

Reactions to the Mexican Oil Expropriation

Bernadette Stocker

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Peter Blasenheim

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The Good Neighbor Policy was put to the test in 1937 as multinational corporations, Mexican autonomy, and the impending world war collided in the oil expropriation crisis. Roosevelt found himself in a precarious position, balancing his responsibility to defend US economic interests against his understanding of the need for friendly relations in a united American continent. At first, his reluctance to take a firm stand in choosing sides may have seemed weak and indecisive as US companies lost property, silver prices dropped, and the Axis gained access to inexpensive Mexican oil. Historically, however, it is clear that his diplomacy was the wisest course of action in a volatile situation. His lack of intervention kept the US assured of a firm alliance with Mexico so that when war did break out, the Western Hemisphere was firmly united economically and militarily against the powers growing in the East.

In the early 1930s, Mexico's economy was struggling under Cardenas' agrarian reforms and expensive domestic policies. Many activists blamed the foreign capitalists who controlled 90% of the Mexican oil industry of taking advantage of the nation's financial problems and exploiting the working class.¹² As new oil fields were discovered in other countries, the petroleum industry in Mexico slowed, jobs were lost, and wages were lowered. In 1935, Mexican unions united to form the Sindicato de Trabajadores Petroleros de la Republica Mexicana and initiated a nationwide strike.³ The oil companies refused to negotiate with the petroleros and oil production came to a halt. The situation worsened as foreign companies, distrusting the Cardenas regime in the midst of the social tension, withdrew their capital reserves from Mexican banks.⁴ Roosevelt worked with the Mexican government in an attempt to salvage its crashing economy, but all negotiations failed in the economic chaos that ensued.⁵

Desperate to end the strike, the Mexican Supreme Court accepted the case and ruled in favor of the petroleros.⁶ Oil executives, advised by experts that the Mexican government would not dare retaliate,

¹ Campa 270

² Townsend

³ Gonzales 246

⁴ Schuler 73

⁵ Schuler 89

⁶ Daniels 452

ignored its call for better working conditions and wages. They were confident that expropriation was impossible because Mexico's lack of finances, experience, technology, and connections would keep Cardenas from even attempting to compete in the monopolized world oil market.⁷ However, the corporations failed to realize that Cardenas viewed expropriation as more of a political opportunity than an economic strategy. He had lost the support of the people in the wake of the financial crisis and hoped that by becoming the champion of Mexican sovereignty, he would avoid being overthrown.⁸⁹ When he declared economic autonomy, the people responded overwhelmingly as former critics united to "throw off the foreign yoke"¹⁰ and proclaimed, "President Cardenas, we are with you in the enthusiasm of today and we will be with you in the struggle of tomorrow."¹¹ Knowing the power the oil corporations had over Mexico's economy and the US government, Cardenas announced his decision to expropriate without warning so they would not have time to react. Shocked, the petroleum companies scrambled to enter negotiations and obey the Supreme Court's ruling, but by the time they understood what was happening, it was too late. What had been a labor dispute had become a matter of principle. The Mexican people would stand for nothing less than economic independence.¹²

It is important to note that Cardenas would never have risked expropriation without carefully analyzing Roosevelt's foreign policy. He feared a strong reaction from the United States, but trusted that Roosevelt's Good Neighbor Policy would prevent any military action in Latin America (Gonzales 247). He looked to the recent Bolivian expropriation as a precedent that proved Roosevelt's likeliness to mediate rather than intervene.¹³ The Mexican ambassador also noted tensions between the president and US petroleum companies over a federal tax offensive and hoped that lack of cooperation might further aid their effort.¹⁴

Roosevelt's critics, especially in the oil industry, accused him of being pro-Mexican and failing to protect US economic interests. However, by respecting Mexican sovereignty, Roosevelt was actually assuring his country of a staunch ally in the coming war. If he responded to expropriation forcefully, he

⁷ Townsend

⁸ Paz 89

⁹ Schuler 70

¹⁰ Daniels 453

¹¹ Townsend 239

¹² Townsend 238

¹³ Schuler 96

¹⁴ Schuler 95

would risk an eruption of anti-American sentiment in Mexico that could create a dangerously close enemy, not to mention cost the US all hope of future oil trade. Rather, Roosevelt dreamed of “an effective continental alliance based on mutual respect and the recognition of the New World’s shared goals of renovation and revolution, of freedom, democracy and social justice.”¹⁵ Even if the US no longer had control over the production of Mexican petroleum, Roosevelt was determined not to lose access to critical fuel during wartime. He needed to keep Cardenas friendly to his administration to ensure that when it mattered, the dictator would be willing to provide the democracies with oil.

Britain’s unwillingness to negotiate with Cardenas shows what might have occurred in the States if not for Roosevelt’s foresight. As US ambassadors worked with Mexican diplomats to determine the amount of compensation that should be paid to the expropriated companies, Britain published a series of memos accusing Mexico of being too financially unstable to recompense the oil corporations. British politicians hoped that if Cardenas was unable to pay for seized properties, the expropriation would be internationally recognized as illegal and the properties would be returned to the corporations. These notes were not only unsuccessful in halting expropriation, but Cardenas was so insulted that he ended all negotiations with England. Britain’s aggressive anti-Cardenas stance cost it not only ownership of Mexican oil fields, but even the possibility of purchasing nationalized petroleum.¹⁶ Roosevelt’s willingness to compromise with Mexico kept the countries open to trade after the initial corporate boycott.

A similar disaster almost occurred for the United States when Undersecretary of State Welles sided with the petroleum corporations and called for a boycott of Mexican silver in response to oil expropriation.¹⁷ Roosevelt argued against such blatant economic aggression, but the rumor somehow leaked to the Mexican press. The Latin American media treated the news as an official decision to end the US-Mexican silver purchase agreement and Mexico exploded in a wave of anti-American feeling. Mexico angrily cut off US silver purchases due to the “imperialist plot.” Cardenas raised taxes on US mines and a flood of Mexican silver entered the free market, lowering the international price of silver and costing Fort Knox a significant amount of money.¹⁸ Luckily, Roosevelt was later able to salvage his relationship with

¹⁵ Raymond 26

¹⁶ Schuler 125

¹⁷ Schuler 119

¹⁸ Schuler 120

Cardenas through his wisdom regarding the oil trade, but the nearly disastrous result of Welles' aggressive Mexican policy shows Roosevelt's wisdom in choosing to avoid direct economic conflict.

Cardenas' most important consideration in his decision to expropriate was the impending world war. As Octavio Paz observes, "The only way the weak countries can defend themselves against the strong ones is to take maximum advantage of the quarrels among the great powers."¹⁹ Cardenas recorded his strategy in his diary, writing, "A new world war would restrain the governments of the US and Great Britain from attacking Mexico, in the case of decreeing the expropriation."²⁰ World War II limited the power of multinationals to strike against Mexico, created international markets for Mexican state-owned oil, and forced oil companies to accept a much lower settlement²¹. The corporations would have normally had more than enough power to cripple the fledgling Mexican petroleum industry, but the pressures of international war created a unique opportunity for Mexico to play powers against each other and create its own market.²²

As Cardenas took advantage of the coming world war, multinational oil corporations began an aggressive campaign to regain their property. The companies feared that a successful Mexican expropriation would set a precedent for other nations and they would lose their control over oil fields in countries inspired by Cardenas. They used a variety of tactics to fight Cardenas, with varying degrees of support from Roosevelt but little actual success.

Hoping that Mexico would be unable to pay the compensation for its seized properties, the oil companies demanded an impossible amount of money from Cardenas. Wisely, Roosevelt did not involve himself in the debate. When a joint Mexican-American expert commission investigated the claims and discovered records proving corporate dishonesty, Mexican anger at the corruption was not directed toward the US government.²³ Likewise, when oil companies threatened Cardenas and supported an unsuccessful coup by one of his ministers, Roosevelt refused to become involved.²⁴ Because the president had distanced himself from the petroleum industry's schemes, Cardenas continued to view the corporations, rather than the Roosevelt administration, as his main opponent in the expropriation struggle.

¹⁹ Paz

²⁰ Schuler 95

²¹ Schuler 93-94

²² Schuler 95

²³ Cronon 241

²⁴ Gonzales 252

The oil companies proved to be most dangerous in their ability to influence national and world opinion. They began by organizing a powerful propaganda offensive, rapidly moving from company publications into the national media. They subsidized national magazines, paid off reporters, and hired public figures to tour the country spreading anti-Mexican sentiment.²⁵ As US prejudice grew, the Mexican tourism industry fell drastically, further harming the economy.²⁶ More importantly, Americans began calling for an end to the Good Neighbor Policy, pressuring Roosevelt to force the return of lost oil property.²⁷

Roosevelt's relationship with oil corporations was dangerously strained. The cleverly manipulated public opinion meant that politically, he could not afford to be seen as pro-Mexican. More importantly, the US could not condone expropriation for fear that other countries would follow Mexico's example and seize control over foreign companies. Roosevelt could not use direct force against Cardenas because he knew the importance of maintaining civility for future oil trade, but he did order the State Department to support the oil companies' international boycott against Mexican petroleum. The government cancelled all contracts with suppliers involved in the Mexican oil trade and blocked US shipping companies from purchasing fuel from Cardenas.²⁸ Meanwhile, the oil companies used their control over the world's tanker fleet and influence over manufacturers to keep them from selling Mexico the equipment it needed to refine petroleum or transport raw oil to other countries.²⁹ Multinational corporations were even able to use their influence to pressure European governments to halt Mexican shipments abroad. Countries unwilling to risk their relations with the powerful companies refused to trade with Cardenas and even agreed to confiscate Mexican cargo on the grounds that it was 'stolen property.'³⁰

Normally, such a powerful international effort would have hopelessly crippled the young Mexican company, but Cardenas had been right in predicting that the world war would create a new market for oil and place Mexico in an excellent bargaining position. Cardenas was vocally anti-fascist and declared that "Mexico would prefer to sell to the democracies," but as the Roosevelt administration repeatedly refused his offers of oil, he was forced to offer oil to any foreign government that was interested. Germany,

²⁵ Cronon 244-245

²⁶ Gonzales 251

²⁷ Cronon 244

²⁸ Gonzales 252

²⁹ Cronon 242

³⁰ Cronon 102

struggling to find a stable source of oil amid the suddenly unreliable Allied-based companies, seized the opportunity and began supplying Mexico with much needed equipment and capital.³¹ When Mussolini entered the war and founded a state oil company called AGIP to challenge the dominance of democratic-based oil companies, he followed Germany's example in importing Mexican oil.³² Japan also became a major purchaser of the petroleum, even planning a joint pipeline project with Cardenas to make Asian oil imports less expensive.³³ On the eve of world war, Mexico had become a major supplier of the Axis powers.

However, it is critical to understand that hidden from the public eye, Cardenas and Roosevelt were actually preparing an alliance. As Mexico supported the Axis war effort, Cardenas secretly informed Roosevelt about the details of every deal, impatiently waiting for the moment when the United States would open trade so he could stop supporting fascism.³⁴ Roosevelt continued his official condemnation of expropriation, assuring the American public and oil companies that he was defending the national economy and showing Latin American leaders that the United States would not simply accept expropriation. Historically, it may seem that Roosevelt's siding with the oil companies was indirectly aiding the Axis by forcing Cardenas to support fascists, but the president could not risk appearing pro-Mexican with the eyes of the nation and the world trained upon him. More significant is the fact that Roosevelt was forming a secret alliance with Cardenas to ensure Mexican support when it would be most critical. Even as the State Department pressured Mexico with boycotts and official condemnations, Roosevelt kept an ongoing personal letter exchange with Cardenas, assuring him that they would "find a satisfactory solution to the oil problem and Mexican-US friendship would prevail."³⁵ This communication kept Cardenas concerned with trying to please Roosevelt and kept Mexico from becoming overly Axis-friendly. For example, Cardenas cancelled his agreement with Japan to build the pipelines because he did not want to risk angering Roosevelt and damaging their friendly, if secret, relations.³⁶ The leaders' shared desire for an alliance within their political and economic conflicts kept their actions from causing any serious long-term strife.

³¹ Cronon 101-102

³² Cronon 103

³³ Cronon 106

³⁴ Cronon 102

³⁵ Cronon 106

³⁶ Cronon 107

With the attack on Pearl Harbor and the US entrance into World War II, Roosevelt publicly declared that solidarity in the Western Hemisphere would be critical in the coming conflict and that alliances in wartime were more important than the financial interests of corporations³⁷. The continuation of the boycott would devastate the Mexican economy in the wake of the British blockade of Axis trading ships and would destroy all hope of a mutually beneficial trade agreement. Roosevelt's priority was ensuring that the US would have access to Mexican oil during the war effort, even if that meant trade with a sovereign Cardenas instead of with American companies controlling Mexican land and unwilling workers. With the American people united behind him in the war effort, Roosevelt accepted the legality of Mexican oil, ordered the oil executives to end the boycott, and finally opened the US to imports from its southern neighbor³⁸.

Roosevelt ultimately succeeded in forming a united American continent. His diplomacy may have given the Axis a short-term advantage and strained his relations with both Mexico and the oil companies, but when war broke out and the time was crucial, his willingness to compromise assured the US of an allied neighbor. By remaining true to the Good Neighbor Policy and refusing to intervene, Roosevelt kept Mexican oil expropriation from ever becoming a true crisis.

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³⁷ Gonzales 254

³⁸ Cronnon 106

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