. The charge implied Doheny's approval, if not his active participation.  

If Doheny wanted to make a decisive show of force, however, he had
better and more intelligent ways to do it. And he seemed to be exercising one of those options when he decided to virtually shut down his oil business in Mexico during July and August, cutting shipments from 2.5 million barrels a month to less than 1 million barrels in July and 300,000 in August. For these months, Doheny shipped out the minimum amount of gasoline needed to fill his contract with Standard Oil of New York and put everything else on hold. Citing the adverse market conditions, aggravated by the announcement of new taxes, Standard Oil New Jersey also stopped shipping Mexican crude oil in July and withdrew its fleet of tankers from the trade. Overall, the four largest American companies—Huasteca, Transcontinental (Standard), Texaco, and Gulf—reduced their combined exports from 8.7 million barrels in June to just over 1 million in both July and August. Thus, despite the increased rate of taxation, the total receipts generated by the Mexican government declined from 5.4 million pesos in June to 1.7 million in July and 1.4 million in August.

Official reports were careful to cite the political turmoil in Tampico, a major fire in the Amatlán oil district, and the general depression in the oil market—not the tax problem—for the decline. The American vice-consul in Tampico was explicit: “Their action in suspending shipments was the result of business judgment rather than a desire for retaliation.” From Doheny’s perspective, however, there was no difference. By the end of August, both sides wanted the standoff to end and were ready to sit down together and hash out their problems. And since Doheny’s oil shipments immediately jumped back to 3,179,163 barrels in September and 3,743,011 for October to make up for the previous deficit, retaliation seems to have paid off. The combined shipments for the four big American companies returned to 8.5 million barrels in September. Clearly, when 86 percent of the government’s total tax revenue came from the petroleum industry in 1921, the shutdown was designed to get Obregón’s attention.

However, there were problems with this strategy from the beginning, due to the difference between the financial wherewithal of the largest companies and that of the small independents, who had only recently entered the market. As Harold Walker explained to an American official, the shutdown had been only partially successful because the British companies, and several other American operators, either refused to cooperate or could not hold out long enough to make the effort worthwhile. “The whole situation,” Walker admitted, “was one which certain of the companies could endure no longer. . . . It became necessary for the companies to do something to help themselves down easy. The Mexican Government was winning and the Companies losing.”
That is probably why, as the two sides jockeyed for position, the State
Department arranged for a committee of the Big Five oil company presi­
dents to go to Mexico at Obregón's invitation. The committee consisted of
Doheny, Walter Teagle of Standard Oil New Jersey, J. W. Van Dyke of the
Atlantic Refining Company, H. F. Sinclair of Sinclair Oil, and Amos Beatty
of the Texas Company. Supposedly, this was to be a chance to solve the oil
conflict for good, and the only subject forbidden to the committee was an
official loan from the United States government. Short of that, they were
on their own. To begin, the oilmen laid out their position in a memo to
their Mexican hosts on the opening day of the talks: "We are not unmind­
ful of the fact that misunderstandings have arisen and even prejudices have
been aroused, which thus far have raised a barrier to complete accord. . . .
Our true interests do not conflict. Nay, they complement each other . . .
first, to assure the Mexican Government a reasonable yield from the devel­
opment of Mexico’s oil resources . . . second . . . to afford the companies a
return commensurate with the large investments made and the great haz­
ards faced."30

Given the exhaustion of the existing properties, however, this plan re­
quired the government to give the companies access to new fields. Further­
more, to ensure the health of the industry, the committee did not believe
that "taxes should go upward as the prices go down." With these demands
clearly stated, the committee turned to the consequences for Mexico: "We
try to place ourselves in your place. . . . We at once think of two theories,
where a commercial or political power is seeking revenue. One is to exact
all the traffic will stand. The other is a policy of frankness. The trouble
with the former is that it too often kills the goose that lays the golden eggs.
The companies have no desire to further curtail their operations in Mexico,
but with them the rules of economics must prevail."

Finally, in a complete reversal of earlier arguments made to the Ameri­
can government, the committee explained that most of the companies had
their own production in the United States and held land in proven reserves
that could be brought into production at a moment’s notice. Thus, if
pushed too hard, they would abandon Mexico and let the government
strangle the industry on its own. Already, with the prevailing surplus of
low-priced oil, they could meet their present contracts by purchasing oil
in the market and still make money. "You have doubtless seen results in this
direction since the first of July," the committee observed. But a continuous
shutdown almost guaranteed that the companies would lose the remaining
oil in fields already threatened by salt water. In this way, at least, the pro­
ducers had their backs against the wall as much as Obregón.31
After a half-dozen meetings to work out the details of a compromise, the two sides agreed that the oil companies would pay the full production tax imposed by the decree of May 24, 1921, in return for which the Mexican government would suspend the export tax stipulated in the decree of June 7, at least until the end of the year and possibly longer. The producers also agreed to “use their best efforts” to put together a banking syndicate that would underwrite a sale of bonds to settle the nation’s debts.

These actions suggested that, for the first time in years, the oil companies were adopting a new way to conduct their business in Mexico. Despite the implied threats by the company presidents that they would pull out if they did not get what they wanted, the 1921 meeting inspired a second round of talks to reach a workable arrangement. More than anything else, the oilmen wanted a firm decision about the legality of property rights as contained in Article 27 of the constitution. When they met again the following year, the oil committee cited the massive investment of over $500 million in the petroleum industry, not counting the tanker fleets and terminal facilities, and lamented that without some way to expand their operations they faced “a loss of not less than one half of their original investment.” It was no exaggeration, they claimed, that if the companies had foreseen the present conditions in Mexico they would never have invested the capital in the first place.\(^{32}\)

The alternative to the current adversarial relationship was to bring the Mexican government into the fold as a full-fledged partner in the oil business. To do that, the committee offered to organize a completely new company, the Petroleum Development Company (Doheny’s influence was obvious just from the name), under the laws of Mexico to which the existing companies would pledge their “resources and experience.” They would start by transferring to the new company the petroleum rights to about 700,000 acres of oil lands outside the present producing field. Thereafter, new lands would be acquired as necessary. Once the company was organized in this way, the citizens of Mexico would have the opportunity to invest in its stock, with a guaranteed holding of at least 10 percent of the initial capitalization. The company would also be obligated to pay a fixed tax on oil to the government—as they sold it, not when it was produced. In addition, the company would pay the government 25 percent of all annual profits in excess of total investment and expenditures. Finally, in exchange for the exclusive right to exploit the national lands of Mexico, which had been used by the government as a weapon against American producers in the past, the Petroleum Development Company would pay a fixed royalty on related production.
Of course, the committee wanted certain guarantees in return. First, “all decrees issued by the Carranza administration with regard to the petroleum industry . . . shall be canceled and annulled.” A corollary to that provision stipulated that the new company would receive full and exclusive rights on existing lands owned by the partners and on all future acquisitions. Second, they wanted the government to grant the Petroleum Development Company the right to drill at least 100 wells and to agree to additional drilling permits, as requested.\textsuperscript{33}

For their part, government officials accepted the drilling concessions but wanted an expanded range of stock options for Mexican nationals, and they absolutely refused to back away from the issue of land titles and subsoil rights. In fact, they went so far as to demand that the companies transfer to the new “association” title to all rights and claims on the land in return for a government concession to explore those same properties. The oilmen responded in kind: “The case in a nutshell is this: Our plan is based upon an interpretation of Article 27 . . . which renders it inapplicable to the lands we have acquired through private contracts with the private owners thereof, and contemplates the Government shall support this position. The Government’s counter proposal, on the other hand, is, we regret to find, based upon an interpretation of said Article which renders it completely applicable to our lands. . . . These basic conceptions are diametrically opposed.”\textsuperscript{34} In other words, despite all of the apparent improvement in relations between the two parties over the past year, nothing had really changed. Article 27, as one Mexican newspaper aptly stated, remained the “Gordian knot.”\textsuperscript{35}

Still, the two sides had at least become comfortable talking to each other, and they met several more times. But these subsequent discussions began where they had taken up the year before, with tax relief in return for some sort of financial assistance for Mexico, although there was still some lingering hope that the Petroleum Development Company could be salvaged for the right price. If nothing else, Mexico wanted to use the promise to continue the 1921 export tax rate reduction, with an additional 20 percent off each month, in exchange for a $25 million advance from the oil companies on their future tax bill. The State Department advised that, since formal recognition of Obregón’s government would not occur until they were certain that Article 27 would not be used to divest Americans of their property, the United States could not approve a loan. But, according to the secretary of state, “if the petroleum companies wished to make a loan to the unrecognized Obregón regime, for the purpose of arriving at a settlement, they were at liberty to do so.”\textsuperscript{36}
Ultimately, Doheny did just that. In particular, he made loans in return for drilling rights at Juan Felipe, a hacienda adjoining his famous Cerro Azul property. This land had been leased since 1906, but Doheny had been unable to acquire permission to develop the field. Then, in September 1922, he obtained exclusive rights to the new area when other companies were scrambling for production. Earlier, he had offered to make a $3 million personal loan to the Mexican government in return for clear title and drilling rights on some of his oil properties. Instead, he ended up putting $1.5 million on deposit with the government to win a positive decision about Juan Felipe. The following year, he loaned the government $5 million as part of a larger deal to secure $15 million from his banking connections in New York.37

At the same time, in 1923, the United States government negotiated a compromise with Obregón that led to formal recognition. Basically, the Mexican government agreed that the expropriation provisions of Article 27 would not be retroactively applied to property acquired before 1917, if some "positive act" of development had been undertaken. While this was obviously open to interpretation, it did away with the most pernicious aspect of the Mexican policy as far as the oil companies were concerned. Ironically, Obregón's enemies in Mexico used this supposed capitulation to the United States as the pretext for a successful rebellion against him.38

The important thing to understand about these confusing events, from Doheny's perspective, is that they fit into a larger pattern of activity. Since the end of the World War, Doheny had been conducting private diplomacy simultaneously on a number of fronts. Clearly, his efforts to solve the Irish problem and his decision to get involved in the Pearl Harbor project to protect America against Japan supported his initiatives in Mexico. Oil played a part in each of these decisions, but it was never the sole issue. Idealism, patriotism, and nationalism were all intertwined with Doheny's worldwide petroleum business by this time, whether his detractors believed it or not. Doubtless, Doheny considered the fortunes of his oil companies at every turn, but his motivation was not easily discerned—then or now. Suffice it to say that Doheny did not doubt his own ability to influence events at the highest level and believed that his actions should be immune to criticism.