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Beginning and Early Stage of the Venezuelan Oil Industry

By

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S U M M A R Y

The aim of this thesis is to analyse the early development of the Venezuelan oil industry both in relation to developments in the oil industry worldwide and in relation to Venezuela's social and economic development. It is argued that both aspects are crucial for an understanding of the early development of the Venezuelan oil industry.

At the level of developments in the oil industry worldwide, this thesis argue that developments occurred not because of lucky strikes in the USA or Venezuela but because developments elsewhere, namely in kerosene fired devices and the internal combustion engine, made oil an economic necessity for their practical application. Within this section the thesis attempts to refute allegations of an "oil war" between British and USA oil interests in Venezuela. Using original source material the thesis attempts to show that this allegation, widely published in the mass media of the time, really concealed the reality of an alliance between the big British and USA oil consortia against oil producing countries on the one hand and small oil companies on the other. Finally this thesis puts an emphasis on the existence of an "oil surplus" and the gap between the real oil cost and oil price. In the period studied technical developments in the internal combustion engine reduced the amount of "waste" in oil and therefore reduced the real cost of producing oil at the same as the increasing demand for oil products pushed the price of oil up. This gap

as oil surplus, which has shown a tendency to increase over time, led to a position where it was possible for the bargaining power of oil producing countries to increase provided the country had the political strength to use this power. It is argued in this thesis that Venezuela did not begin to acquire this political bargaining strength until the 1930's.

To develop Venezuela's natural riches after the 1870's a strong central Government to ensure stability was required. The old constant "caudillo wars" were no longer functional either to the Venezuelan ruling class or to the Great Powers wishing to exploit Venezuela's natural resources. The development of the Venezuelan oil industry assisted this process of a strong central Government. The development of this strong central Government, that of the dictator Gomez, has been portrayed by most Venezuelan historians as being totally subservient to the interests of the US oil companies. This thesis argues that Gomez was in fact more the representative of the Venezuelan ruling class at a time of change. And if remained almost permanently under the sway of the foreign oil companies it was because he was seriously constrained by their threatened, and at times actual, support of the Venezuelan opposition to him. However oil did introduce profound social and economic changes, and also instability into Venezuelan society. And after 1930 this foreign oil company policy of threatening to topple Gomez by supporting "caudillo adventures" against him was no longer viable.

CHAPTER I

Introduction

This work studies the early development of the Venezuelan oil industry until the moment when it reached its full development. Turning points in history do not happen overnight; however some events have always been used as an approximate approach to such turning points, in order to make easier the study of certain problems. 1928 has been chosen as such a turning point. First of all, during the period 1921-1927, annual Venezuelan output increased by over 100% more than twice as much as the world output during the same period. After 1928 its rate of increase in production fell to below 50% per annum and after 1930 it followed the path of world output.

Until 1922 the whole of Venezuela's oil output came from British owned enterprises and between 1923 and 1927 over 50% of this output came from British owned companies, particularly the Shell Group. After 1928, the share of the Venezuelan oil output produced by US corporations passed 50% of the whole.

Finally, the political events which occurred between 1928 and 1930 brought about basic changes in the Venezuelan political structures. Gómez the almighty tyrant, became only a decorative figure. The rest of Gómez's family lost any political influence while the old caudillos disappeared for ever.

This thesis has been worked out by studying different primary sources, especially British ones; different parliamentary papers related to both the world oil market and the relations between Britain and Venezuela; information published by the British

press and recorded in the Shell archive; records of the Board of Trade regarding the incorporation of companies involved in the Venezuelan oil industry, etc. Also some important secondary sources have been used such as memoirs, researches on the Latin American market during the 1910's, reports about the alleged struggle between Shell and Standard Oil in the course of the 1920's, etc. However, the main pillars of this research are the despatches and telegrams sent by the British Ministers at Caracas between 1906 and 1928 (recorded under the key number F.O. 371) and the reports published by The Times between 1900 and 1902 and between 1908 and 1927. In the case of The Times, special emphasis has been placed on the reports of the annual Shell share holders' meetings and ^{1/} the direct reports from the oil market.

From the outset of this research a clear contradiction emerged between the evidence given by the primary sources on the one hand, and the Venezuelan modern literature on the other. Since 1956, when Rómulo Betancourt's Política y Petróleo ^{2/} was published, the Venezuelan historians involved in the subject have followed in his wake to a greater or lesser extent. Even Domingo Alberto Rangel ^{3/} and Pedro Estevan Mejía Alarcón, ^{4/} who disagree with Betancourt in general terms, support some of these views.

Firstly, Betancourt supports the US historians in linking the progress of the oil industry almost entirely to successful oil strikes - for example, the well known left wing US historian Harvey O'Connor ^{5/} sustains these views. The US writers mention discoveries which took place in the USA, like the successful drilling in Tytusville, Pennsylvania, led by Edwin Drake (1859) or the other in Spindletop, Texas, initiated by Anthony Lucas (1900).

R. Betancourt represents the incorporation of Petrolia del Táchira (1881) as the great achievement within the Venezuelan oil history. It was, in fact a small company operating near San Cristóbal, capital of the Táchira State, and near to the border between Venezuela and Colombia. This company produced an almost negligible output, which was sold within the Venezuelan area surrounding San Cristóbal and the Colombian territory around Cúcuta. Petrolia's output was so small that in 1917, 36 years after its incorporation over 99% of Venezuela's kerosene needs had to be imported. Betancourt charges the Venezuelan government of the day with being the reason why the oil company Petrolia del Táchira did not achieve a greater success. According to Betancourt the Venezuelan rulers at that time were subservient to European ideas and culture and consequently they were more eager to support the foreign railway companies than to back Petrolia which was owned by Venezuelan citizens.

Another major area of contention arising in this research relates to Betancourt's view of the Venezuelan ruler Juan Vicente Gómez, who was in power from 1908 until his death in 1935. Some writers who published their books during and after Lopez Contreras' government (1935-1941) - for example, Lieuwen^{6/} and Rourke^{7/} - present Gómez as a corrupt ruler who used his position to defraud both the international oil consortia and the Venezuelan treasury to his own advantage. However, the modern Venezuelan literature guided after 1956 by Romulo Betancourt, sees Gómez as a puppet of the US government and a servant of the international oil combines. Even a writer like Domingo Alberto Rangel, who disagrees with Betancourt in many substantial points, has also stated, on at

least one occasion, that the beginning of Gomez's government
signified the establishment of a US protectorate in Venezuela.
8/

Finally, Betancourt and those historians who tend to follow his line of argument accept uncritically the image created by books during the 1920's of a supposed struggle between Shell and Standard Oil. This contest was fully reported in the US media during this period. Journalists, academics and others published research on the subject; the US journalists Ludwell Denny and Louis Fisher^{10/} and the Spanish professor Sebastián Barcia,^{11/} are three cases quoted in this research among dozens of others. Ludwell Denny is especially important for the present study because he devoted whole chapters in his books to Latin America and especially to Venezuela. Denny's books contain some useful information; however some of his view and opinions are clearly unconvincing and outdated. In spite of this, Betancourt repeats all Denny's views without any criticism or even analysis.

These are the main points of disagreement between what this research maintains and the views held by Betancourt and historians influenced by him.

Regarding the first point, as is to be explained in further chapters, in general terms the discovery of new uses of certain minerals is more effective in revolutionising a particular mining activity than the discovery of new deposits of the same mineral. In the case of oil, the intervention of kerosene - fired devices was the great breakthrough which led the oil-extracting activities into the great development they underwent during the second half of the last century. And this first boost given by kerosene only provided outlets for the oil produced by the oilfields near the

consumption markets, namely the Eastern states of the USA and Europe; countries like Venezuela, without an internal market large enough to sustain its own oil industry during the intial stage, had to wait until this century, when the development of the internal combustion engine generated such an increase of demand that the oil deposits of the Eastern USA and Europe were no longer able to cope with it.

Regarding Betancourt's attitude to Petrolia del Tachira it is agreed in this study that Petrolia has only a relative importance in the history of Venezuela's oil industry. It shows that Venezuela had people capable enough to develop such enterprises for themselves. Indeed, the first foreign company which initiated oil explorations in Venezuela appointed a number of Venezuelan professionals who made up nearly a half of the skilled workers included in their exploration terms.
^{12/}

However it was not lack of skill which stood in the way of Petrolia's success; it was lack of markets. Taking into account the fact that Venezuela had less than two million inhabitants at that time and that 95% of this sparse population lived at subsistence level, it becomes apparent that the infrastructure needed to deliver the oil all over Venezuela would make the unit cost of this oil incredibly expensive due to the low volume of internal consumption. Betancourt overemphasised the significance of Petrolia's internal problems in its demise and failed to link the history of the Venezuelan oil industry to the development of the oil activity worldwide.

Two principal facts in connection with Petrolia are of paramount importance in the period covered by this research. One is

how important demand was in the development of the oil industry, particularly during the early stages. Whoever was able to control the consumption market, controlled the whole oil industry. Just as Petrolia del Tachira did not achieve a great success due to lack of markets, the smaller British and US companies, some also involved in the Venezuelan oil industry faced similar - or even worse - problems later. The great oil consortia such as Shell and Standard Oil, succeeded because they managed to create a world wide marketing system.

The other fact is that the social basis of the Venezuelan government made it not only unable but also unwilling to support Petrolia. During the nineteenth century, the Venezuelan ruling classes - overwhelmingly landowners - regarded mining as a way of balancing the budget without affecting their own pockets. Thus mining being a source of revenue, the Venezuelan government never attempted to encourage mining enterprises with public money. The Venezuelan government was predisposed to direct public money only towards the agrarian industry. They supported new railway systems which would carry the crops to the ports, new harbour installations which would be useful to load the ship to export the crops, etc. Mining was envisaged as a short term source of revenue. It is consistent with Betancourt's general approach that he failed to analyse the relationship between the Venezuelan government and the Venezuelan oil industry.

The limitations of Betancourt's framework also affect his view of J.V. Gómez's government in relation to the Venezuelan oil industry. In criticising his views it is essential to point to the link between the internal situation and the development of the

oil industry worldwide.

After 1880 a strong central government, able to represent the Venezuelans in the face of increased economic and political pressure from abroad, became badly needed. Consequently increased revenues also became an urgent need as a strong central government would need an army powerful enough to defeat the private armies organised by the caudillos (landowners involved in politics trying to impose their will by force of arms).

A new situation in Venezuela coincided with a new situation in the world oil market. At the same time that the need for a strong central government made an increase in revenue urgent, the development of the internal combustion engine meant a sharp increase in oil consumption. If Venezuela needed revenues, its oil potentialities could provide them. The mining code of 1906 made it apparent that Venezuela was trying to develop its oil wealth.

During the first decade of this century foreign entrepreneurs replaced Venezuelan capitalists in many activities inside Venezuela. In the world oil market big oil combines, able to develop world wide marketing schemes had replaced small companies unable to control the oil activities at each stage of the production and marketing process. So the Venezuelan oil was entrusted to foreign capitalists. If the industry was not developed until 1912 it was because Venezuelan demands were far beyond what the oil combines were willing to give and consequently these consortia boycotted Venezuelan oil. Conditions in the world market prevailing at that time allowed the combines to follow such policies.

This is the context in which the position of General J.V. Gomez

should be analysed. This thesis is not claiming that the famous dictator was either a national hero or a great popular leader. Indeed, he was certainly neither; during his government Venezuela was undergoing great transformations, particularly connected with the early development of the oil industry. These transformations were not being developed through Gómez's leadership and, to some extent, they happened in spite of him. However he was able not only to obtain personal advantage from these developments, but to direct similar advantages towards the upperclass - or at least elements of it. Gómez enjoyed the support of those elements until his death, and this was the basis of his success. The main strength shown by Gómez was his skill in dealing with foreign combines and their supporting Great Powers. He had learned from his predecessor's failures the limits of his bargaining possibilities with the Great Powers and international consortia. President Cipriano Castro (1899-1908) had tried to impose his will on the foreign companies working in Venezuela. This policy led him into a head-on clash with the Great Powers and finally he was overthrown by his closest allies headed by his then vice-president Juan V. Gómez. Gómez knew that he could only negotiate with the foreign companies and their supporting Powers, without, at the end of the day, imposing his wishes in full. Knowing this fact Gómez acted well within the limits he perceived.

Until 1912 the oil policy followed by Gómez was similar to Cipriano Castro's; he even demanded more revenue from oil than his predecessor had. The concession granted to Max Valladares in 1912 (a concession which eventually became the property of a Shell subsidiary) amounted to a sort of surrender to the oil

companies. After this the first Venezuelan oil well below 300 feet was discovered (1914). In 1917 the "Mene Grande" oilfield came into production and in 1918 Venezuela stopped oil imports.

World War I had meant a great increase in oil consumption. The Bolshevik government had nationalised the Russian oil industry and the Mexican government was trying to increase its oil taxation. As those two nations were among the major oil exporters of the day, these two last events encouraged many other oil producing countries to claim a better share in their own oil wealth. As a consequence of the war the big consortia could only benefit from boycotting the rebel countries if they could obtain some support from within those countries.

Initially Venezuela was one of the countries trying to increase its share of its oil wealth. Between 1917 and 1920 the Venezuelan government issued a number of laws, decrees and new concessions aiming to increase the tax and royalties paid by the oil companies and replace the old system of concessions - normally granted to Gomez's friends and relatives - by auctions, etc. In order to implement this policy, the government attempted to annul old concessions which were outside the scope of the new laws.

Facing this situation, the oil combines initiated a boycott against the Venezuelan oilfields. As a result of it, the Venezuelan output, which in 1918 was three times that of 1917, registered negligible increases in 1919 and 1920. Venezuelan oil exports diminished sharply in 1918 and 1919, declining to zero in 1920.

However the consortia well knew that they could not successfully maintain such pressure for long under the new economic circumstances;

the market needed Venezuelan oil. Therefore they began to use a new method to force the Venezuelan government to accept their terms. They gave political and economic shelter to the old caudillos, the oldfashioned political leaders of 19th century Venezuela. These caudillos never obtained enough support to overthrow Gomez, but they allowed the foreign companies and their supporting Powers to impose their will by effectively blackmailing him. It seems more than coincidence that in 1921, the weapons that the caudillos were loading onto vessels in Swansea and Amsterdam without interference from the authorities were embargoed by Scotland Yard as soon as Gomez made his oil policy more favourable to the companies.

After this policy defeat in 1921 (evidently recognised by Gomez in the new hydrocarbon law of 1922, drafted by the US concession middleman Addison-McKay) there followed a period in which the Venezuelan oil industry underwent rapid development; this period culminated in 1928 when Venezuela became the second oil producing nation in the world and the leading oil exporter. On the other hand, Gomez became the tool the oil combines needed, to counteract the rebellion of many oil exporting countries: Venezuela was particularly useful against Mexico, whose presidents Alvaro Obregon (1920-1924) and Plutarco Elias Calles (1924-1928) had followed a policy which did not please the oil consortia.

Gómez made it clear on at least two occasions, that he was not performing this role willingly. In 1924 he attempted to enact a new hydrocarbons law and to annul the concession held by V.O.C., a Shell subsidiary which exploited the most prolific oilfields in Venezuela. In 1929 he initiated a similar policy, this time

attempting to annul the concessions held by Caribbean, another Shell subsidiary. In both cases Gomez was out-maneuvered. As in 1921 the caudillos were supported politically and economically until Gomez desisted from his new policies, whereupon Scotland Yard once again helped Gomez to thwart the plans hatched by the caudillos. Thus V.O.C. and Caribbean concessions were not annulled and the hydrocarbon laws of 1925 and 1929 did not achieve substantive changes to the 1922 law. Betancourt fails to mention either the 1925 or the 1929 law. As regards V.O.C. and Caribbean, he chooses to stress Gomez's violation of a law enacted by himself and to present Gomez as a puppet of the US interests in a struggle with Britain.

Regarding the alleged struggle between Shell and Standard Oil, British non confidential diplomatic papers admit the possible action of US interests against British enterprises, but even so they do not make a great deal out of this issue. Later in the 1920's confidential documents begin to show a rather different reality. Secret documents sent as early as 1925 show that Standard Oil was closer to Shell than to other US interests.^{13/} The alliance between Shell and Standard Oil becomes apparent when the British Minister at Caracas explains that the US combine is supporting Shell in the Schumpeter case (launched by a US citizen against a Shell subsidiary in 1928).^{14/}

Thus, in the context of events in Venezuela between 1917 and 1929; it becomes apparent that there was no struggle there between Standard Oil and Shell. It is nevertheless a fact that the US oilmen who were trying to annul Shell's concessions were also supported by Standard. They were working with, and to a certain extent,

for Standard Oil, but they were not Standard Oil itself. The fact that they received some support from Standard in their attempt to push Shell out of Venezuela, support which in no case was enough to defeat Shell, can be explained in terms of the following two motives.

- A. There is a reason to suppose that Standard Oil was supporting a media campaign alleging a struggle between American and British oil interests in order to hide a real struggle between the big and small oil combines world wide.
- B. By supporting minor US oilmen in Venezuela, Standard Oil may have been aiming to obtain advantages in an agreement with Shell. As it turned out to be explained later, the agreement had been in process since the end of the war, and culminated with a comprehensive accord signed by both companies in Achtnacary (Scottish Highlands) in September 1928.

The campaign initiated by the media had a great impact. The struggle between British and US oilmen seemed so evident that Gomez attempted to exploit the supposed contest to his own advantage. His effort was a complete failure as was to be expected. Meanwhile both the British and the US governments supported the big oil combines against the small ones. By the end of the decade the small oil concerns had been all but destroyed and the rebel oil exporting countries had been forced into temporary retreat.

Gomez's Venezuela had been a very useful, although unwilling, tool in the hands of the oil consortia in their battle against other oil exporting countries. But due to the development of its oil industry, Venezuela had undergone a series of transformations in the economic, social and political fields. When events like the Urbina invasions took place (1929-1930) it became apparent that Venezuela had experienced fundamental changes and the methods

previously used by the combines to pressurise the Venezuelan government were no longer possible.

Gomez tried to wrest as many advantages as he could from the oil consortia. If he failed it was due to weak points in the social fabric that the combines were able to exploit. Certain elements which appeared in the oil market after 1900, gave the oil producing countries a strong bargaining position. The development of the internal combustion engine increased oil demands and enlarged the range of serviceable hydrocarbons. Therefore, while increasing demand meant higher prices, a larger range of usable hydrocarbons meant diminution in waste and consequently a reduction in costs. This gap created between prices and costs is still present to this day; the invention of the cracking method and the development of the petro-chemical industry further widened the price-cost gap. This gap which has been renamed in this research "oil surplus" is a reality in the free market system, even when it is not the oil consortia themselves who take advantage of it. The constant potentiality of taking at least part of this "oil surplus" afforded the oil producing countries a stronger bargaining power.

The present thesis proposes that the oil history of this century is a tale of ceaseless struggle between the oil consortia, other industries (motor car, shipyards, transport etc.), oil consuming countries and oil producing countries for the control of the largest share of the "oil surplus". The concept of "oil surplus" shows that the history of the Venezuelan oil industry cannot be fully understood except in world-wide terms.

The link between international and national events, the economic and political evolution of Venezuela, is the subject of this

research. It is a subject which is still current today with the formation of OPEC and the oil crisis of the 1970's. The study of the early stages of the Venezuelan oil industry, the central theme of this thesis, uncovers the roots of the present situation of Venezuela's oil policy today and the kinds of limitations surrounding it.

NOTES

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We Fight for Oil A.A. Knopf Ltd. New York, London 1928.
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11. Barcia Trelles, Sebastian. El Imperialismo del Petróleo y la Paz Mundial. Talleres Tipográficos Cuesta. Valladolid 1925.
12. During 1912, the company sent a team of 35 geologists, who assisted by a similar number of Venezuelan civil engineers explored the territory included in the concession. Memorandum sent by HM's Petroleum Executive to the Foreign Office. 8th April 1919. F.O. 371 Piece 4254 No. 71449.

13. H. Deterding's cyphered telegram to A. Agnew (20th July 1925).
F.O. 371 Piece 10653 No. 3744 and A. Agnew's cyphered
telegram to H. Deterding (23rd July 1925) F.O. 371 Piece 10653
No. 3778.
14. W. O'Reilly's despatch No. 16 (British Minister) to A. Henderson
1st May 1929 F.O. 371 Piece 13558 No. 3447.

CHAPTER II

World conditions in which the Venezuelan oil industry was initially developed

This chapter will deal with the early development of the world oil industry up to World War I because it was within that framework that the Venezuelan oil industry appeared. It will also consider the early development of the industry on other Latin American countries, especially Mexico, which held second place in world production between 1914 and 1927, when it was displaced by Venezuela's own production. Although the Venezuelan oil industry appeared 17 years later than the Mexican oil industry, there is a strong link between the development of each; as will be seen in later chapters, the big oil consortia encouraged such a link in order to play off the one country against the other. During the 1920's in particular Venezuela was used to bring Mexico to its knees in terms of revenues charged and other conditions.

It is usually accepted that the oil industry appeared with the successful drilling made in Titusville, Pennsylvania on 20th August 1859. In fact the oil industry had existed since long before then. Oil was well known; oil seepages and pitch lakes were scattered all over the world.^{1/} Venezuela itself had an abundance of seepages along the Maracaibo Lake and a pitch lake in Guanoco (in the North East of the country). Since the early days of mankind oil had been used as medicine, to feed lighting and heating devices, as building and caulking material, for firebrands, mortar, dye, etc. In the particular case of Venezuela, pre-Columbian inhabitants had used Mene - as they called crude oil - to caulk their primitive vessels.

After the Spanish conquest, both Spaniards and buccaneers used the crude oil seeping from the Venezuelan soil for similar purposes.

In some places, when the natural output was not enough to cope with the local demand, wells were dug next to the seepages in order to increase the output. During the 18th century oil had been studied by chemists and in 1738 a sort of primitive oil refinery had ^{2/} been built in Alsace.

Nevertheless, oil demand was so small that in many countries, natural oil resources were not used. Although oil occasionally reached very high prices in places where it was scarce, the level of demand was not sufficient to cover the cost of transport from distant places where it was in surplus production.

The event which revolutionised the oil market was a series of inventions by the British chemist James Young (1811-1883). In the late 1840's he patented a liquid hydrocarbon mixture, known today as kerosene or paraffin, to feed lighting and heating devices. It was cheaply obtained from the crude oil yielded from a seepage located in Derbyshire. This was the cheapest way to obtain oil, and it was only when the diminishing output from that seepage was no longer able to cope with the increasing demand, that Young obtained paraffin from other sources, firstly from coal and then from the Scottish oil shales. It was the possibility of obtaining cheaper paraffin from crude oil that encouraged discoveries like Titusville.

The discovery of Kerosene encouraged oil production to such an extent that world output increased from 1/2 million barrels in 1860 up to 149 millions in 1900. However the world output was still ^{3/} very small. In 1900, although 300 times as high as in 1860; it was still only equivalent to what the USSR (the main world producer)

obtains in 1 1/2 weeks today.

Kerosene therefore extended the market and led to the development of the oil industry in areas near to the main consumer markets, namely Europe and the Eastern states of USA.

In 1881, Karl Benz (1844-1939) made the first car and in 1893 Rudolf Diesel (1858-1913) designed the engine known today by his name. However, these inventions had very little effect on the market until this century. In 1900 only the USA and France had a recorded car output.^{4/} After 1900 the effect of these inventions on the oil market was of paramount importance.

First of all, costs of oil were lowered as a wider range of hydrocarbons were found to have uses and waste was consequently diminished. Very soon, kerosene was no longer the main product and it became a byproduct of the production of gasoline.^{5/}

As the level of crude oil production, based primarily on the demand for kerosene, proved insufficient, the rapid development of the internal combustion engine led to an important increase in world oil demand. In 1915 world output reached 427 million barrels,^{2.9} ^{3/} times as large as in 1900.

As the development of the internal combustion engine extended the market, increased oil needs required the exploitation of new oil fields further away from the areas of main consumption. In the USA, the Texas oil fields had begun to be exploited in 1901. In the rest of the world Mexico and Persia had appeared in the world oil ranking at the same time. Fields in Egypt, Trinidad and Argentina had followed them before the end of the decade. Burma, Dutch East Indies and Peru had all initiated their oil exploitation some years before 1900.

Leading figures in the World Oil Market - Two men shaped the oil world in which Venezuela eventually became involved, namely John D. Rockefeller (1839-1937) and Henry A. Deterding (1866-1939). Rockefeller and Deterding represent two particular oil markets. Each of them knew how to exploit to their own personal advantage the particular oil market in which they developed their activities.

Rockefeller ruled the oil market during the kerosene period. He was a business man engaged in supplying the army during the American civil war. As kerosene was needed by the army after 1863 Rockefeller became involved in oil refining enterprises. In 1871 his "Standard Oil Company" had US \$2.5 millions capital and refined ^{6/} 10% of US crude output. In 1879, it dealt with 95% of this output.

After 1905 the man who took control of the world oil market was Henry Deterding. His methods were better adapted to the "internal combustion period".

Henry A. Deterding had been a bank executive in Dutch East India and was involved in the Royal Dutch Petroleum Company, becoming the company's manager in 1901. After a price war in 1905, Deterding's company defeated Standard Oil in the European market; after that, he took unchallenged control of the world oil market until the end of World War I. In 1907 Deterding's company Royal Dutch merged with Samuel Brader's Shell Transport and Trading Company, which had been severely battered by the price war in 1905, to become the "Shell" Group of oil companies, the Dutch partner holding 60% of the ^{7/} consortium and the British partner 40%.

The policies followed by Rockefeller and Deterding seems to be the antithesis of each other; but rather than being different sets of criteria to face the same problem, each policy represents a correct

solution to a different set of problems.

While Rockefeller, on the one hand sought to avoid drilling enterprises, in order to take control of oil transport refining and marketing, Deterding sought to get involved in each stage of the oil industry from the well up to the filling station. Rockefeller initiated some drilling enterprises, but this was only in order to reinforce his mastery over the extracting companies. In 1904 while Standard Oil refineries produced 86% of the kerosene sold in the USA, oil fields owned by the same company scarcely yielded 10% of the US crude oil output. Deterding also bought oil from other producers in certain places and on certain occasions, especially within the USA,
^{8/} but he tried to rely on his own sources of supply.

Rockefeller kept prices as low as possible and to avoid competition he sold oil below cost of production until competitors became bankrupted. Deterding promoted an alliance among the oil producers, keeping prices at the highest possible level so that every
^{9/} company could survive.

Rockefeller supplied the world with US oil while Deterding supplied the world with the world's oil.

During the kerosene stage, the oil industry produced a lot of waste as only a small range of hydrocarbons was serviceable. The well in Titusville was 69 feet deep and by the end of the century oil wells had reached a depth of 1,000 feet. Therefore there still existed an abundance of shallow oil deposits around the main centres of consumption especially in the USA. This abundance of shallow oil deposits meant that on several occasions, especially during crisis periods like in 1870, crude oil prices fell below the cost of production.

Drilling was still an enterprise which needed a relatively small amount of capital. Although big fortunes had been made overnight in such enterprises, oil drilling business represented a gamble in which it was much easier to lose than to win. Therefore, drilling enterprises were small businesses partly because there were abundant shallow oil deposits near the main oil consumption areas with the necessary infra-structures available. The most important reason, however was that nobody was willing to risk large amounts of capital without a reasonable possibility of recovering it with a good margin of profit. The bulk of oil required by the market was so small that big initial investments in the oil extracting enterprises were uneconomic; these initial investments would have an excessive effect on costs per crude oil barrel due to the small quantity of oil required by the market. Let us compare as an example, the Venezuelan oil deposits in Maracaibo and the oil shales of Scotland. In Maracaibo the development of such a void area needed large initial investments, but the quality of the crude oil obtained there made operational costs very small because of the high economic processing costs. The Scottish oil shales on the other hand needed almost negligible initial investments but they had high operational costs. Even so, relative to the conditions prevailing in the world oil market at that time, the Scottish shales still gave a better economic return than the Maracaibo oil fields.

The Rockefeller method was well suited to this situation. Within the part of the world where the main oil consumption markets were located, the principal oil resources were in the USA and consequently, the control Rockefeller had over the oil market enabled him to impose his mastery over 70% of the world oil market.

After 1900 the development of the oil fed internal combustion engine had a great effect on the market. Firstly costs in the oil industry decreased as the waste diminished; however, prices had a tendency to increase as demand for oil products also sharply increased. In such conditions a big initial investment in oil drilling enterprises became economic, but only if these drilling enterprises would be able to sell large quantities of oil at profitable prices to be able to absorb the large initial investments. The only companies able to do so were those who had a world wide marketing scheme. Using the same comparison between Venezuelan oil fields and Scottish oil shales observed previously, the Venezuelan oil fields now became more economic as the initial investment became increasingly absorbed by greater production. But, even so, only companies like Shell and Standard Oil were able to take advantage of this situation because they had the marketing scheme to enable them to sell large quantities of oil needed to absorb the large initial investments.

Moreover the gap between prices and costs just described is a natural phenomenon which can be detected in any free market economy, even when the oil producers do not draw advantage from it and the benefit is enjoyed by other bodies in the system. In this thesis the phenomenon is named oil surplus. Since 1900 the history of oil has been the history of the struggle between different bodies to take the major part of the oil surplus. The existence of oil surplus made possible the system of alliances between all the oil companies propounded by Deterding. High prices allowed the survival of the smaller oil companies, whose costs of production were higher, but at such price levels the big corporations got very high profit rates.

For instance, between 1907 and 1914 Royal Dutch Petroleum Co. paid dividends averaging 45% per annum, and its British partner "Shell" Transport and Trading Co. obtained dividends of around 35% per annum.
10/

The policy followed by Deterding temporarily postponed the crisis which was ultimately to be faced by the small concerns.

After 1905 Standard Oil fell under Shell's sway and subsequently prices began to rise steadily. In 1913 prices reached US \$2.50 per barrel which was a record for the century. However the situation for the small companies became increasingly uncomfortable.
11/ When in 1913 the British Crown purchased a controlling stock of the Anglo Persian Oil Company some small British oilmen got official shelter for themselves. But, apart from this case the smaller British oilmen began a gradual withdrawal from the oilfields in the developed countries. In some of these countries, like Peru, it was the small British oilmen who had been the originators of the oil developments.

So we can see that the number of companies able to develop oil enterprises diminished as a large amount of capital as well as a marketing scheme became necessary.

Moreover the world output was much below the potential production; the whole world output of 1915 is today produced by the USSR in just 1 1/2 months. Therefore the smaller number of oil companies able to exploit these oil fields could select the most profitable places in which to invest their capitals.

This situation was particularly inconvenient to countries like Venezuela which had plenty of oil but not the possibility of developing this activity by themselves. To illustrate this fact the particular case of Trinidad can be useful. The retreating group of small British oil companies in the developing countries had taken on

the role of middlemen between the big oil combines and the local governments; in 1912, the South Napacima Oil Co. working there for some years, asked from the colonial government a diminution in taxation to be paid by the company. Only two years later, when the request had been accepted, did Shell settle in Trinidad.

As will be explained later, the alliance between small and big oil companies encountered difficulties over other interests and led to a crisis in 1914 (just before the war) which meant bankruptcy ^{12/} for many of the small oil companies.

Thus the discovery of uses of oil, rather than the discovery of oil deposits, encouraged the development of the oil industry. New inventions increased oil demand and consequently encouraged searches for new oil deposits and increasingly large investments in the oil industry. Later on another important factor will be mentioned; namely the development of better forms of refining. Prices cannot be regarded as causal factors, but their significance lies in the fact that they give an important glimpse of the competing elements within the oil market at any particular moment. For instance, in some cases oil prices have fallen and subsequent world output has increased.

First Steps of the Oil Industry in South America - The oil industry did not appear in any country South of the Rio Grande before 1900. Although in Peru (1863) as well as in Venezuela (1880) some drilling ventures had been developed before this time, they were so small that their relative outputs were negligible in world wide terms.

Within the area, Mexico, Venezuela, Trinidad, Peru, Colombia and Ecuador were particularly well conditioned to develop an oil industry, since all of them had oil seepages known even before the

Europeans appeared there. Paradoxically Peru and not Mexico or Venezuela was the first of these countries where oil fields began to be exploited on a large scale (1896). Mexican oil fields began to be exploited soon afterwards (1901). Then Argentina a country which had not previously evidenced any oil deposits discovered by chance important reserves. In fact, men of the Argentinian Army headed by General Mosconi, dug a prolific oil well in Comodoro Revadavia, Chuleut Province, when they were looking for water in this dry region (1907). The Trinidad oil industry began in 1908: Venezuela however, which was, after Mexico, the country where the existence of oil was most clearly exhibited, had to import kerosene for its own needs until 1917.

If in South America oil resources had remained idle until the beginning of this century, it was due to the lack of a market. As was previously pointed out, the main consumption areas had no need of oil imports, and the Spanish American countries, not highly populated and with the largest part of the population living on subsistence levels, had no internal market to support the development of the local oil industry. Therefore each country had to find a local basis on which the oil industry could be developed.

In legal terms mining in all the Spanish American countries followed the rules of the Justinian law which granted the natural resources lying "under the soil" to the State. The Justinian principle concerning mining had been accepted by the Spaniard since the Middle Ages, but it was particularly convenient in the case of Latin America because the Spaniards were especially interested in the mining resources. But, at least initially, they tried to respect the Indians' property right over the surface. Thus whereas a Real Orden

awarded the coal mines existing in Spain to the landowner beneath whose property the mine lay (28th November 1789), the Ordenanzas para la Minería de Nueva España extended the Royal rights over any possible mineral (22nd May 1783). These Ordenanzas originally were only applied in Nueva España (The territory of Mexico and Central America except Panama) but were gradually extended over Spanish America as a whole. They represented the first Mining Law in every Spanish American country after independence. This law makes special references to the "liquids seeping from the earth".^{13/}

The principle stated by Justinian formed the core of the Latin American mining laws issued afterwards. Other principles have also had some influence; they are the principle enforced in the Roman Republic (and today in the Anglo-Saxon countries) which awards the mining resources to the landowner beneath whose property the mine ^{14/} is, and the principle established by the French Revolution which awards the mines to their discoverer. However, the influence of these other principles is very limited and only applied in a secondary form. The only main exception to this was Mexico between 1884 and 1917. During this period the property rights over oil and coal resources were awarded to the landowners.

Perú, México and Trinidad were the only countries within the area where neither Shell nor any other great oil combine took part in the initial development of their oil industry. The increasing demand for oil in world wide terms gave the basis for development of both Trinidadian and Argentinian oil industries in their initial stage, but Peru and Mexico needed a local basis to initiate their own process.

In the case of Perú, this basis was the local market formed by

that country and its neighbours. It was large enough to sustain the oil industry but too far away and too small to be economic for Standard Oil. So a number of British corporations like Lobitos, Positos y Negritos took control over Peruvian oilfields. Within the area, Chile was particularly important as an oil consumer, especially when, at the beginning of this century oil replaced coal as the fuel for the Nitrate industry.^{15/} But this change caused the eventual ruin of these small companies, because it eventually attracted Standard Oil's attention. In the late 1910's International Petroleum, a Standard subsidiary incorporated in Canada, became the main oil producer in Perú.

In Mexico it was the railway which encouraged the oil industry during its initial stage. Mexican coal deposits were very poor and therefore, the well known oil deposits existing in the country were used to feed oil-burning steam engines. Before 1901 (when this possibility arose) every attempt to develop the Mexican oil potentialities had failed (the first attempt was during the early 1870's). The first oil refinery built in Mexico processed US crude oils; it was owned by Waters Pierce - a Standard Oil subsidiary incorporated in Saint Louis, Missouri.^{16/}

Thus the initiators of the Mexican oil industry were closely involved in Mexican railway enterprises; they were the British citizen Weetman Pearson (later Lord Cowdray)^{17/} and the US citizen Edward Doherty. The Mexican government, particularly interested in developing the railway system, encouraged oil investments. The Ley de Petróleo enacted in December 1901 gave a 10 years holiday tax to the oil industry; oil fields underlying public lands had to pay only 10% royalty (7% to the Federal government and 3% to the State where the

oil field was).

Although Mexico initiated its oil industry in connection with the development of its own railway system, soon afterwards it became subordinated to the US market and consequently to Standard Oil. E. Doheny built few refineries in México, the largest part of the output of his "Huastica Corporation" being sold unrefined to Standard Oil. The Compañía de Petroleos "El Aguila" (better known as the Mexican Eagle) owned by Pearson, had some refineries and sold its output to small oil trading companies in Europe, but when his company's output increased, he was forced to sell a large part of his crude oil to Standard Oil. In 1917, when Pearson sold his company he obtained over £7,000,000 and in 1926 when Doheny sold his interests he got US \$150,000,000; they must, nevertheless be considered minor oil enterprises because they were never able to develop a marketing scheme capable of dealing with their large output in a profitable way.

Due to their dependence on Standard Oil, these two, as well as other smaller oil companies operating in Mexico, tried to obtain a relatively less unfavourable position by fighting violently ^{18/} between each other. In some cases this struggle stooped to criminal activities. When the Mexican civil war began Pearson and Doheny intervened giving economic support to different parties. However this action proved completely unsuccessful, especially for Doheny; he supported the parties which eventually became victorious, ^{19/} but after victory he did not obtain any advantage. On the other hand, Pearson who had supported Diaz against Madero and Huerta against Cananza, found himself in a very uncomfortable position after Huerta's defeat and decided to sell out all his ventures to Shell. Doheny

continued for another 9 years and extended his Empire to Colombia and Venezuela. Finally he also sold his possessions to Indiana Standard. In 1931 Indiana Standard sold its Latin American enterprises to Standard Oil of New Jersey - known today as Exxon. Taking into account what was previously said about Trinidad, and in spite of some token ventures held by other US corporations, such as Sinclair, Cities Services etc. (initiated during the 1930's) after 1931 the seven partners of the Achnacarry cartel (to be explained later) took complete control of the Latin American oil market.

After the beginning of the Mexican revolution, the new governments tried to obtain a better share from their oil wealth. On the 3rd June 1912 they broke the tax holiday by exploiting a loophole in the Ley de Petróleo; this new tax amounted US \$0.03 per barrel. On 21st June 1914 another tax of US \$0.10 per oil ton was established. Finally the new constitution issued in 1917 brought back property rights over oil deposits to the nation. Nevertheless the new constitution did not affect the rights previously acquired by the oil companies and although the US ambassador, Henry Lane Wilson, described the tax of 1912 as an "expropriatory taxation" both taxes together were very low. Until 1921 Mexico was a sort of paradise for the oil companies in comparison with other countries, particularly Venezuela during the same period.

Until 1920 the Mexican oil industry did not have any direct link with the Venezuelan one. In fact, during this period the Venezuelan oil industry was practically non-existent. The initial searches began in 1912. In 1914 the first Venezuelan oilfield was opened. Until 1918 Venezuela had to import kerosene and other oil products. But this brief account of the beginning of the Mexican oil industry

is necessary for this research. Firstly because the link between the post-1921 Mexican oil industry and the Venezuelan oil industry is of paramount importance. Secondly because it describes a stage in the history of the Latin American oil activities from which Venezuela was almost excluded since it appeared in the twilight of this period; namely, the stage in which the British companies - Shell and Anglo Persian excluded - played an important role. However these minor British oilmen had tried to initiate Venezuelan oil ventures, but they failed. Finally the tax policy implemented by Mexico during this period explains why Venezuela failed in its attempts to attract foreign capital to develop the Venezuelan oilfields.

NOTES

1. Longrigg, Stephen H. Oil in the Middle East (London 1961) pp. 9-11.
2. Financial News, 24th December 1919. Shell Archives Cutting Papers Vol. 20 p. 20 right.
3. Espasa-Calpe Encyclopedia Volume 44 (Madrid 1921) pp. 242-243.
4. The first recorded German output is from 1907, while the first British one is from 1904. In 1913 the French car output was 22 1/2 times as large as in 1900 (45,000 units vs 2,000) while the US one in the same year was 130 times as large as in 1900 (519,000 units vs 4,000). Mexican Government. El Petroleo de Mexico (Mexico 1938) p. XX (in connection with the USA) HM Stationery Office. Statistical Abstract for the United Kingdom No. 63, 1901-1915 (London 1916) p. 238 (in connection with Great Britain) Mitchell, B.R. European Historical Statistics (1750-1970) (London 1975) p.467 (in connection with Germany and France).
5. Kerosene represented 60% of the useful crude oil in 1900 but only 16% in 1919. Mexican Government El Petroleo de Mexico (Mexico 1938) p.55.
6. Solberg, Carl Oil Power (New York 1976) pp. 31-40.
7. Henri Deterding's obituary. The Times 6th February 1939, p. 14.
8. Nevertheless, Standard Oil tried to obtain a concession in northern Sumatra (1897) but the Dutch Government precluded it.

Barnes, John H. Deterding - The Napoleon of the Oil World; World's Work, January 1921. Shell Archives. Cutting Papers Vol. 25, pp. 54-57.

9. Deterding explained his views to the journalist Stanley Naylor. This interview was published in a book, Deterding-Naylor An International Oilman (London 1934).
10. Shell gave 35% annual profits (free of tax) between 1913 and 1918. Moreover, in 1918 each share holder got 3 free shares per each 5 they previously had. From a special report prepared by a sub-committee on the Standing Committee of the Investigation of Prices. Published by the Board of Trade on the 1st March 1920. Petrol "Combine" Danger (article) The Times 2nd March 1920, p. 11.
11. In August 1913 the crude oil price in New York was US \$2.50 per barrel (about 100% higher than in 1907). In Russia, the other main producer, the pood (1 pood is 40 Russian pounds; it is slightly more than 36 Imperial pounds) had risen from 14.8 copecks in 1910 to 40 copecks in January 1913. Petroleum, a Difficult Year (article) The Times 22nd January 1915 p. 6.
12. At the beginning of 1914 the Russian price was only 37 copecks per pood and in January 1915 the oil pood was quoted between 30 and 31 copecks. In the same month the price for the oil barrel in New York was US \$1.55. Petroleum, A Difficult Year (article) The Times 22nd January 1915, p. 6.
13. Quoted from Title 5 article 22 in the "Ordenanzas". Mexican Government. El Petróleo de México (Mexico 1938) p. XXIV.
14. The legal principle which grants the wealth lying underneath to the surface owner is usually named French System. Ulpian mentions it as commonly used in the Roman Republic. González Godofredo Derecho Minero Venezolano (Caracas 1945) pp. 16-20.
15. Chilean Nitrate changed to oil at the beginning of this century. Therefore big oil tanks were built in Iquique. Enoch, Charles Reginald. The Republics of Central and South America (London, 1913), p. 928.
16. Denny, Ludwell. We fight for Oil (New York 1928) p. 45.
17. British investments in Mexico amounted to £139.2 millions in 1909 (without taking into account capital invested in banking and shipping enterprises) and £156.9 millions in 1912. It represented 20% of the whole British investments in the area in 1909; in 1912 it had decreased to 17%. In 1909 British investments in Mexico ranked second within British investments in Latin America, after Argentina. In 1912 they ranked third after Argentina and Brazil. Source: South American Journal. The figures for 1909 were quoted by "The Trade of the Republics" (article) The Times 23rd December 1909 p. 43 and those for 1912 were quoted by Enoch, C.R. The Republics of Central and South America (London 1913) p. 488.

18. Carr, Barry. The Peculiarities of the Mexican North (1880-1928) (Glasgow 1971).
19. According to Ludwell Denny, Doheny advanced US \$100,000 in cash and US \$685,000 in full credits to the Cananza Governments. Denny, Ludwell. We fight for Oil (New York 1928) p. 52.

CHAPTER III

Venezuela before the early developments of its Oil Industry

Until 1921, when oil exports became a discernible item within Venezuela's balance of trade, over 99% of Venezuelan exports were agrarian items, especially coffee, cocoa and sugar cane, coffee alone yielding 2/3 of the figure. There were some mining operations, especially asphalt, gold and copper, but in 1912 all these commodities together made up less than 1% of Venezuelan exports.^{1/}

At the beginning of the twentieth century the population was less than two million with less than 1 inhabitant per square kilometre. Although over 95% of this population was living at subsistence level, it cannot be said that Venezuela was a poor country in resources, as its exports surpassed imports by 30% to 50% a year.^{2/} Rather it was an underdeveloped country. In 1912 for instance, the whole of Venezuela's international trade represented £2 per inhabitant, 9 times less than the Trinidadian figures (£18 per inhabitant).

Venezuela during the nineteenth century - During the colonial period gold dominated mining activities in the country, with the eastern side of the country as the main area. Gold mining however, was negligible when compared with Venezuelan agrarian activities. In the context of the Spanish American Empire Venezuela was primarily an agrarian economy geared to supplying the mining nation of Mexico with certain crops, particularly cocoa.

The Viceroyalty of Nueva Granada, which included Venezuela was the place where the ideals of Bolivar, for a United Spanish America was nearest to success, as it became the republic of Colombia; but it lasted for only a few years. In November 1929 the Popular Assembly of

Valencia decided to form the Republic of Venezuela as an independent entity. The South American nations were formed according to the economic units existing within the Spanish Empire, and thus, the Venezuelan nation had its centre in the area where the cities of Valencia and Caracas and the ports of La Guaira and Puerto Cabello are located.

The main difficulty for the economic development of the Latin American states seems to have been the lack of an internal market. They had a very sparse population, the larger part of which was living at subsistence level. Therefore these countries were dependent on the external market. But at the beginning of the nineteenth century this was also insufficient to absorb the complete output of each country. Consequently, Venezuela, Argentina and Uruguay with their cattle, Colombia and Ecuador with their quina etc. had great difficulty in getting their unsophisticated products into the market. For, after the world market had been saturated, the remaining available goods had no economic value at all.

The above situation discouraged capitalisation as demand covered only part of the production they obtained in wild conditions, and, after saturating the market, no real value would remain to be destroyed in civil war. This could recruit for their private armies the peasantry who had become idle after collecting the goods needed by the market. In this way, the landowning caudillos, a common political element in many South American countries, appeared. 3/

In the case of Venezuela, a military advantage was enjoyed by the landowners of "Los Llanos" and "Los Andes". Ports and other premises needed by trade were a permanent value and consequently, the central area of the country was so vulnerable to effects of warfare

that the caudillo who broke into the area, immediately obtained the surrender of the government. Internal wars in Venezuela, normally finished in a battle near Valencia: the battle of Carabobo which sealed independence in 1821 and the battle of La Victoria which decided the last classic revolution in 1902, are good examples.

Nevertheless the economic advantages enjoyed by the ruling elements of Caracas and the central area allowed them to win the peace after being defeated in each civil war; the source of income of these landowner caudillos was foreign trade and it was controlled by the ports of La Guaira and Puerto Cabello. The banner of these caudillos was federalism, through which they tried to get rid of the central government, but they could not avoid their dependence on the ports through which they exported their crops. Therefore, the victorious caudillos were easily attracted by the leading elite of Caracas^{4/} and no real change was ever achieved. Venezuelan federalism^{5/} was never more than formal.

Thus, civil wars were rather frequent in Venezuela. Between 1830 and 1857 there were eleven civil wars and in this last year began a series of armed struggles known as the "Federal War", which lasted up to 1863. After that, the Federal Constitution of 1864 was enacted; it represents the highest tide in the fortunes of Venezuelan Federalism and caudillism as even armed rebellions gained legal approval.

But afterwards the development of a more centralised state became badly needed. The increased world demand for Venezuelan crops, particularly coffee and cattle made civil wars increasingly damaging as now all the Venezuelan crops were required by world markets; a similar phenomenon occurred in other South American countries

At the same time, as civil struggle became increasingly damaging, the European Powers re-discovered Venezuela, and it began to suffer all kinds of pressures from them. Therefore a central government became increasingly needed both to give internal peace and order and to face these external pressures in a more united way.

The task of Venezuela's unification was achieved by four caudillos who consecutively ruled Venezuela between 1880 and 1935; they were Antonio Guzman Blanco, Joaquin Crespo, Cipriano Castro and Juan Vicente Gómez. The first two were, in fact "primus inter pares" among the other caudillos and they and their successors continued in power as long as they were able to keep the loyalty of the other ^{6/} caudillos. But in 1898, when Crespo died in battle, a new stage was initiated. Castro and Gómez sought the support of the caudillos and some of them, like Felix Garivaz, became important supporters, but no longer at the same level of influence. The caudillos who did not accept the way of these new rulers, were attacked and were finally crushed. After 1899 no caudillo leader succeeded in overthrowing the government; nevertheless caudillo warfare continued until 1930.

The new conditions in the world market encouraged investments within Venezuela, particularly in connection with agriculture. The main fields where investments were required were transport and trade. In many cases, Venezuelan citizens initiated these enterprises and the Venezuelan Government supported them as well as it could. After 1880 a number of railways were built which connected different Venezuelan ports and their respective hinterlands; ^{7/} many of them were built by Venezuelans. Up to 1881 Trading Houses in Trinidad controlled the wholesale market within Venezuela;

Trinidad had become a sort of store house for Venezuela. In 1881 Guzman Blanco established a 35% surtax on all imports from the European colonies within the Caribbean area. This surtax put an end to the control enjoyed by the Trinidadian trading companies over Venezuelan wholesale; subsequently, a number of Venezuelan trading companies took control of wholesaling and kept this control until the beginning of this century.

But while the market in the developed countries had increased enough to absorb the whole output of the developing areas, the accumulation of capital in these developed countries forced their capitalists to look beyond their frontiers for places where they could invest their capital in more profitable ways. So the emerging Venezuelan capitalists (as in other developing countries) had to face the competition of these powerful foreign competitors who were larger, more experienced and already in control of the market where
8/
the Venezuelan production was directed.

The Venezuelan government was able to support these Venezuelan entrepreneurs, but only within certain limits. First of all, the government needed the backing of the landowners. Although a good number of these businessmen were also landowners, there existed a conflict of interests between capitalists and landowners. It was irrelevant to the landowners whether the people involved in trade were or were not Venezuelans; what they needed was to have better prices for their crops and the opportunities to buy imported goods more cheaply.

At the same time, the Venezuelan Government was suffering strong pressures from the Great Powers. The only way in which Venezuela could face successfully such pressures was by obtaining support from some

of these Powers against others, and this support had to be paid for by granting certain privileges to the businessmen of these supporting Powers.

Finally, Venezuela was, in economic terms, almost entirely geared for providing the foreign market with certain crops, especially coffee. Therefore, the central government had no possibility of helping the Venezuelan tradesmen in the consumer market. Rather than Venezuela, it was the importing countries - the same Great Powers - which were able to support their citizens in these markets against the Venezuelan businessmen.

Thus, lack of an internal market played an important role in crippling the early development of the Venezuelan economy and when the foreign market enabled Venezuela to develop its economy, the newly emerging Venezuelan capitalist had to face the capitalists of the developed countries who were looking for places where they could invest their capital in a profitable way. As is to be explained later in this chapter, the Venezuelan businessmen were finally defeated when Castro, in order to achieve badly needed national organisation increased custom duties and they became no longer able to compete with foreign capital. When the Venezuelan oil industry appeared, the national capitalists had been already defeated by foreign capital and the Venezuelan ruling classes were just picking up the crumbs left by the foreign enterprises.

Mining in Venezuela during the nineteenth century - After Independence and up to 1917, 99% of the Venezuelan exports came from agriculture. In 1911 for instance, coffee exports only totalled £2.25 millions, 60% of the whole Venezuelan exports. Some mining activities existed in the country even before Independence, especially

gold, copper and lead. At the end of the nineteenth century some important potentialities were known, especially hydrocarbons and hematite (iron ore). As is to be explained latter the heavier hydrocarbons, best known as asphalt were already being exploited in the 1880's and by 1912 had become the leading commodity among mineral exports.

9/

On the 27th April 1784 the Ordenanzas para la Minería de Nueva España had been introduced in Venezuela and were the laws governing mining activities in Venezuela until the 15th May 1854. While Venezuela was still a part of the Republic of Colombia, Simón Bolívar issued his "Decree of Quito" on the 24th October 1824 to govern mining activities within the country, but the decree was entirely based on the Ordenanzas.

Venezuelan mining law has been changed on many occasions without the principle of state ownership over mining resources being put to test. There used to be discussion as to whether the ownership of the mines belong to the nation or to the individual states. The solution was found whereby mines were held to belong to the individual states, but administered by the central government.

In fact some mineral changes on the principle of state ownership of mining resources had been introduced in Venezuela, as a consequence of the cultural influence of Revolutionary France upon the new Latin American nations. The first Venezuelan Mining Code (1854) was influenced by the French mining code of 1810; the French tried to make a synthesis between the state and the landowner's ownership. Although it had some effect, the principle which gives the property right to the state prevailed in the Venezuelan Mining Code. The constitution of 1864 gave to each state the property-right over

wealth underlying their territories; this article was copied by the constitution of 1874. Finally in 1881 a new constitution was issued; according to this new constitution underlying wealth belonged to each state, but was to be administrated by the federal government. This principle has been kept in every new constitution issued ever after.

Between 1854 and 1910 nine different Mining Codes were enacted, namely, 1854, 1885, 1887, 1891, 1896, 1904, 1905, 1909 and 1910. It ought to be remembered that between 1864 and 1881 there was no federal mining law because these problems had been put under local control. Apart from these codes, the decree of 26th May 1877 must be mentioned. It created Compañía Unión Federal, to be studied later. In spite of its failure, this decree was the most important attempt to develop the Venezuelan mining potentialities by the state itself. ^{10/}

The reason the Mining Code had to be changed so frequently was that they did not legislate for an activity which was already in progress. These laws tried to encourage an activity which was actually non existent.

The Venezuelan government tried in fact to develop mining. This effort was not due to any problem of unemployment; in 1912 about 80% of the workers in the few mining enterprises operating in Venezuela had to be drawn from abroad (they came especially from the West Indies). Later on, this lack of manpower was also one of the problems the oil industry had to face in its early stages. Nor was there any balance of payment problem to cope with; up to 1912 exports surpassed imports by between 20% and 40% per annum. ^{2/}

What Venezuela tried to obtain by developing mining further was revenues. The landowning elite who ruled the country wanted to obtain enough money to finance the budget without affecting their own pockets. Venezuela, a country with a balance of payments highly in the black had a government which was in a condition of near bankruptcy. For instance, according to the biennial report published by the Ministry of Finances on 23rd May 1907 expenditure exceeded revenues by 10.2% in 1905 and by 6.1% in 1906.^{11/} This permanent budget deficit was financed, if at all, by revenues coming from custom-taxation of over 70% (in 1912 custom-taxation in Venezuela represented 76% of all Venezuelan revenues), and this taxation especially affected agriculture as the tax overwhelmingly came from exports.

Thus, the Venezuelan governments tried to encourage mining not thinking of the future but to obtain revenue in the present. Consequently, no policy which meant any kind of expenditure was seriously followed.

This is illustrated by the case of the "Compania de Explotacion Minera Union Federal" incorporated by the above mentioned decree of 1877 to explore and exploit the mineral resources in the country. The "Union Federal" was a State owned corporation whose partners were the central government and the local governments of each Venezuelan State. The existence of the company was merely a legal fiction; political disturbances following the death of President Limares Alcantara led to the project being abandoned.^{2/}

Apart from some attempts to develop state ownership in mining enterprises, the Venezuelan government also granted a number of mining rights to private concession-holders. In many cases, these

enterprises were very successful, which proves that the concessions were in no way inconvenient to the concession holders. Perhaps, there were some cases, like the first Venezuelan oil concession, granted in 1865 by Nueva Andalucia State, where the concession holder had so many duties to fulfil that the concession became unworkable; but this was an exceptional case. The fact is that the lack of infrastructure in the country discouraged private entrepreneurs from undertaking such enterprises within the country.^{12/} So the Venezuelan attempt to obtain revenue from mining failed. Between 1908 and 1910 Venezuelan revenues obtained from mines averaged 0.3% of the whole Venezuelan annual revenue. Between 1911 and 1912 mining revenues averaged 0.6% of the whole.^{13/}

Castro's government -> Although the Venezuelan oil industry did not begin until ten years after he had been overthrown Castro's government (1899-1908) is important for us because through his government and its subsequent overthrow, the defeat of the local bourgeoisie became apparent, and the patterns of relations between the Venezuelan government and the foreign enterprises were established.

Foreign capital, especially British, had been present in Latin America since the early days of independence. Initially it came in the form of loans to the new independent states; British trading houses also settled branches in many of these states. After 1840 British entrepreneurs initiated other activities there like railways, public services and other enterprises.^{9/} At that time, the spearhead of these few foreign capitalists were individual promoters who went to each country and sought concessions from the governments; in many cases these promoters undertook duties which were never fulfilled. Normally, after obtaining the concession the promoter sold his concession to a

company especially incorporated by himself in which he was an important shareholder. Although the largest number of these promoters were North American, the concessions were normally sold in London.^{14/}

After 1880 a number of concessions were granted in Venezuela to British, French, German and US entrepreneurs. However some of them ran into difficulties with Crespo's government when the Venezuelan leader tried to demand the complete fulfilment of their duties. Although some measures against these concessions were decided, the lack of political order prevented their implementation.

By the time Castro took over, the need to a central and well respected government was recognised by every one, but each caudillo wanted to be at its head. Consequently, the creation of a powerful national army appeared to be the main priority; an army which would prevent any further caudillo rebellion having a real chance of success. But such an army cost money and Venezuela, in spite of a positive balance of commerce of between 30% and 50%, had a budget which was deeply in the red.

The first problem Castro had to face was how to balance the budget. The provisional solution found for the problem was to force the banks working inside Venezuela to provide a loan to the government; the bankers who tried to resist his orders, both Venezuelans and foreigners, were sent to prison.^{15/} But looking towards a more permanent solution Castro sought to increase revenues, for this purpose he increased custom duties, he sold concessions to foreign enterprises and tried to obtain money from those foreign companies operating in Venezuela who were at logger-heads with the government.

Although the forced loan was eventually paid in full and within a shorter period than ever before, the conditions in which it was

obtained united bankers, foreign capitalists and traditional caudillos against the government. They rallied around the banker and "General" Francisco Antonio Matos who launched the Revolucion Libertadora. Although this civil war did not die out until 1903, when Ciudad Bolivar was retaken by Castro's vicepresident Juan Vicente Gómez, it had already been decided in a number of battles near Valencia, the last of which lasted for a fortnight (La Victoria 11th ^{16/} October - 2nd November 1902). This warfare brought Venezuela close to bankruptcy. Its ports were blockaded by British, German ^{17/} and Italian war vessels, sent to demand the payment of an external debt which Venezuela was unable to pay, and to obtain compensation for the damage suffered by foreign entrepreneurs during ^{18/} the Revolucion Libertadora.

Therefore, in 1903 Castro's situation was desperate. The blockading Powers had taken over part of the custom revenues of La Guaira and Puerto Cabello in accordance with a verdict settled by ^{19/} the International Court of The Hague to solve the previous crisis.

The policy previously described, by which Castro had sought to balance the budget, failed. His attempts to get money from the companies which had had problems with previous Venezuelan governments created difficulties between Venezuela and some International Powers. These problems were particularly serious in the case of France and the USA, as the main companies which had legal difficulties were either American (like the asphalt enterprise New York and Bermudy Co.) or French (like the company which held the monopoly on telegraphic links between Venezuela and the rest of the world). To counteract the emnity of these two Powers, Castro sought the friendship of Britain and Germany. But Britain did not give the help Castro

expected, as on the one hand, France was Britain's world wide
ally^{20/} and Germany its leading rival, and at the same time the US
company New York and Bermudz had an important part of its stock
in the possession of British citizens.^{21/}

Due to these unresolved problems with foreign companies,
Venezuela did not succeed in selling concession to foreign
entrepreneurs. These concessions were sold through Venezuelan
middlemen and, as is to be explained later, became the medium
through which members the Venezuelan ruling class received the
crumbs of the national wealth.

The increase in custom duties was the only one of Castro's
measures which succeeded in increasing government revenues. But
it damaged the Venezuelan trading houses which were no longer
able to compete with the foreign companies also involved in trade
with Venezuela. These foreign companies, the principal of
which were German, were better protected against custom duties as
they could minimise ill-effects by importing larger quantities of
goods.

Thus Castro achieved the task of creating a responsible
Venezuelan government at the expense of virtually destroying the
new Venezuelan capitalists. This made it easier to the Powers and
foreign companies to de-stabilise his government. As is to be
explained later, stable government was finally achieved by Gomez
and oil provided the revenues which made the task easier.

Castro was finally overthrown when, after his failure to obtain
British support during the difficulties with France he tried to force
Britain's hand by taking retaliatory measures against British
interests. He not only failed to change British policies in his

22/

favour, but converted Britain into one of his leading enemies.

Just a couple of months later, Castro was overthrown by his own friends headed by his vice-president Juan Vicente Gómez.

British economic presence in Latin America between 1910 and 1914 -

Castro's overthrow coincided with a period in which British capitalists tried to reinforce their presence in Latin America. Between 1909 and 1912 British investments in the area increased by nearly 31% (see Table 1).

TABLE I

British Investments in Latin America

	1909		1912		% increase between 1909 and 1912
	Million £	%	Million £	%	
Railways	287.6	40.2	431.3	46.0	48.9
Government Securities	310.9	43.4	300.1	32.0	-3.5
Banking and Shipping	20.8	2.9	29.9	3.2	43.8
others	26.5	3.5	175.9	18.8	82.3
TOTAL	715.8	100	937.2	100	30.9

Original source: The South American Journal 23/

British capital, especially devoted to transport and loans, had controlled the region for a long time, but at the beginning of this century, British entrepreneurs met the challenge of German and US investors who tried to break into the area. The next chapter will show how different publications, either independent or parliamentary etc. reveal this new attitude of the City of London towards South America.

Although Venezuela had just 1% of all British investments in

South America, it will be shown in the next chapter that British economic researches of the period paid a great deal of attention to Venezuela.

But they hardly mentioned oil or even asphalt. The main interest of these researches was directed to the development of Venezuelan transports (especially railways and the Orinoco waterway), cattle breeding and public services. As previously said, Venezuela had been re-discovered by the world capitalist centres, even before its oil had aroused this interest.

NOTES

1. Milne G.T., Reports on the Conditions and Prospects of the British Trade in Central America, Colombia and Venezuela (Cd. 6969 London 1913) p. 181.
2. Between 1882 and 1886, Venezuelan exports averaged 22% more than its own imports; 37% between 1887 and 1891 and 26% between 1892 and 1896. Milne G.T., Reports on the Conditions and Prospects of British Trade in Central America, Colombia and Venezuela (Cd. 6969, London 1913) p. 68. Between 1906 and 1908 annual exports averaged 33% more than imports. Despatch No. 19 Sir Vincent Corbett (British Minister at Caracas) to Sir Edward Grey. 12th February 1909 (Annual Report 1908) F.O. 371 Piece 793 No. 9482. In 1911 Venezuelan exports surpassed imports by 32%. Enock, C.R. The Republics of South and Central America (London 1913) p. 376.
3. About the link between caudellism and landownership see: Gilmore, Robert L. Caudillism and Militarism in Venezuela (Athens, Ohio 1964) p. 19.
4. "Among the better examples of the process of assimilation of caudillos by the upper class are the careers of Jose Antonio Paez and Cipriano Castro": Gilmore, Robert L. Caudillism and Militarism in Venezuela (Athens, Ohio 1964) p. 19.
5. Views of the British Minister at Caracas Sir Vincent Corbett about the Venezuelan federal system. Sir Vincent Corbett's despatch to Sir Edward Grey (Annual Report 1909). F.O. 371 Piece 1026 No. 13403.
6. Rangel, Domingo Alberto Los Andinos al Poder (Caracas 1975) p. 71.
7. Venezuelan capitalists controlled 5 railways within the country. They added 220 miles (over 40% of the whole Venezuelan railway extended mileage). Milne G.T. Reports on the Conditions and Prospects of British Trade in Central America, Colombia and Venezuela (Cd. 6969 London 1913) p. 167.

8. About this subject see: Platt, D.C.M. Business Imperialism (1840-1930) (Oxford 1977).
9. Milne G.T. Reports on the Conditions and Prospects of British Trade in Central America Colombia and Venezuela (Cd. 6969 London 1913) p. 81.
10. González G., Godofredo. Derecho Minero Venezolano (Caracas 1945) pp. 116-119.
11. Despatch No. 19 Sir Vincent Corbett to Sir Edward Grey. 12th February 1909 (Annual Report 1908) F.O. 371 Piece 793 No. 9482.
12. "Mining is a minor industry of the country. There are some gold and copper mines, and a copper smelting plant has been erected". Memorandum British Trade in Venezuela (1924) Department of Overseas Trade to the Foreign Office. F.O. 371 Piece 9638 No. 6828.
13. McBeth, Brian S. Juan Vicente Gomez and the Oil Companies (Oxford 1981) p. 230. This information was taken from Clark, C.N. F.O. 199/266 (July 1929) and US Trade Information Bulletin No. 783, p. 12.
14. Among the promoters who brought British capital to Latin America, the US citizens William Whelwright (1798-1878) and Henry Meiggs (1781-1877) ought to be mentioned. They developed railway and shipping schemes in Peru, Chile and Argentina and in Peru, Chile and Costa Rica respectively. But there were also Latin American promoters like the Argentinean transport entrepreneur Federico Lacrosse (1838-1899) and even British citizens like the English nitrate tycoon John Thomas North.
15. In consequence of their refusal to advance money to the government, the directors of some banks settled in Venezuela were arrested and sent to the Fort of San Carlos. The French director of the Bank of Venezuela Mr Montauban was included among the prisoners. Montauban was released the same day The Times 18th January 1900 (Reuter). But the international press did not report anything else about Venezuelan bankers, some of whom like Paredes, Urbaneja and Father Delgado remained in prison for longer. Mijares, Augusto Evolucion Política de Venezuela 1810-1960 (Buenos Aires 1967).
16. Uslar-Pietri, Juan Historia Política de Venezuela (Madrid-Caracas 1980) pp. 169-172.
17. About this and other European blockades on Venezuelan ports, see Hood, Misiam - Gunboat Diplomacy (London 1966).
18. There is a number of minor claimants whose complaints were considered and compensation was awarded to them, Núñez Enrique. El Hombre de la Levita Gris (Caracas, Madrid 1953) p. 127.
19. The crises was solved by mediation of the USA. So the Washington Protocols were signed. They established that the problem would be submitted to the International Court of The Hague. The Court's

verdict awarded that 30% of the custom tax obtained in La Guaira and Puerto Cabello should be devoted to paying what was called the "Diplomatic Debt" (the unpaid loan plus other compensations). The whole of the money obtained from the 30% was awarded 53% to Great Britain 12% to Germany and 35% to Italy. The verdict given by the International Tribunal is dated as 23rd February 1904. Núñez, Enrique. El Hombre de la Levita Gris (Caracas, Madrid 1953) p. 127.

20. The French Telegraphic Co. had not fulfilled the duties established by the concession contract and had given support to the Matos army. Because of this and because the company did not accept the measures taken by the government against them, all their premises were confiscated. The company's counteraction was to intercept telegraphic communications between Venezuela and the rest of the world. The only possible solution for Venezuela was to reach an agreement with the British concern "West Indies and Panama Telegraph Company" which operated from Trinidad. This agreement would be particularly convenient to the British company but it was prevented when the French Government took direct diplomatic action to block it. Report Relative to the Proposal of the Venezuelan Government for Establishment of a Telegraphic Communication between Venezuelan and Trinidad. Board of Trade's report to the Foreign Office (27th March 1906) F.O. 371 Piece 163 No. 10706. On 22nd November 1905 the French Ambassador at London handed Lord Lansdowne a memorandum rejecting the Venezuelan proposals in connection with telegraphic links between Venezuela and Trinidad. After delivery of this document, a dialogue between the British minister and the French ambassador began in which the problem was discussed. A memorandum containing an extract of the conversation in which the French broadly accepted the British view was sent to H. Cambone on 2nd December 1905 F.O. 371 Piece 163 No. 10706.
21. Mr W.F. Previte's letter to Sir Cecil Hunt. Seagrove, Aldeburgh, 12th July 1908. This private letter sent to a top member of the Foreign Office staff reporting the British presence in New York and Bermudez was eventually recorded as an official document F.O. 371 Piece 570 No. 24638.
22. "The fact that President Castro has been tolerated for so long only goes to prove that what is everybody's business is nobody's". Sir Vincent Corbett's despatch No. 49 to Sir Edward Grey 22nd July 1908. F.O. 371 Piece 569 No. 28665.
23. The figures of 1909 were quoted by "The Trade of the Republics (Article) The Times 23rd December 1909 p. 43 and those for 1912 were quoted by Enock C.R. The Republics of Central and South America (London 1913) p. 488.

CHAPTER IV

The Beginning of Juan Vicente Gomez's Regime

The coup d'etat - On the 19th December 1908, Cipriano Castro was overthrown by a conspiracy in which some of his more close friends were involved and whose leader was his own Vice President and old acquaintance, Juan Vicente Gomez.

The conspiracy got support from all the main powers except Germany, and some of these powers, namely the USA and Holland made ostentatious displays of force along the Venezuelan coast, either before, during or after the bloodless coup, but the principal role was played by the Venezuelan conspirators.

When Castro lost the already cold British support he had, the Venezuelan ruler became an "^{1/}everybody's business" and all the Powers tried to get rid of him. However, even the British recognised ^{2/}Castro's popularity. Moreover, nobody either abroad or inside Venezuela wanted the country going back to anarchy and civil war; this was another reason why the coup had to be bloodless as a "legal justification" was badly needed.

In 1973, when the Chilean president Salvador Allende was overthrown, the word "de-stabilisation" was created. Nevertheless, the first and more successful case of "de-stabilisation" was the one which took Cipriano Castro out of power. The European Powers and the USA expressed publicly their views and Venezuela was isolated in different ways. From August 1908, the Dutch fleet had been making a hostile display along the Venezuelan coast. But the success of Castro's last tour throughout the country showed that if they were to have a bloodless coup it would be necessary to have Castro abroad

before the coup. His travel to Europe for medical reasons created the opportunity.

The navy was considered as a Castro stronghold. Therefore, General Roman Delgado Chalbaud, the man in charge of this service
^{3/} needed to play an important role. To prevent any eventual Castroist resistance by their men of war, the Dutch fleet captured
^{4/} two Venezuelan gunboats in the week before the coup.

Finally, to discourage any further Castroist resistance, the conspirators asked the Powers to send war vessels to La Guaira to give "moral support" to the new government. But, only one Power, the USA
^{5/} sent a fleet to Venezuelan shores.

However the main role was played by the Venezuelans themselves. The conspirators organised some popular demonstrations and patriotic meetings, intended to be against the Dutch, but in fact against Cipriano Castro. These actions prepared the people's mood, and then, by a bold manouevre, performed by Gomez himself on 19th December at dawn, the main barracks of Caracas were taken, its commanders replaced by Gomez's men, and those ministers who still supported Castro put in prison. The coup had been "easier than
^{6/} drinking water".

There were some attempts at Castroist resistance by the Venezuelan gunboat "Miranda" and by some military units commanded by some of Castro's relatives. But they were attempts only; the
^{7/}
^{8/} coup d'etat was completely bloodless.

As Castro had been so easily overthrown, the presence of US war ships in La Guaira became an unnecessary vexation to the national pride. But Gomez found a scape goat in Jose de Jesus Paul, one of his main fellow conspirators who had invited the USA, as well

as other Powers, to send war vessels to support the coup, in his capacity as Minister for Foreign Affairs. The Venezuelan Congress (still the one elected under Castro's guidance) impeached him when he was in Europe as a plenipotentiary trying to come to terms with France and Holland.^{9/} In this way, Gómez got rid of a possible competitor and uncomfortable partner.

Finally, the legal justification was found. After unsuccessful attempts to prosecute him for attempting to kill Gómez (they did not get enough proof) Castro was officially accused of the assassination of General Paredes.^{10/} In fact, the failed invader of 1907 had been executed without a trial. Without being particularly difficult, the legal justification was the less easy task connected with the coup d'etat.^{11/}

Meaning of Gómez's dictatorship - Despite, or perhaps because of, the ease with which Castro was overthrown, Juan Vicente Gómez, the new ruler, remained in power for 27 years (1908-1935) and the only reason for the curtailment of his government was his own natural death. It ought to be pointed out that Gómez's success is a consequence of Castro's failure.

It seems that Castro had strong support inside Venezuela almost until the very moment of his overthrow. This strong support came from the large majority of Venezuelan landowners, businessmen and intellectuals; they represented less than 5% of the Venezuelan population, but the rest had no real political power.

These influential groups needed a strong leader able to give them peace, so that they could run their business free from interference from warfare. There was a sort of contradiction between urban businessmen and landowners with regard to foreign capital; while the

latter sometimes preferred to deal with foreign trading houses, as they were able to pay more for their crops and to sell imported goods cheaper, Venezuelan capitalists tried to keep their own share in the national market.

As Castro had his main support in the commercial circles, he could be blamed for their failure, and consequently lose their support, and this happened to some extent. Sir Vincent Corbet reports that the Venezuelan Minister for Foreign Affairs José de Jesús Paul reported that:

"He (Paul) does not conceal his dismay at his (Castro's) commercial policy, which he confessed was ruining the country and indirectly, I fear, seriously affects the Minister's own pocket." 12/

But it was only in part, otherwise Castro would have fallen long before. The main problem was that the bourgeoisie had recognised their defeat by international capitalism and subsequently had accepted both the conditions established by these international entrepreneurs and the role reserved for themselves. Thus Castro's overthrow was a surrender of Venezuela to international capitalism. Gómez's policy eventually proved that this surrender had not been unconditional.

Gómez's government was therefore, a consequence of Castro's failure. The new ruler knew very well what he could do and what he was not able to do, but in broad terms he followed similar policies to Castro.

During the first years of his long period, Gómez moved in different directions as far as both external and internal policy is concerned, but finally, continued the policies Castro had

followed. During the intial months of his government he wavered between Great Britain, France and the USA, but at the end of 1909 he was, like Castro entertaining close relations with the German Emperor.^{13/} Just after having overthrown Castro, Gómez sought the friendship of the old caudillos in order to put aside some partners in the conspiracy against Castro; some of them like Dr Leopoldo Baptista could overshadow him. But a few years afterwards, these caudillos who did not accept all his conditions were also put aside and had to go back to exile, while Gómez went back to the same social groups who had previously supported Castro, having rid himself of any threat to his leadership.

Once in government, the first task to be undertaken by Gómez was to come to terms with the Great Powers, especially with the USA, whose naval support, although almost unnecessary, had been requested and subsequently had to be repaid. The Commander of the US fleet was the Rear Admiral William J. Buchanan. After conversations with the Venezuelan representative, Dr González Guinán, which lasted for nearly two months, the Buchanan-Gómez Protocols were signed (13th February 1909). This agreement fully satisfied the five US claims, concerning a US citizen damaged by warfare in 1902 and four companies which had been either partially or totally stripped of their concessions in 1904; they were generously compensated.^{14/} The New York & Bermudez Co. was not included among the US claims, but Admiral Buchanan helped to arrange an agreement between the Venezuelan government and this company according to which the concern recovered its premises by paying just 1.25% of what the Federal Court of Cassation^{15/} had previously decided on as a fine and compensation due to the support given by New York & Bermudez to the Matos Army

(It is to be studied in the next chapter).

However, Gómez was less generous towards other Powers.

British concessions, stripped out in 1908 were recovered when the Federal Court of Cassation declared their annulment non-constitutional, but other British claims remained unsettled or received a settlement far below their expectation; the 30% surtax was not abolished.

Paul's impeachment was also useful in diplomatic terms. When he was dismissed by the Congress, the talks he had initiated in France and Holland went back to square one. It was helpful to Venezuela because the longer the period since the crisis of December 1908, the stronger Venezuela felt in diplomatic terms. Dutch claims remained unsettled for even longer. As far as France is concerned, an agreement between Venezuela and the French Cable Co. was reached in 1909. According to it the company was now officially allowed to keep the international service in the way it had been established 16/ but rates were lowered by half.

Gómez understood that he was able to bargain with the international companies and their supporting Powers, but that there existed a limit to his bargaining power. Moreover, if he was partially able to stop the pressure put by the Powers upon him, in no case was he able to dictate conditions from Caracas over any Great Powers. This had been the mistake committed by Castro.

But within these limits Gómez moved fairly well. According to Rangel, Rufino Blanco Fombona went abroad soon after December 1908, 17/ knowing that his country had become a Protectorate. It could be argued that that seems not to be the case. Gómez's Venezuela was neither less nor more dependent than any Latin American country at that time, and although it was as dependant as others it was clearly

less obedient than many.

As far as oil is concerned, this research has to deal with three main rebellions against the oil companies headed by Gómez. In all of these cases the Venezuelan government was defeated. In all of these occasions Venezuela was attacked economically; the international consortia boycotted Venezuelan oilfields. But on the last two occasions, transnational combines and their supporting Powers also put political pressure upon Venezuela by helping Venezuelan conspirators like Ortega Martínez, Penaloza, Hernández, Linares Alcántara, Delgado Chalband, Aristeigueta etc. in hatching plots against Gómez. Rufino Blanco Fontbona himself was involved in these conspiracies at least once.^{18/}

Gómez's Venezuela before the beginning of the exploitation of Venezuelan oil on a world wide scale - At the beginning of this century Venezuela was a country of contrasts. In fact; it could be considered a wealthy country. Table No. 2 shows us that the Venezuelan Balance of Commerce between 1902 and 1912 yielded surpluses between 29.1% (1910-11) and 82.1% (1905-06). However the total amount of its exports and imports was £2 per inhabitant - Trinidad added exports and imports for £18 per inhabitant - and the National revenues did not cover all the budget needs. As previously pointed out, Venezuela faced a permanent budgetary deficit; for instance, expenditures exceeded revenues by 10.2% in 1905 and by 6.1% in 1906.^{19/}

In Venezuela, the wealthiest were so wealthy that they were able to send their children to study in the USA and Europe whereas the rest of the population, who accounted for over 95% were barely able to buy the roughest material for their clothes. No one starved

because food was actually free and excess clothing (consequently expensive) was not necessary as the climate was mild, but the large majority of the population had no access to the comforts ^{20/} of civilisation because of their severe lack of money.

As said before, coffee was about 2/3 of Venezuelan exports.

In 1912 Coffee was 60.1% of it and added to cocoa exports totalled ^{21/} 69.3% of Venezuelan exports. German capitalists controlled foreign trade; it was a vital activity to Venezuela, as in 1912 ^{23/} 76% of Venezuelan revenues came from the custom duties.

TABLE 2

Venezuelan Balance of Commerce

Year	Imports (in £1,000)	Exports (in £1,000)	Surplus (in £1,000)	(in%)
1902-03	1,040.9	1,586.1	545.2	52.4
1903-04	2,279.3	3,227.8	948.5	41.6
1904-05	1,918.1	2,900.6	982.5	49.4
1905-06	1,778.6	3,239.3	1,460.7	82.1
1906-07	2,043.3	3,116.1	1,072.8	52.5
1907-08	2,141.1	3,005.6	864.5	40.4
1908-09	1,838.6	3,260.6	1,422.0	77.3
1909-1910	2,099.1	3,122.6	1,023.5	48.8
1910-11	2,909.6	3,756.6	847.0	29.1
1911-12	3,529.1	5,280.2	1,751.1	76.8

Source: Milne's report (Cd. London 1913)^{22/}

Venezuelan means of transport are good examples of the wildness of the country. In 1909 the British Minister reported that Venezuelan road were in an appalling contition, even those

surrounding the main cities, Caracas, Valencia, La Guaira, etc.

In 1912 the whole of the rail tracks throughout Venezuela totalled

24/

533.75 miles. In 1918 when the Venezuelan railway system had

been extended by 40% (then its extent was about 740 miles) it

still had less than half the extent of the Uruguayan tracks,

25/

Venezuela being six times as large as Uruguay.

In 1912 Venezuelan railways were owned by eleven independent companies. Seven of these linked ports either on the Caribbean coast or on the Maracaibo banks with the interior. Although one of these companies had been incorporated by French capitalists and another had 10% of its stock owned by US investors, these seven companies were wholly controlled either by the Venezuelan State or by Venezuelan private entrepreneurs. The other four companies were linked geographically. The sort of railway system these companies formed was centered in Caracas and extended its tracks between Puerto Cabello (NW) Valencia (SW) La Guaira (NE) and Santa Teresa del Truy (SE). These railways belonged to three British companies and one German concern. Differences in the track gauge of these four companies hampered the good work of this railway network.

42% of this railway system belonged to Venezuelan companies (224.75 miles) 37% was owned by British concerns (197.5 miles) and the German corporation had 21% of this extended track (111.5 miles). But the most important railways were the foreign owned ones, and the only one with a "reasonable margin of profit" was the British owned "Caracas and La Guaira Railway Co.".

As previously pointed out, Venezuelan capitalists had been expelled from their own national market. Some people involved in market research at that time, like Milne and Knock, present the event as the consequence of purely subjective reasons: Venezuelan

wealthy people were simply not willing to risk their savings in economic enterprises. This view has been recently supported by Doctor B.S. McBeth. But Minister Corbett suggests in some of his despatches an alternative explanation which is being sustained and developed in this research.^{26/}

The main national activity, namely agriculture, was still in national hands, although there were some farming enterprises owned by foreign entrepreneurs, especially British. These were mainly placed in the Llanos and were devoted to cattle breeding.

But Venezuelan crops were principally devoted to the foreign market and foreign trade was controlled by foreign enterprise.

While German companies dealt with Venezuelan exports, harbour installations such as those of La Guaira, were controlled by British enterprises. As has been pointed out above, only one key of the foreign trade, namely railways, remained largely in Venezuelan hands, but, even though 42% of the railway network was controlled by Venezuelan capitalists, all the important railways, and among them the only profitable one, were owned by foreigners.

The goods Venezuela imported mainly came from the UK and the USA and while Venezuelan goods went to different parts; the USA and France absorbed two thirds of these exports (See Table No. 3).

It was previously pointed out that British capital owned urban transport and other public services except in the international telegraph. Also a small number of industries were British.

Mining enterprises were British, North American, Canadian, French, and Venezuelan. In general, over a half of the capital invested in Venezuela belonged to British concerns. Thus British capitalists controlled the Venezuelan economy, although the country was a

comprehensive supplier of raw material to the USA and France.

TABLE 3

Venezuelan International Trade between 1902 and 1912

Year	IMPORTS					EXPORTS						
	Value (£1,000)	UK & poss %	USA %	Germany %	Value (£1,000)	USA %	France %	Holland %	Germany %	UK %		
1902-03	1,010.9	21.7	33.6	21.1	1,586.1	35.7	31.2	19.8	5.4	1.2		
1903-04	2,279.3	32.3	23.8	20.0	3,227.8	25.5	35.1	14.0	5.0	7.3		
1904-05	1,918.1	24.3	29.5	21.4	2,900.6	34.1	19.3	15.1	4.9	11.2		
1905-06	1,778.6	29.8	30.2	19.7	3,239.3	31.1	25.4	14.6	5.3	8.0		
1906-07	2,043.3	38.0	25.2	19.8	3,116.1	36.8	25.1	11.9	6.2	8.6		
1907-08	2,141.1	35.2	27.7	18.0	3,005.6	35.5	35.2	4.9	5.8	9.2		
1908-09	1,838.6	32.0	25.1	25.8	3,260.6	44.8	29.8	4.1	5.4	9.2		
1909-10	2,099.1	28.7	27.9	20.1	3,122.6	35.8	33.2	5.0	9.4	11.2		
1910-11	2,909.6	32.2	25.9	18.8	3,756.6	32.6	27.6	4.3	16.1	11.1		
1911-12	3,529.1	30.3	27.3	18.3	5,280.2	32.5	29.5	3.6	16.9	8.0		

Source: Milne's report (Cd. 6969 London 1912) ^{22/}

At the beginning of this century, British entrepreneurs, challenged by US and German competitors tried to improve their activities in Latin America in order to avoid being expelled from this region whose close links with British capital dated from the time these countries had become independent. Measures to encourage such activities came from both the government and the private sector. Table No. 4 shows us that the campaign was fairly successful. British investments in the area increased by 31% in three years.

TABLE 4

British Investments in Latin America

Country	1909		1912		% increase between 1909 and 1912
	Million £	%	Million £	%	
Argentina	252.7	35	329.9	35	31
Mexico	139.2	20	156.9	17	13
Brasil	135.6	19	211.1	22	56
Uruguay	44.4	6	45.8	5	3
Chile	44.0	6	61.1	7	48
Peru	23.2	3	25.8	3	11
Venezuela	7.3	1	8.1	1	11
Others	69.8	10	98.4	10	41
TOTAL	716.2	100	937.1	100	31

^{27/}

Source: the South American Journal.

Many books and other publications reported the conditions in which the trade and investments in the area could be developed. Through these documents it can be argued that the main areas in which the City was interested were Brazil, Chile and the Caribbean countries. Venezuela was one of the Caribbean countries in which Great Britain was especially interested in developing its agricultural resources as well as in taking control of its transport, both by extending railways and by improving waterways.

In October 1911 the Advisory Committee on Commercial Intelligence appointed G.T. Milne to enquire into conditions and prospects of British trade in Central America, Colombia and Venezuela. The report of this enquiry was published in 1913. Among the private publications

concerning the development of British trade, as well as the "South American Journal", a weekly paper which had been published for a long time, the South American Supplement of "The Times" which first appeared in 1913 needs to be mentioned. Among the books appearing at this time we can mention "The Republics of Central and South America" by Charles Reginald Enoch (London 1913) and "Mexico" and "The Andes and the Amazonas", by the same author. Another important example is the book "Venezuela" by Leonard V. Dalton.

Milne and other writers show British interest in Venezuelan potentialities, but not the Venezuelan oil. Chapter 5 will try to prove that this was not through lack of interest but as the result of a kind of boycott because of the Venezuelan oil policy.

Concession mongers and concession hunters - The role played by what Minister Corbett called the "Venezuelan monied class" in the economic development of their own country was a very small one; with regard to the international companies their role can be compared to the relationship between the 'remora' fish and the shark. The concessions the Venezuelan government gave to the international companies. The framework in which this scheme operated was established by Cipriano Castro but it was widely developed by Juan Vicente Gómez.

Rómulo Betancourt, in his book Política y Petróleo shows that the method of granting oil concessions was the worst crime committed by Gómez against the National Interest and to the profit of a small number of privileged people. In fact, Betancourt's view can be accepted. Moreover, these concessions affected the whole of the Venezuelan economy. Mining grants were not for oil only; iron,

copper, coal and other deposits were also granted in this way. Concessions were granted in the public service field, including transport systems, harbour installations, urban water supply, waterways, etc. Finally some industrial concessions were granted; the grant holder obtained the internal monopoly of the goods he produced for a number of years. According to B.S. McBeth, during Gómez's lifetime, 4,875 concessions of all types were granted to Venezuelan citizens of which only 2434 (49%) referred to oil,^{28/} Reports of British Minister Corbett and his successor Frederic Hartford suggest that before 1913 hardly any concessions referred to oil.

After 1910 the people who were involved in this activity, who can be called "concession mongers" had the most profitable available jobs in Venezuela. The name "concession monger" was used by Frederic Hartford in his annual report for 1911 where he wrote:

"'General' Delgado Chalbaud, in company with 'General' Corao, another notorious concession-monger and company promoter, who had been successfully the confidential agent of Castro and Gómez, went to Europe in 1911 to sell these concessions..."^{29/}

Thus, it might be suggested that Betancourt is relatively shortsighted; he seems to be more interested in proving the lack of honour of Gómez's government than in studying the development of Venezuelan society. And this statement could rebound on Betancourt because one of the most 'conspicuous concession monger' had been his leader during the 'Falke' revolutionary expedition, General Román Delgado Chalbaud. This General never got oil concessions, but that was because oil concessions were not important until 1914 and Delgado Chalbaud lost Gómez's favour in 1913 when a conspiracy against his master in which he was involved was discovered.

Logically everyone needed strong official support both to become a 'concession monger' and to remain in this profitable business. Therefore the people involved in this activity belonged to the groups most closely linked with official circles. General Gómez was a concession monger himself, ^{30/} as well as his children ^{31/} and other relatives. ^{32/} Ministers, other officials ^{33/} and even humble clerks were also granted this kind of gift. Concessions became normal currency used by the government to pay political favours and to buy somebody who was needed as an ally.

The illiterate peasants were completely controlled by the landowners and the urban working class was almost non existent, a high percentage of its small number being composed of foreigners. Therefore the previously described ruling group, whose power was actually unchallenged, became divided over the issue of concessions and transferences.

Dr B.S. McBeth brings documents to show that just 51% of the oil concessions granted during Gomez's lifetime, were given to Gomezist concession-mongers while 43% were granted to non Gomezists and 6% to foreigners. ^{34/} It gives strong support to McBeth's view with regards to the Tribunales de Responsabilidad Civil y Administrativa, set up by the A.D. government in 1945. He stresses ^{35/} that these tribunals hardly proved any irregularity. The only criticism of McBeth's view is that he did not deal with the fact that, for good or bad the question of concessions became Venezuela's main political issue until 1928. It was observed by the caudillo General Jose Manuel "Mocho" Hernández. As he was a "man of the past" he realised what was going on in Venezuela with shame. In September 1919 he wrote in a letter to his fellow conspirator

Dr Leopoldo Baptista:

"In our eventful internal struggles, it could be argued about historical parties, fighting to reach an ideal until General Cipriano Castro's time, but since then it can be said that any party notion has died in Venezuela being replaced by the most shameful utilitarianism." 36/

Dr Baptista on the other hand was a "man of the present time" and consequently he was too involved to have any good answer to General Hernández's criticism. Therefore he avoided any answer by writing in his reply:

"I also agree with you when you state that since Castro any party notion died in Venezuela being replaced by barren personalism." 36/

Some documents suggest that the opposition tried to obtain economic support from foreign companies by offering wide concessions in payment, once the revolution was victorious. For instance, on the 11th June 1926, the British Controlled Oilfields Limited reported to the Foreign Office that they had been visited by Captain Harold Lindblad, a retired member of the Royal Swedish Navy who asked the company to supply £10,000 to finance a revolutionary movement in Venezuela led by General Linares Alcántara. This economic support would be generously repaid with oil concessions in the case of 37/ victory. The Foreign Office has a lot of documents like this one.

Usually the Great Corporations did not deal directly with the 'concession monger'. The middleman was another person, usually North American or British who bought the concession from the 'concession monger' and sold it later to the company. Like the previously mentioned William Braden, they normally spoke Spanish with acceptable

fluency, had some expertise in the legal system in the countries where they operated and had obtained the connections they needed from influential people in the same area. They also had enough capital to operate as independent entrepreneurs until they found the company which was interested in their concessions.

These kinds of people were particularly important in Mexico, where they received the name "concession hunters". They were less important in Venezuela, because there, many "concession mongers" usually dealt directly with the international companies. However, in the early 1920's a number of concession hunters appeared in this country, and were particularly important because of their connections with high political circles.

The "concession hunter" recalls the old promoters like those who were mentioned in Chapter 3. The main differences between them relate to the companies they worked for. The promoter usually sold the concession he had obtained to a company formed by him to deal with it and became one of its managing directors if not the chairman; in the other cases, the concession was sold to a transnational combine. In many cases the concession hunter did not receive any stock from the new concern as the transaction had been agreed beforehand.

In some particular cases, some "concession hunters" tried to become old time promoters. They did not obtain any success and instead of any support from their national government, they had to face hostility from these authorities. At least this is the case of Britain towards Venezuelan oil. Between 1910 and 1930, two British promoters tried to develop oil schemes in Venezuela, John Allen Tregelles and William Buckley and they faced such problems.

The Tregelles case will be returned to in Chapter 6 of this research as it was the first oil concession granted by Juan Vicente Gomez. This concession-holder had been an employee in the "Mexican Eagle" and obtained his concession on behalf of the Venezuelan Development Company of London. The results of this enterprise will be examined later, but here the attitude of the British government ought to be noticed. Tregelles did not get any support. By suggesting such an attitude, Minister Corbett wrote:

"... unless, as is possible, the demand for oil should greatly increase, I do not believe there is any intention of sinking wells on a large scale. The oil company's contract is in the nature of a monopoly and will, no doubt, bring good profits to the President and a few others, but not to the shareholders. As soon as there are signs that it is a remunerative concern - if that day should ever arrive - the Venezuelan Government will step in ^{10/} either to cancel the concession or to levy blackmail."

William Buckley and his brother Edmond appeared in Venezuela in 1925. In fact, Edmond did not come to the country, but he was his brother's partner. They had been in Mexico for many years, becoming wealthy "concession-hunters", but they were trying to become oil entrepreneurs. Although the Buckley brothers were British citizens, they worked in partnership with a number of "small" US oil men. William Buckley acted in Venezuela in two dealings, namely the V.O.C. (1924-1925) and the Turiamo oil harbour project (1928).

The reason why the company was prosecuted, the progress and eventual conclusion of the V.O.C. law suit is to be examined in Chapter 9. As far as Buckley is concerned, he tried to take advantage from the possible nullification of the V.O.C. concession for his partners and himself. In the case of Turiamo he tried to develop the scheme of a nationally owned oil harbours. It would remove the

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control the big oil companies had over the oil harbours and would give to Venezuela the possibility of dealing better with the royalties paid by the companies (which could be paid in crude oil if the government asked it) and to have a better control over the oil exports. Both attempts failed.

William Buckley was not on good terms with the great oil consortia; as one of his own partners pointed out:

"... being, as it were, rather on the outskirts of the oil world, and being undoubtedly very clever in cutting it, and buying concessions while others are deciding whether to do so or not, is not likely to be popular with the large concerns operating in the country." 38/

In fact, Buckley had attempted in Mexico to get the nullification of certain oil concessions owned by the Shell subsidiary Corona Co. After failing in such an endeavour (July 1923), he attempted similar action against the Transcontinental (subsidiary of Jersey Standard). Therefore the ill-feelings against him were to be expected from the transnational oil combines, Corona Co. had the following opinion about W. Buckley:

"I think this gentleman is best described as a coyote of the worst type, his chief activity being to endeavour to detect flaws in legal documents and institute claims against companies on the grounds of some small omissions in contracts." 39/

The attitude of the big companies is understandable. But the fact is that the British government backed the great combines on every occasion. The attitude of the Foreign Office towards Buckley ranged from total indifference in the case of the harbour project to active hostility in the case of the V.O.C. suit. In this case the British government gave full support to Shell although

the existing flaws of the Aranguren contract was officially recognised. And despite the US nationality of some of his partners, Buckley himself was British, his company had been incorporated in Great Britain and had some British partners too; let us remember that the Shell Group was 60% Dutch. Other sides of these problems will be re-examined in Chapter 9.

Thus in this new situation the old promoter became "concession hunter" and the national entrepreneur became "concession monger". It suggests that the real struggle was not between national and foreign companies, but between transnational combines and small capitalists; in this battle the first ones defeated the latter. It is true that practically no local company was a transnational combine and consequently all the national entrepreneurs were defeated. The Bolivian tycoon Simon Itury Patiño (1862-1947) might be considered as the only important exception; Patiño controlled the Bolivian tin mines - the richest tin mines in the world - and at the time of his death he controlled 60% of Bolivian exports, having a personal income larger than the Bolivian budget. But Patiño himself became a foreigner in his own country. He spent most of his lifetime abroad, being a diplomat during two decades (between 1920 and 1926 in Spain and between 1926 and 1941 in France). He died in Buenos Aires and his descendants are scattered throughout Europe. However, apart from almost all the national companies, a number of foreign firms were also obliterated by the onslaught of the Big Business.

There is another character who will play an important role in this new situation, namely the lawyer. In many cases British Ambassadors and Consuls blamed the Spanish language because of its

40/
lack of accuracy; any text could be understood in opposite ways.

In fact it is not true; Spanish is a fairly accurate language.

The real problem is that in countries where the law is entirely written, lawyers usually exploit grammatical artifices to sustain the best interpretation for his side. But in Venezuela at that time existed also another problem. The tribunals were actually dependent on the President; therefore they had to give the verdict he asked for. Consequently, the settled jurisprudence was almost impossible to follow. However it was not so negative to the companies they learned the game very soon. They paid for good lawyers and they not only stopped any attack coming from this side, but they obtained also, good advantages from this game.

The poem written by Neruda against these lawyers, shows us that
41/
this problem was a general one all over the region.

When the lawyers did not succeed in making the company's views prevail, the transnational companies, either alone or supported by their governments, exploited political disturbances to their advantage. They also obtained diplomatic and even military support from their governments.

NOTES

1. Sir Vincent Corbett's despatch No. 49 to Sir Edward Gray. 28th July 1908 F.O. 371 Piece 569 No. 28665.
2. British ministers at Caracas tried to explain Castro's success by any excuse available without recognising his popularity among groups with any kind of influence; his success is attributed either to the desire for peace or for the lack of capacity among Matos and his Generals. However, when Castro returned to power after having resigned a month before, the British Minister Outram Box-Ironside reported that his return prevented an immediate possibility of revolution. Bax-Ironside's despatch No. 59 to Sir Edward Gray 8th July 1906 F.O. 371 Piece 164 No. 22442.

3. Rangel, Domingo Alberto Gómez, el Amo del Poder (Valencia 1975) p.
4. The Hague, December 14th 1908 (Reuter) The Netherland's Government received confirmation of the capture by the Dutch cruiser Genderland of the Venezuelan Coast-guard vessel Alexis. The Times 15th December 1908 p. 5. The Hague, December 15th. It is semi-officially announced that the Dutch warships operating off the Venezuelan coast have captured the Venezuelan coastguard vessel "23 Mayo". The Times 16th December 1908 p. 7.
5. The British Government was also invited to send warships to La Guaira in order to give "Moral Support" to the coup d'etat against Castro. The British minister Corbett suggested to the Foreign Office not to do so. Sir Edward Grey accepted this suggestion and no British warship came to Venezuela. According to Sir Vincent's views, Great Britain had to send war vessels to La Guaira, only if Germany did the same. Sir Vincent Corbett's cyphered telegram No. 15. 17th December 1908. F.O. 371 Piece 571 No. 44205 and Foreign Office's despatch No. 4 to Sir Vincent Corbett, 18th December 1908 F.O. 371 Piece 571 No. 44205.
6. Rangel, Domingo Alberto. Gómez el Amo del Poder (Valencia 1975) p. 175.
7. Port of Spain (Reuter) 29th December 1908. Previous to the Miranda's surrender, a bloody battle in Cumana between Gomezists and Castroists was reported. It was not confirmed. The Times 30th December 1908, p. 6.
8. Caracas, December 23rd 1908 (Reuter via Port of Spain). General Celestino Castro, Cipriano's brother and chief of the Department of Tachira surrendered to the new military commander all arms and ammunition. The Times 28th December 1908, p. 4.
9. Sir Vincent Corbett's cyphered telegram 14th June 1909. F.O. 371 Piece 792 No. 22340.
10. Sir Vincent Corbett's despatch to Sir Edward Grey (Annual Report 1909) F.O. 371 Piece 1026 No. 13403.
11. According to the conspirators of December 19th 1908, this coup d'etat was "an evolution within the situation". Rangel, Domingo Alberto. Los Andinos Al Poder (Caracas 1975) p. 176.
12. Sir Vincent Corbett's despatch No. 37 (confidential) to Sir Edward Grey. 4th June 1908. F.O. 371 Piece 570 No. 24113.
13. "... that fear of the United States followed by the rebuff of Dr Grisanty in Paris had tended to revive the German influence in the Palace of Miraflores..." Sir Vincent Corbett's despatch No. 128 to Sir Edward Grey 26th December 1909. F.O. 371 Piece 1025 No. 1484.
14. The White House was invited to send a fleet to La Guaira on the 21st December 1908. Subsequently, on the 23rd of December the USS Maine departed, being followed by the USS Des Moines and the

USS North Carolina, two days later. The US claims were four. The first was the case of a US citizen, affected by the civil war. The other three were US companies, namely the United States and Venezuela Co. (a concern which had got an asphalt concession near the Maracaibo Lake), the Orinoco Corporation (a concern involved in developing the Orinoco Delta) and the Orinoco Steamship Corporation (a company which had got the monopoly over navigation in the Orinoco River). The Protocols awarded a compensation in the first two cases and submitted the last one to the Tribunal of The Hague. Betancourt Rómulo. Política y Petróleo (Mexico 1956) pp. 33-36 and Sir Vincent Corbett's despatch No. 17 to Sir Edward Grey. 7th February 1909. F.O. 371 Piece 792 No. 8429.

15. La Corte Federal y de Casación was the name given to the Venezuelan Supreme Court after 1904. The name Federal Court of Cassation is the name given to this Tribunal by British documents during the period we are studying. Example: Sir Vincent Corbett's despatch to Sir Edward Grey (Annual Report 1909) F.O. 371 Piece 1026 No. 13403.
16. A new contract between the French Cable Company and the Venezuelan government was signed on 11th May 1909. Enclosure in Sir Vincent Corbett's despatch No. 54 to Sir Edward Grey 19th May 1909. F.O. 371 Piece 793 No. 21624.
17. Rangel, Domingo Alberto. Gómez el Año del Poder (Valencia 1975) p. 176.
18. Rufino Blanco Fombona (1874-1944) was a member in the Junta Suprema, formed in Geneva on 5th July 1929. This Junta, led by Alberto Smith supported the invasion headed by Roman Delgado Chalbaud which went to Venezuela in the ship Falke. Rangel Domingo Alberto. Gómez el Año del Poder (Valencia 1975) p. 309. Chapter 9 will study the link between this event and the oil policy followed by Gomez at that time under the guidance of Gumercindo Torres. On 18th October 1920 Times' correspondent in Curacao reported that while Generals Olivares and Penaloza had obtained some victories over the government's army near the Colombian border, Generals Blanco and Fontbona were the masters of the situation in the State of Tachira. The Times 21st October 1920. p. 9. This misguiding information only shows that The Times, and consequently The City, were interested in exaggerating the problems Gomez had at that time (Gumercindo Torres was also Minister) and that Rufino Blanco Fombona was one of the Gomez's most well known enemies.
19. Sir Vincent Corbett's despatch No. 19 to Sir Edward Grey (Annual Report 1908) 12th February 1909. F.O. 371 Piece 793 No. 9482.
20. Sir Vincent Corbett's despatch No. 60 to Sir Edward Grey, 3rd October 1908. F.O. 371 Piece 571 No. 36512 and Enoch, C.R. The Republics of Central and South America (London 1913) p. 377.

21. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981) p. 226. Original Source: Alamo Ibane, Roberto Resumenes estadisticos del comercio de los Estados Unidos de Venezuela correspondiente al lapso 1908-1928 y primer semestre 1929.
22. Milne, G.T. Reports on the Conditions and Prospects of the British Trade in Central America, Colombia and Venezuela (London 1913) p. 168-169.
23. McBeth, B.S. Juan Vicente Gómez and the Oil Companies (Oxford 1981) p. 230 Original Source: Clark, C.N. F.O. 199/266 July 1929 and US Trade Information Bulletin No. 783 p. 12.
24. Milne, G.T. Reports on the Conditions and Prospects of the British Trade in Central America, Colombia and Venezuela (London 1913) pp. 157-159.
25. The Times, Trade Supplement, June 1918 p. XIX.
26. Minister Corbett's most accurate report on the internal situation in Venezuela appears in his despatch No. 60 of 1908. But it is far from being his only analysis about the subject, Sir Vincent Corbett's despatch No. 60 (Confidential) to Sir Edward Grey. 3rd October 1908. F.O. 371 Piece 571 No. 36512.
27. The figures of 1909 were quoted by "The Trade of the Republics" (Article) The Times 23rd December 1909 p. 43, and those for 1912 were quoted by Enoch, C.R. The Republics of Central and South America (London 1913) p. 488.
28. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981) p. 176.
29. Frederic Hartford's despatch No. 16 (Annual Report 1911) to Sir Edward Grey 8th March 1912. F.O. 371 Piece 1552 No. 13989.
30. In 1923 a so called Compañia Venezolana de Petróleo was incorporated. This company was registered in Caracas and had Br.5,000,000 capital, divided in 1,000 shares of Br5,000 each. This company had only three partners: Roberto Ramires, with 400 shares; Lucio Baldo, with 300 shares and R. Gonzalez Rincones with 300 shares. But R. Rodriguez was only a figurehead of General J.V. Gomez. The only activity of this company was to obtain concessions which were eventually sold to the transnational companies. Mejía Alarcon, Pedro Esteban La Industria del Petróleo en Venezuela (Caracas 1972) p. 103.
31. The "Recopilacion de Sentencias del Tribunal de Responsabilidad Civil y Administrativa" (Caracas 1946) reports concessions given to Jose Vicente Lopez (Juan Vicente's son) and his wife and Juan F. Mendez (Juan Vicente's son-in-law) in its Volume 2 page 184. Mendez's concession is also mentioned by Lieuwen Edwin. Betancourt, Rómulo. Política y Petróleo (Mexico City 1956) p. 66 and Lieuwen Edwin. Petroleum in Venezuela (3rd edition New York 1967) p. 30.

32. The Recopilacion de Sentencias del Tribunal de Responsabilidad Civil y Administrativa (Caracas 1946) reports concessions to Santos Matute Gomez (Juan Vicente's nephew), Eloy Maria Perez, Dr Elias Rodriguez (close friends of Gomez family) and Dr Adolfo Bueno (Juan Vicente's private physician) in its volume 1 pp. 250-256. Betancourt, Romulo. Politica y Petroleo (Mexico City 1956) p. 67.
33. B.V. McBeth reports that between 1908 and 1935, 37 people among Ministers and other government officials were granted 135 concessions for 1,668,475 hectares. Among these executives the one who got the larger share was General Felix Galairs, General Inspector of the Army, President of Aragua State (1909-1913) and President of Yaracuy State (1929) who got 4 concessions in 1925 and 1 concession in 1929, adding 283,289 hectares (17% of the whole hectareage granted). B.V. McBeth An appraisal of the financial links between native vested interests and the oil companies during the Gomez regime 1908-1935 ((S.L.A.S. 1981) p.5.
34. McBeth, B.S. An appraisal of the financial links between native vested interests and the oil companies during the Gomez regime 1908-1935 (S.L.A.S. 1981) p. 1.
35. McBeth, B.S. Juan Vicente Gomez and the oil Companies (Oxford 1981) p. 195.
36. General Hernandez' letter is dated in La Habana on the 10th September 1919 and Doctor Baptista's reply is dated in New York on the 20th September. Both letters are included in F.O. 371 Piece 4623 No. 3370.
37. Memorandum. British Controlled Oilfields Limited to the Foreign Office 11th June 1926 F.O. 371 Piece 11.202 No. 3223.
38. Letter of W.A. Thompson to F.G. Watson c/o Venezuelan Pantopec Company 4th June 1925. Enclosure in Letter of Sir John Cadman to Robert Vansittart 1st July 1925 F.O. 371 Piece 10653 No. 3357.
39. Memorandum on Mr W. Buckley to Mr Kessler (Corona's manager) 30th June, 1925. Enclosure in letter of W. Samuel to Robert Vansittart, 30th June 1925. F.O. 371 Piece 10.653 No. 3358.
40. Mr Hartford's despatch No. 21 to Sir Edward Grey (Annual Report 1913) 13th April 1914. F.O. 371 Piece 2157 No. 10452.
41. The Poem Los Abogados del Dolar was published by Neruda in the Canto General in 1950. Neruda Pablo Canto General (6^a edition - Buenos Aires 1975) 1st Volume p. 175.

CHAPTER V

Venezuelan Hydrocarbon industry prior to the Venezuelan Oil Boom

The beginning of the Venezuelan Oil Industry - The date of birth of the Venezuelan oil industry is usually fixed on 15th April 1914 when the drilling in Tumaque 1 well in Mene Grande oil fields^{1/} (Maracaibo basin, 120 Km. S.E. of Maracaibo) was successfully finished. The development of the oil industry in Venezuela meant radical changes in Venezuela's life: an agrarian country became a mining one and one of the less developed countries in Latin America became after fifty years the nation which had the ^{2/} largest national income per capita within the area.

Nevertheless this transformation did not occur overnight, and the successful drilling was neither the beginning nor the end of this metamorphosis. Since 1865 there had existed people interested in exploiting the Venezuelan oil resources and since 1881 these resources had been exploited although on a very small scale; moreover, since the eighteen eighties asphalt deposits had been exploited (in 1912 asphalt was first among mining commodities in the Venezuelan Balance of Commerce). The discovery of 1914 did not mean that Venezuela was no longer an oil importer; oil imports were stopped only in 1918 when San Lorenzo refinery began to work. Until 1921,, even as an oil exporter, Venezuelan exports meant very little within both the Venezuelan economy and within the world oil market. In 1930 Venezuelan oil exports reached a daily ^{3/} average 6 1/2 times as large as the whole annual exports of 1917. Until 1925 coffee continued being the first commodity among

Venezuelan exports. In 1926 although oil was the first exports of Venezuela the country still was an agrarian one because coffee, cocoa and other crops added about 55% of the Venezuelan exports.^{4/} Only in 1928 Venezuela became an important oil producer ranking second in the world after the USA.^{5/}

Petrolia del Tachira - Only six years after the Tytusville discovery the first oil concessions were granted in Venezuela. On 24th August 1865 the Government of Zulia State granted an oil concession to the North American citizen Camilo Ferrand. On the 2nd of February 1866 the Government of Nueva Andalucia State granted another oil concession to Manuel Olavarria. Finally on the 19th December 1866 the Government of Trujillo State granted an oil seepage at Escueque to Pascual Caranova.^{6/} None of these entrepreneurs succeeded in his undertakings.^{7/}

These failures can be explained in two ways. Firstly, as previously shown, at that time the world oil demand was only able to absorb the oil coming from the eastern part of the USA and Europe. It should also be remembered that the same happened in México although México had an internal market much larger than the Venezuelan one as México had a more developed economy.

The second reason is connected with the Venezuelan policy towards mining. As has been explained before, the Venezuelan ruling classes saw mining development as a means of balancing the budget without affecting their own pockets. Reports coming from the USA, about the financial success achieved by those who operated in this sphere encouraged the Venezuelan government to ask for a very high share in this activity. The Olavarria concession is particularly suggestive in this respect.

The Olavarria concession was for only twenty five years. He had to pay 17% royalty, to put public lighting with kerosene fired lamps in the cities of Cumana' and Maturín (The installation of the lamps as well as the kerosene needed to feed these lamps had to be paid by the concession-holder), to build a bridge over the Manzanares River, to pay Br.3,500 (£134.12s.8d) for mending two churches badly damaged by an earthquake and to put clocks in 7/ each of these churches.

This contract is a bargain if its terms are compared with those signed during the nineteen fifties and early nineteen sixties. In 1957 for instance the Italian combine ENI signed a contract with the government of Iran. According to this contract the resulting company was 50% owned by the Iranian Government without paying anything while ENI had to pay 50% royalty over the profits yielded 8/ by the rest. But at that time the situation in the oil market was rather different.

After the First World War oil had become increasingly cheap due to the development of drilling techniques, refining methods and the development of the petrochemical industry. Consequently, although the crude oil prices did not go over US \$3 per barrel until the late nineteen sixties, oil had become increasingly profitable. Moreover the development of the oil related chemicals industry encouraged oil demand in world wide terms; it enabled the oil producing countries to take advantage of this wealth.

But this was not the case during the early eighteen sixties. The world need for kerosene was small enough to be supplied by the eastern part of the USA and Europe. Even important oil bearing areas within the US territory, like California and Texas would

remain idle until this century although oil exploiters within the USA did not pay royalties at all. Thus while after the second world war the governments were in a strong bargaining position, before the first world war the advantage fell to the oil combiners.

The first Venezuelan oil concession which became a working enterprise was granted by the Andes State to Manuel Antonio Pulido over the 100 hectares of his farm. The concession was 10Km from Rubio and 25Km from San Cristóbal, the State capital. Pulido incorporated the Compañía Nacional Minera Petrolia del Táchira with the partnership of Doctor Carlos González Bona, who was, as well as being a medical doctor, an engineer and the company's pioneer, his relative Pedro Rincones, who eventually became the ^{2/} company's technical manager, and other three gentlemen.

Then Rincones went to the USA in order to study drilling methods and to buy equipment. In 1880 Rincones came back with a modern drilling rig. But this machinery, after a difficult trip on the backs of donkeys and bullocks, was broken during the first day of use. It was never repaired and drillings continued by hand and shovel, the oil eventually being extracted by the use of pail and rope.

In 1882 the company built a refinery, the first to be built in Venezuela. It was in La Alquitrana Village in Rubio district. In 1924 the refinery had two distillation units, each one able to work 600 gallons (they needed 21 days to fill each unit and 16 hours to distill the crude oil). Two tanks of 500 gallons each (one for kerosene, another for petrol) and a tank of 200 gallons (for residue) completed the company's premises. ^{10/} The petrol was not its principal produce. Petrolia's kerosene, in spite of the fact that

it was rather explosive, had a huge demand because it gave little smoke and had a shining light. Petrolia del Táchira's kerosene was delivered on donkey's backs to the areas of San Cristobal, Cúcuta (Colombia) and the regions surrounding both cities.

With these primitive methods the company's output was very small. P.E. Mejía records between 15 and 20 barrels a day (about 6,400 barrels a year)^{11/} and Betancourt reports that in 1912 the daily output of Petrolia del Táchira was 60 barrels a day (21,000 barrels a year).^{12/}

Petrolia del Táchira is a symbol of patriotism for some Venezuelan writers, while it is scarcely mentioned by some US historians. It might be suggested that both points of view are partially wrong. It could be argued that those American historians try to show the importance of foreign capital in the area, while the Venezuelan writers reject this view.

The supporters of foreign capital believed its task was to introduce modern technology into the area, which was, in their view, the only way to achieve this progress. Thus for them Petrolia del Táchira's importance is negligible. It gave a very small output and Venezuela had to import over 99% of its oil needs until 1917.

On the other hand, according to the historians who reject foreign capital, these corporations did not have any positive task, and they were able to take control of the Latin American economy either by bringing their rulers or by luring their intellectuals through certain political and economic theories.

The hypothesis of this research is neither to justify nor to attack the presence of foreign capital in the Latin American country,

but to explain why the transnational oil corporations took over the activity all over the region. Although Petrolia del Tachira produced a negligible output and the technology it used was so primitive, the fact that it survived for fifty years is remarkable. Moreover, the technical problems it faced do not prove they were incapable of reaching a higher degree of technology. The reason behind the lack of technology will be explained later.

Today the technical research is carried out by teams usually appointed by the transnational combines, in laboratories belonging to them - subsequently the inventions eventually obtained in this way belong to the combines. But even in this case, technology can be transferred from one country to another without allowing the entrance of foreign companies. These techniques can be either bought or rented from the companies which own the technical method as in many cases the companies which supply the technology are not the same as those who exploit it. During the nineteenth century, the acquisition of technology without dealing with foreign companies was even easier because the investigation was usually carried out by private researchers who were able to find buyers for their inventions.

P.E. Mejia points out that Petrolia del Tachira is a good example to prove that foreign capital is not needed to bring about advanced technology.^{13/} This statement can be accepted, although it is a very poor example; a better one could be, for instance, the Chilean coal mines, wholly owned by Chilean capitalists, because they used a technology the same as that developed in Europe. In fact the import of technology can be independent of the import of capital. The Chilean coal mining companies imported British and Belgian

engineers, but the companies remained Chilean. In Petrolia del Táchira Rincones was succeeded by the US citizen Clarence G. Brown, but Brown became anchored in Venezuela when he married Pulido's daughter.

Betancourt concludes that Petrolia was not wholly successful and barely survived during its 50 years existence because it did not receive enough support from the government. This lack of support is explained by the cultural subservience of President Guzmán Blanco to Europe, which meant that he preferred to support ^{14/} the foreign railway companies instead of the Venezuelan concern.

Betancourt's assertions suggest two questions, namely why the Venezuelan government had to support this Venezuelan enterprise, and how it could be done.

In connection with the first question it must be remembered that Venezuela did not support the railways which linked Valencia, Caracas, Puerto Cabello and La Guaira because they belonged to foreign enterprises. They supported the railways because they moved the exports of Venezuela, core of its economic life. Venezuela did not need to increase exports; its balance of commerce was favourable enough. Venezuela did not need to combat unemployment; to some extent they had a lack of manpower. What Venezuela needed was to increase revenues and this would not be obtained by giving money to this Venezuelan enterprise. The previously mentioned railways moved exports to La Guaira and Puerto Cabello; 70% of Venezuelan revenues come from custom taxes, 90% of which were obtained in these two ports. Therefore the money given to the railways was immediately repaid, but it was not the case with the oil company.

Any positive answer to the second question is even more difficult to obtain. The only thing Venezuela could do was to give to the company a grant without any likely possibility of further repayment. To protect the new born activity by custom tarrifs could be as damaging to the national economy as it was useless. Strangely US oil was more accessible to La Guaira than Tachira's proved to be. To reach La Guaira Tachira's kerosene had to go by a non existing pipe line to the banks of Maracaibo Lake, and there it had to be loaded through non existant harbour installations in non existant tankers to be carried to La Guaira; the tankers had to be special ones, since they had to be able to cross the shallow mouth of the Maracaibo Lake. All the investments to build these non existant premises would make the kerosene's price too expensive to be sold; it had to be paid by the very small internal market and consequently it could not distribute a large bulk of oil. Let us remember that foreign markets were still closed to crude oils arriving from outside Europe and the East of the USA.

Thus it was the lack of market rather than lack of skill or lack of official support that hampered the further development of Petrolia del Tachira. The causes of the early destruction of the drilling rig does not prove lack of skill. The reason why it happened could be due either to the method of transportation or to the kind of soil in which it was working. Also the fact that the drilling rig was never mended is not necessarily due to lack of skill. Perhaps, such restoration would have cost more than what possible further profits were able to pay for. The refinery seems to have been as developed as the standard ones used in the USA at that time. Eventually this company developed technical

improvements in order to satisfy its small market of Venezuelan Tachirs and Colombian Santander. This isolated market was well protected against external competition, but the company had very slim possibilities, if any, to plunge in other areas. The same isolation which prevented the company from being attacked by the large oil corporations in this small market, also stopped its own expansion.

The Venezuelan Asphalt Industry - Despite the fact that the Venezuelan oil industry began to develop just before 1920, in 1884 it had already become an exporter of hydrocarbons. Its territory was full of deposits of those heavy, semi-liquid hydrocarbons called asphalt or pitch. In 1912 these products ranked as the leading mining commodities among Venezuelan exports. ^{15/}

What happened in the case of natural asphalt is the opposite to oil. It had been used as caulking material in the ship building industry, as a water protecting agent and, mixed with other solid elements like stones and sand, as a paving material for roads and streets. Today it is no longer used because it cannot compete in price with the asphalt obtained as a byproduct of the oil refining industry.

The last section in the third chapter contained a summary of the concession granted to Horatio Hamilton and the difficulties which eventually arose between the concession holders and the Venezuelan government were noted. This event is particularly important in this remark. The New York and Bermudez Co. which eventually held the concession over Guanoco pitch Lake (only part of the Hamilton concession which was ever developed) sampled first among Venezuelan asphalt producers for a long period and the conflict between this

company and the Venezuelan government shows the strong link between some British and some US economic interests.

As previously mentioned, the most valuable concession included in Hamilton's grant was the Guanoco pitch Lake. The lake is a superficial asphalt deposit of 1,100 acres located in Carúpano Valley. It is not very deep, although it kept its depth while exploited, seepages in its bottom replacing the asphalt which had been taken out. While the Trinidad pitch Lake contains 40% of earth and organic matter, Guanoco Lake has only 3% or 4% impurity.^{16/} As previously stated the exploitation of the pitch lake was the only venture granted in the Hamilton concession which was ever developed.

Hamilton sold the concession to the New York and Bermudez Company on 16th November 1885. This concern especially created to deal with the Guanoco Lake, paid Hamilton US \$1 in cash and 9,000 shares of its own stock.

This lake was first exploited in 1891. In 1893 the Trinidad Asphalt Co. absorbed this new and dangerous competitor by buying its whole share stock. After a number of transferences the General Asphalt Company, a US concern registered in Philadelphia took control over New York and Bermudez.

The crisis between the company and the Venezuelan government has been previously mentioned. It ought to be stressed that after 1904 the trial initiated by President Crespo had been forgotten. The company was now prosecuted for having given support to the Matos Army.

During this conflict the attitude of both the US and the British governments seems to be rather strange. The US government

showed a relative reluctance to support this US company. In fact the company finally got some official backing as it had some influential supporters, but it also had powerful enemies both in Wall Street and in the Capital.

When, in 1904, a new prosecution against the New York and Bermudez Co. was initiated, this company got full support from the US government. This situation reached its climax on 10th March 1905, when the US Charge d'Affairs at Caracas, Mr Russell, handled an official request from the State Department to President Castro ^{17/} which was practically an ultimatum. Due to the proud answer given by Venezuelan Government to the White House, influential circles within the USA greeted General Cipriano Castro as a "South American Jefferson".

This event meant a complete change in the US attitude towards New York & Bermudez. The US Senate appointed a special commission, whose chairman was Judge Colhoun, to enquire about the affair. The change of the US position became apparent by a new note on the 10th November 1905.

The Judge Calhoun commission submitted a report about the New York & Bermudez affair which did not become known to the US public until March 1908. It had been sent long before in a letter of John W. Foster, a member of this commission, to Senator S.M. Cullom, ^{19/} Chairman of the Committee of Foreign Relations of the US Senate.

At first sight, available evidence seems to suggest that Judge Calhoun and his team were convinced of the company's guilt, but this is not the case. In fact the commission recognised that the company had not fulfilled the duties undertaken by the Hamilton contract and that there was a principle in International Law according

to which any individual settled in a foreign country, who voluntarily takes part in or assists an insurrection against the established government of that country, forfeits the right to the protection of the government of which he is a citizen. But the real reason why the commission declared that New York & Bermudez was no longer able to obtain support from the US government, was that they had supported the "Matos Army" without reasonable motives for believing that Castro's Government was about to take any measures against their interests. In fact the report stated:

"About fifteen years after granting of the concession (1900) the Company having established itself meanwhile and being engaged in exploiting asphalt, its managing officials came to the conclusion that President Castro was hostile to the company. This conclusion was based upon the fact that holders of other claims for similar exploitation in the region covering the Bermudy Company concession were pushing their claims and upon certain confidential declarations of government officials as to Castro's hostility." 19/

Thus, the Judge Calhoun's report implies that any US company working abroad would be allowed to hatch conspiracies against the local governments, and then to ask US support if it failed when the local government had prosecuted them for whatsoever reason.

Calhoun placed US companies working in foreign developing countries above the local law. Moreover there is enough evidence to demonstrate that according to the principle stressed by Calhoun, New York & Bermudez had the right to ask for official support. Castro's attempts to enforce the measures taken by Crespo and Andrade against the company became apparent before 1901. On 11th January 1901 "Reuter" News Agency reported from New York that the Venezuelan Government had officially denied any right to the US Government to interfere in the legal dispute between Venezuelan Government and New York & Bermudez 20/
Co. Later, on 17th January the same agency reported from

○ / .

Washington new arguments between the USA and Venezuela over the
21/
same affair. The first cheque drawn by New York & Bermudez Co.
22/
to Matos is dated on 18th November 1901, namely 11 months after
the official dispute between the Venezuelan Government and New York
& Bermudez had reached diplomatic level. Clearly, the company had
more than merely assumptions about Castro's ill-feelings against it.
The "La Felicidad" affair, which is to be observed later in this
chapter, is the only problem the company had to which the Calhoun
report makes direct reference (without giving its name). It was a
civil law suit which never put the company's interests in any serious
jeopardy. Thus, Calhoun, while denying official support to New
York & Bermudez settled a principle by means of which any other
company could demand support when faced with a similar situation.

On the other hand British diplomats both in the USA and in
Venezuela showed special interest in the Bermudez affair. This might
be explained just by the fact that Britain, being the main capital
exporter in the world, had to be interested in the fate of any
foreign company whose rights were put in jeopardy. In fact there
are British documents showing concern about all the other US claims,
at least one of which, namely the Orinoco Steamship Co. had an
23/
important part of its stock owned by British citizens. However,
New York & Bermudez was especially important for the British Government.
When in January 1906, the company's premises had been embargoed by
the Venezuelan Courts, the British Minister at Caracas, Bax-Ironside
reported the event in the following way:

"In any case, negotiations are now at an end between
the company and the Venezuelan Government and
President Castro's agents remain in possession of
the valuable Bermudez Asphalt Lake and continue to
work it for the President and his associates." 24/

On 9th January 1907, the Foreign Office instructed the British Ambassador at Washington, Mr Howard to ask the State Department whether the US Government contemplated taking any action for the settlement of the questions in dispute between the USA and Venezuela. Following these instructions, Mr Howard wrote to the ^{25/} Secretary of State on the 5th of February. On the 11th April 1908, when the new British Ambassador in the USA, Mr James Bryce wrote to the Foreign Office reporting the results of Calhoun enquiries and sending a copy of them, he said among other things:

"... (you) may infer that while the USA feels bound to present these claims against Venezuela and is naturally annoyed by the shifting and crusty behaviour of President Castro, it feels no ^{19/} great zeal on behalf of the claimants here mentioned.

Finally, when the USA suspended its diplomatic relations with Venezuela (June 1908), a British citizen sent a private letter to his friend Cecil Hurst, on behalf of the New York & Bermudez Co. He informed them that this company had sent all its mail between its main offices in the USA and its administration in Venezuela through the American official mail; now when it was no longer possible because of the break-down of diplomatic relations between the USA and Venezuela, the sender asked if it could be done through the Foreign Office. The reason why it had to be done, in his opinion, was that the General Asphalt Co. although incorporated in Pennsylvania, was owned by British capitalists. It must be recognised that Mr Hunt was very doubtful about his friend's report. He pointed out in his reply that he always thought that the above mentioned company was an American concern and that other companies which were British "bona fide" ones never received such treatment. Finally he suggested

it could be done occasionally. Nevertheless, Hurst sent this private letter to the Foreign Office and it was registered as an official one.
26/

This isolated document certainly is not enough to prove anything, although it explains the British interest in the fate of this US company. Later General Asphalt would always work in close link with Shell Group.

It is to be explained that all this information about the General Asphalt Co. does not attempt to prove that the company was British instead of North American. In this case as well as in others the real struggle was not between British and US companies. Some British interests linked with some US ones fought against other British interests linked with other US ones,
27/ each fighting group trying to obtain support of either or both governments. The real character of this struggle became clear during the nineteen twenties. In this decade both the British and US governments usually supported the same groups of companies.

After a trial lasting two and a half years, New York & Bermudez was condemned. It had to pay Br.24,000,000 (about £923,000) in redress for damages suffered by the country during the Matos war. The sentence was given by the Court of First Instance on 12th August, 1907. The company appealed but a year later the Federal Court of Cassation upheld the original verdict. In January 1906 the company's plants were put under the control and exploitation of the state.

During the discussion of the Buchanan-Gomez Protocols, the New York and Bermudy affair was not included among the US claims. However, Rear Admiral Buchanan conducted a series of talks between

70.

representatives of the General Asphalt Co. and the Venezuelan Government. An agreement between both parties together with the Protocols were signed on 13th February 1909. According to this agreement the American company recognised the validity of the verdict against it which had been settled by the Venezuelan Courts, but the government accepted the payment of only Br.300,000 (about £11,500). The amount of Br.300,000 had to be paid in three instalments, the first of which had to be handed over to the Venezuelan Government at the moment the agreement was signed. After this first payment ^{28/} the company would receive the Guanoco pitch lake back.

By the new agreement the company was obligated to pay a royalty of four Bolivars per each extracted ton of asphalt, but this royalty would have a minimum amount of 100,000 Bolivars per year.

So, in 1909, the New York & Bermudez Co. was again involved in the exploitation of the Guanoco pitch Lake. In 1910 an asphalt refinery was built by the company, and in 1912 it produced between ^{29/} 65% and 70% of the Venezuelan asphalt output. This company continued the exploitation of the Guanoco Lake until 1934, when the asphalt obtained from this pitch deposit was no longer able to compete with that obtained as a by-product in the oil refineries.

The rest of the Venezuelan asphalt out-put in 1912 was produced by a British concern, the Val de Travers Asphalt Paving Co. This ^{30/} British corporation already existed in 1887; in 1900 it had an asphalt mine in Pedernales at the mouth of Juanita River. In the latter year they built a small refinery on an island in the "Delta Amacuro" (Orinoco Delta).

There also existed other asphalt producers which had operated before 1912. The best known among these enterprises was the United

States and Venezuela Co. This company was incorporated to deal with the "Inciarte" mine which concession had been granted to the US citizen George Crishfield on the 20th April 1901. On the 3rd of February the concession holders had bought a ninety acre plot near the Maracaibo Lake containing the asphalt mine.

But according to the concession contract, the United States and Venezuela Co. had to build a railway between the mine and Puerto Limón (on the Lake's bank) and improve some natural waterways. Since the company was unable to fulfil its duties, the concession was abrogated by the Constitutional Assembly of 1904. Moreover in this year Castro declared the US Ambassador Bowen "persona non grata" and Castro stopped the international policy he had sought since 1902 in order to entertain good relations with the USA.

This affair gave rise to one of the US claims to be solved by the Buchanan-Gomez Protocols. According to this latter agreement this case was referred to the International Court of The Hague,^{31/} and this international tribunal stated that the company would resign all its rights and properties to the National Government of Venezuela which would repay the company a compensation amounting to Br. 2,375,000 (about £95,000).^{32/}

Some years later Venezuelan entrepreneurs began to exploit the asphalt mine of La Cope. It was not far from San Cristobal and was under exploitation until 1936. Its asphalt was used in paving San Cristobal's streets.

The "La Felicidad" Mining Company has been mentioned before, in connection with the New York & Bermudy affair. This company was incorporated by a North American syndicate to exploit an asphalt concession in the Venezuelan State of Bermudez. The concession was

granted to Antonio Bianchi on the 30th November 1897 and the grant-holder transferred it to the company soon afterwards. However Bianchi's concession fell within an area previously granted to Hamilton. This gave rise to a law suit whose final verdict was settled on the 28th January 1904. This verdict declared the Bianchi concession to be without legal validity because the Hamilton concession had been granted beforehand. This difficulty was the least important one in New York & Bermudez had to face, but it ought to be mentioned because it was the only one directly referred to by the Judge Calhoun commission in this report.

Another asphalt concession which was never under exploitation became intensively used by Gomez as a tool to impose his oil policies; his attempts to use it in this way were completely unsuccessful. This concession was granted to Andres Espina, who acted on behalf of Andres Valbuena, Federico Bohorquez and himself. The three partners were awarded four asphalt mines of 300 hectares each (1904). The concession was particularly advantageous to the Venezuelan state; it lasted only 25 years and the concession holders had to pay 25% royalty. Therefore it is not surprising that these partners were very unsuccessful in trying to sell their concession.

The Valbuina and Bohorquez concession became included in the Aranguren concession (1907) and in the Valladolid concession (1912). This gave rise to a law suit which will be observed later. After failing in the struggle against Aranguren (1918), Valburna and Bohorquez got unexpected official support in their fight against Valladolid; this would be used by the government for other purposes. The covert aim of this law suit is to be studied later; for now it need

only be said that in 1923 Espina, Bohorquez and Valbuena did not get their concession back, but they obtained good compensation, as a small part of the concession area granted to the Caribbean Petroleum Company (holder of the Valladore's concession) was sold by auction and the money was given to them.

The most important asphalt concession in Venezuela was the Arangurean one, because it was exploited as an oil grant and Venezuelan Oil Concessions Ltd., who eventually became its holder, developed the most prolific oil fields in the country during the 1920's. How the Aranguran concession became an oil one and the problems V.O.C. had to face because of this flaw in their concession will be observed later in this research, as it was one of the main problems linked with the early development of the Venezuelan oil industry.

NOTES

1. Martínez, Aníbal R. Chronology of Venezuelan Oil (London 1969) p. 43.
2. In 1915 the Venezuelan home income was US \$1,199 per capita while the Mexican and the Argentinian ones only were US \$859 (1976) and US \$708 (1973) respectively. The Economist Intelligence Unit Ltd. Annual Supplement 1977 (London 1977).
3. Morón, Guillermo. A History of Venezuela (London 1964) p. 224. Quoted from Petróleo y Otros Dotos (by División de Economía Petrolera - Oil Economies Department - Ministry of Mines and Hydrocarbons).
4. According to the British Minister at Caracas W. O'Reilly in his annual report for 1926, official Venezuelan records reported that the whole of their national exports for 1926 had been £12,930,973. £11,647,494 (90%) had come from three commodities, namely Petroleum, coffee, and cocoa. Petroleum totalled £5,438,092 (42%) coffee £5,025,833 (39%) and cocoa £1,183,569 (%). The rest 10% was principally formed by sugar cane and cattle. W. O'Reilly's despatch No. 10 to A. Chamberlain (Annual Report for 1926) sent on 2nd March 1927 F.O. 371 Piece 12.063 No. 1750. According to B.S. McBeth oil had become the first Venezuelan export in 1925 (41.2% against 38.1% for coffee) and in 1926 oil had surpassed 50% of the Venezuelan exports (61.8%) McBeth, B.S. Juan Vicente Gómez

and the Oil Companies (Oxford 1981) p. 226. Information calculated from Alamo Iñana, Roberto. Resúmenes estadísticos del comercio de los Estados Unidos de Venezuela correspondientes al lapso 1908-1928 y primer semestre 1929 (Caracas 1930).

5. It is usually said that Venezuela became second oil producer in 1927. But in fact in that year Venezuelan records report on output of 60 million barrels only, while Mexican authorities had recorded over 64 millions and the Soviet Government reported over 79 million barrels output. In 1928 the Venezuelan output of over 105 million barrels was unchallenged. Venezuelan information from Mejía Alarcón, Pedro Esteban. La Industria del Petróleo en Venezuela (Caracas 1972) p. 154. Source M.M.H. Algunos Aspectos de las Actividades Petroleras Venezolanas, Mundiales y Apéndice Estadístico 1967 p. I-A183 and Memoria del M.M.H. (Caracas 1970) Mexican information from Mexican Government. El Petróleo de Mexico (2nd Edition Mexico 1963) p. 18. Soviet Information from Espasa-Calpe Encyclopedia Supplement 1930 (Madrid 1933) p. 382. Source The League of Nations.
6. Martínez, Aníbal Chronology of Venezuelan Oil (London 1969) p. 28.
7. Mejía Alarcón, Pedro Esteban. La Industria del Petróleo en Venezuela (Caracas 1972) p. 81.
8. Tugendhat, Christopher. Oil, the Biggest Business (London 1968) p. 153.
9. The capital of "Petrolia del Táchira" was Br.1,000,000 (less than £40,000) divided in 1,000 shares of Br.100 each. According to the official incorporation - contract (registered in San Cristóbal on 31st July 1878) the shareholders were Manuel Antonio Pulido, José Antonio Baldo, Carlos González Bona, José Gregorio Villafane, Remón María Maldonado, Pedro Rafael Rincón and the National Government Rosales, Rafael María. El Mensaje de la Petrólia (Caracas 1976) p. 25.
10. Each process of 21 days gave 60 gallons of gasoline, 165 of kerosene, 150 of gas oil and 220 residue. Rosales, Rafael María. El Mensaje de la Petrólia (Caracas 1976) p. 31.
11. Mejía Alarcón, Pedro Esteban. La Industria del Petróleo en Venezuela (Caracas 1972) p. 83.
12. Betancourt, Romulo. Política y Petróleo (Mexico City 1956) p. 26.
13. (Petrolia del Táchira)... is a clear proof that it is certainly viable to develop a Venezuelan oil industry with national capital and national expertise Mejía Alarcón, Pedro Esteban. La Industria del Petróleo en Venezuela (Caracas 1972) p. 83.
14. No official interest was revealed for an industry (Petrolia) born under such humble conditions... Guzman Blanco contracted loans under high interest rates to increase his personal wealth;

he granted railways concessions, the State ensuring the investors 7% profits over the invested capital and introduced in every public activity a Europeanising touch, extremely "Second Empire and very servile". Betancourt Rómulo. Política y Petróleo (Mexico City 1956) p. 26.

15. G.T. Milne reports that in 1911-1912 the wholly Venezuelan Asphalt exports were 56,523 tons valued at £62,870. Milne, G.T. Reports on the conditions and prospects of the British Trade in Central America, Colombia and Venezuela (London 1913). p. 181. B.S. McBeth points out that asphalt was at that time 1.2% of the wholly Venezuelan exports. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981) p. 226. Information calculated from : Alamo Ibarra, Roberto. Resúmenes estadísticos del comercio de Los Estados Unidos de Venezuela correspondientes al lapso 1908-1928 y primeros semestres 1929 (Caracas 1930).
16. Memorandum sent by HM's Petroleum Executive (8th April 1919) FO 371 Piece 425 No. 71449.
17. W. O'Reilly's Report No. 52 (HM's Charge d'affaires at Caracas) to Sir Edward Grey. 6th June 1907. F.O. 371 Piece 362 No. 20955.
18. Memorandum on Relations between USA and Venezuela (April 1908) F.O. 371 Piece 569 No. 14298.
19. John W. Foster's letter to Senator S.M. Cullom was sent to Britain as an enclosure in James Bryce's despatch No. 132 to Sir Edward Grey. 11th April 1908. F.O. 371 Piece 569 No. 16150.
20. The Times, 12th January 1901, p. 5.
21. The Times, 18th January 1901, p. 6.
22. Mejía Alarcón, Pedro Esteban. La Industria del Petróleo en Venezuela (Caracas 1972) p. 91.
23. On 15th January 1901, the Reuter Agency reported from Washington, difficulties undergone by the Orinoco Steamship Co. in Venezuela. This report stressed that the company had part of its stock owned by British investors and the company held a British charter. The Times, 16th January 1901, p. 3.
24. O. Bar-Ironside's despatch No. 8 to Sir Edward Grey, 15th January 1906. F.O. 371 Piece 163 No. 4252.
25. Beth, the despatch sent by the Foreign Office to Howard and the note sent by Howard to the State Department are mentioned in Howard's despatch No. 21 to Sir Edward Grey. 5th February 1907 F.O. 371 Piece 362 No. 5365.
26. Mr Previte's letter to Sir Cecil Hunt. Seagrove Aldebourg 12th July 1908. F.O. 371 Piece 570 No. 2463. Sir Cecil sent Mr Privite's letter to the Foreign Office with a minute in which

he stated the opinions he had pointed out in his reply.

27. In 1905 General Virgilio Barco was granted a 1,250,000 concession near the Venezuelan boundary. In 1916 the Barco concession was transferred to a "Caribbean Syndicate" formed by Shell and Edward Doheny. In 1926, 75% of the enterprise was transferred to "Gulf". Denny, Ludwell. We Fight for Oil (New York-London 1930) pp. 119-120.
28. Sir Vincent Corbett's despatch No. 20 to Sir Edward Grey. Received on 12th March 1909. F.O. 371 Piece 792 No. 9438.
29. Moody, John. Moody's Analysis of Investments and Security Rating Services. Industrial Securities 1925 (New York 1925). 1927. Quoted by Caneras, Charles Edward United States Economic Penetration in Venezuela and its Effects in Diplomacy (Chapel Hill 1971) p. 99.
30. The Times 9th April 1914, p. 18.
31. US Congress, Senate; Treaties, Conventions, International acts and Agreements between the United States and other Powers 17765 Doc. 357, 61 Congress, Sess 1909, p. 1887. Carreras, Charles Edward. United State Economic Penetration in Venezuela and its effects in Diplomacy (Chapel Hill 1971) p. 203.
32. US Congress, Senate; Treaties Conventions, International acts and Agreements between the United States and other Powers 17765 Doc. 357, 61 Congress Secs. 1909, p. 1888 Caneras, Charles Edward. United State Economic Penetration in Venezuela and its effects in Diplomacy (Chapel Hill 1971) p. 203.

CHAPTER VI

Venezuelan Oil Policy Before 1912

The Reason why the Venezuelan Government tried to encourage the development of the oil Industry - As previously pointed out, the political task followed by Castro and achieved by Gomez was the creation of a well established central government, the end of the almost permanent civil war and the destruction of the caudillos and to be able to succeed in this task they needed enough revenue to meet the increased expenditures this new type of Venezuelan Government would require.

The Mexican oil boom after 1901 was known all over the world and Venezuelan potential to develop its own oil industry was equally well known since long before that. Therefore, after 1904 Cipriano Castro's Government made clear attempt to encourage such activity. But Castro's target was not to develop the National oil industry; it was in fact to obtain revenue, and the development of oil activities in Venezuela was just a way to fulfil the real target. Consequently the issue of a law, like the previously mentioned Mexican Ley de Petróleo of December 1904 which encouraged the Mexican oil industry by the temporary abolition of any taxation upon oil activities within the country, was not possible for Venezuela. In Mexico the oil industry appeared closely linked with the development of the railways; in Venezuela it was initially encouraged in order to increase revenues.

So, the Mining Code issued in Venezuela in 1904 was the first Venezuelan Mining Code which included an article referring to

asphalt and similar substances. The decree of 1906 (which embodied the Mining Code of 1905) extended the reference to any kinds of hydrocarbons. In this way the Venezuelan Government made apparent its clear intention to develop its oil potential.

The decree established only that such resources were not affected by any of the rules created by the same decree with regard to the other mineral resources.^{1/} In this way the concession contract to be signed between the Venezuelan Government and private grant-holders became the first Venezuelan law ruling oil activities within the country. In fact, in 1906 a bargaining period between Venezuela and the oil companies began. How this bargaining was developed and how it ended is the subject of this chapter. The fact that the law did not attempt to rule the oil activity was a way of giving "carte blanche" to the government in this bargaining with the oil entrepreneurs interested in exploiting the Venezuelan oil resources. So, by drafting the concession contracts, the executive would draft the Venezuelan oil law itself and consequently, the oil entrepreneurs interested in dealing with the Venezuelan oil resources would be more easily attracted as they could take part in the draft of the law which would rule their activities.

But it did not happen at the beginning of this important stage in the early development of the Venezuelan oil industry. The first concession granted by Castro in 1907, to be observed in the next section of this chapter, were drafted by the Government alone and granted to some Venezuelan citizens; then, the oil companies did not take part at all. However the method was finally applied. The first concession to be exploited on a large scale, the second

Valladares one, was drafted by the General Asphalt Co. and after minor amendments the government accepted the draft.

The Initial Oil Concessions - In 1907, the first important oil concessions were granted in Venezuela. On 28th February, Andres Jorge Vigas was granted a concession over the oil deposits within Colon District of Zulia State. The same day Antonio Aranguren received a huge asphalt concession over Maracaibo and Bolivar Districts of the same State.^{2/} On the 3rd July an oil concession over Tamora and Acosta Districts of Falcon State and Silva District of Lara State was granted to Francisco Jiménez Arraiz. Finally on the 22nd July, Bernabé Planas got an oil concession over Buchivacoa District of Falcon State. Vigas, Planas and Jiménez Arraiz were doctors of law, Aranguren was a "general". Bernabé Planas had been one of the representatives sent by the dying government of Andrade when their master was already in exile, to discuss the surrender of Caracas under Castro's victorious army (1899); this had been the most important role played by any of these concession holders. Then, through this fact it can be inferred that oil concessions were still minor rewards.

The 1907 oil concessions were the first ones ever granted in Venezuela which eventually became oil ventures exploited at world wide level. But they are also important for another reason. Since the decree of 1906 had given to the government the right to establish the principles according to which the oil industry had to be ruled, these four concession-contracts embodied the first Venezuelan legislation concerning the oil industry.

There existed some differences between the concessions, for instance, Aranguren was granted with asphalt deposits only.

However, all these contracts followed a common pattern. All these concessions holders (or these people who received the concession from them either by transference or legacy) had to initiate the work within four years of the signature of the concession contract; after paying a fine of Br.2,500 (£96.3s.1d.) they would have another four years term to begin the works. The concessions were granted to pay Bs.2 - per hectare granted and Bs.4 - per each ton extracted, but they would not be affected by any other taxation.^{3/}

R. Betancourt points out that such concessions were a bargain to the companies to whom these concessions were eventually transferred. If these concessions are compared with those granted at the present, they certainly were a bargain. If we consider that some of the companies which obtained these concessions reached 55% annual profit during the nineteen twenties, they certainly were a bargain. But if we remember that at the same time oil exploiters in Mexico did not pay taxation at all, the Venezuelan concessions are no longer a bargain. The fact is that oil companies did not show any interest in these Venezuelan concessions and that these concession mongers failed in trying to sell their merchandise. All of them had to pay Bs.2,500 in 1911 in order to keep their right over these concessions.

There is no break in the oil policy before and after the overthrow of Castro. The 1909 Mines Code made more references to oil. However concession contracts were still the most important part in the oil legislation. Just after the mentioned one was enacted a concession was granted to John Allen Tregelles on behalf of the Venezuelan Development Company Ltd. (1st December 1909).

Tregelles concession included, Tachira, Trijillo, Merida, Zulia

Lara, Falcon, Yaracuy, Carabobo, Azoategui, Sucre, Monagas, Nueva Esparta and the Delta Amacuro States, and within these states only a few areas were excluded. The only part of Northern Venezuela not granted to the Venezuelan Development Company were the Aragua and Miranda States and the Federal District which formed the centre. Tregelles concession totalled about 23 million hectares.

John Tregelles was the "last of the mohicans" as far as small promoters is concerned. With no official support from any Great Power he began exploration around the concession area. Although he registered some deposits in some places, his concession finally lapsed due to failure to fulfil the duties undertaken by the concession holder.

The oil concession over Pedernales Municipality, Paria Peninsula and Benitez District of Sucre State, the few territories within the Tregelles which were especially excluded in this concession contract, was granted to Doctor Max Valladares (New York & Bermudez's attorney) on 14th July 1910. A few days later, this concession was transferred to the Bermudez Company, a subsidiary of General Asphalt.

Both the Tregelles and Valladarez concession-contracts were issued according to the patterns established by Castro's contracts. Moreover, the royalties per extracted ton were fixed at 5% of its value instead of Bs.4. In fact, it was more or less the same amount; Bs.4 per ton was approximately equivalent to US \$0.11 per barrel and the standard price for crude oil was about US \$2 per barrel. But oil prices were going higher and an increase of revenue was probable. Another important improvement in these first concessions granted by Gomez is related to the duties undertaken by

the concession-holder. These new concessions clearly pointed out that the concession-holder had a two years exploration period at the end of which he had to select plots and pay royalty per each selected one. On the other hand the old concessions granted by Castro only stated that the concession holder had "to begin works within a four years period". It could be understood that by digging a single well, the concession holder had fulfilled this duty, but had to pay superficial royalties only for the 400 hectares plot where the single well was placed.

As previously said, Sir Vincent Corbett, the British Minister at Caracas was against any official support to John A. Tregelles.

Corbett did not mention the First Valladarez concession as General Asphalt, at least officially, was a US concern. Concerning the British attitude towards Tregelles, if we go back to the despatch quoted in Chapter 4 in which Minister Corbett proposed not to support the Venezuela Development Company, we can find interesting suggestions. First of all, Minister Corbett states:

"The oil company's contract is in the nature of a monopoly and will, no doubt, bring good profits to the President and a few others, but not to the shareholders." 4/

This text may be linked with Minister Bax-Ironside's despatch reporting the embargo of the Guanoco Lake, in which he stated:

"President Castro's agents remain in possession of the valuable Bermudez Asphalt Lake and continue to work it for the President and his associates." 5/

This seems to be a scarcely veiled attempt to show that any legal action taken by the Venezuelan state against a private company would be an act of plunder by the President and his allies in favour

of their own pockets. Following the same line of thought, it seems to be that what Corbett disliked in the Tregelles contract was not its monopolistic character, but the fact that it was advantageous to Venezuela.

In the same despatch Corbett also said:

"As soon as there are signs that it is a remunerative concern - if that day ever arrives - the Venezuelan government will step in either to cancel the concession or to levy blackmail." 4/

This text stresses an idea previously pointed out in this work. Although neither the Soviet nor the Mexican Revolution had yet taken place, interventions in other independent countries had become increasingly difficult. After 1909 the USA intervened in some Caribbean countries, on at least five occasions (during the 1910's in Mexico and Haiti, during the 1920's in the Dominican Republic and Nicaragua and in the Dominican Republic in 1965). But only the USA was able to intervene in the Caribbean, and even for them this kind of intervention became increasingly difficult. Thus the companies working abroad had to be able to defend themselves and the newly incorporated Venezuelan Development Company certainly was not in a strong enough position.

Apart from paying the above mentioned royalties per ton and per hectare granted, the oil companies had either to buy or to rent the land to dig the well. In 1910 a new Mining Code was issued. At that time Gomez was acting in close links with the landowner caudillos and subsequently a very high share of the return from mining enterprises going to the landowner of the surface was established. Articles 40 and 42 in the code gave a

third of the profits on any mining enterprise to the landowner beneath whose property the mine was.

By observing the new concession-contracts, one fact becomes apparent. Although the first two concessions granted by Gómez were a bit less good for the concession-holders than the four granted by Castro, in general terms, the duties undertaken by the concession-holders were less than those undertaken by the holders of other Venezuelan grants issued beforehand, like Espina or Olavania. It proves in a clear way just how much Venezuela needed revenue because it was offering its oil concessions much more cheaply than previously.

However, Venezuela did not succeed. The next section of this chapter will describe the prevailing world oil market conditions at that time, and show that Venezuela was still offering its oil at too high a price to be sold in the world oil market of 1912. The international oil corporations ignored the Venezuelan oil fields, and oil did not provide either revenue to the Venezuelan State or new sources of income to its ruling groups.

Therefore Venezuela was forced to withdraw from the oil policy it had sketched in the above mentioned concession-contracts and the 1910 mining code. In this case the withdrawal was forced by economic methods, namely by an actual boycott of the Venezuelan oil fields. On two occasions during the period involved in this research, namely 1918-1921 and 1928-1930 Venezuela attempted to renegotiate the conditions under which the Venezuelan oil was exploited, in order to increase revenues coming from this industry. In these other cases the oil corporations and their supporting Powers used political methods to force Gómez; namely they blackmailed

105.

the Venezuelan government by giving relative support to the conspiracies which its political enemies were hatching abroad.

Conditions prevailing in the world oil market in the early 1910's -

The section in the second chapter devoted to Deterding, explained how the development of the oil market debarred the small corporations from involvement in it. It did not happen only due to the lack of capital these companies had; wealthy companies were also either expelled or driven out of the oil market, because they did not have a world wide marketing system.

A good example of that is Lord Cowdray and his Mexican Eagle Co. This oilman had accumulated a capital of millions of pounds, produced tens of millions of oil barrels, owned a tanker fleet which enabled him to put his oil wherever he wanted and had two refineries which could process 60,000 barrels a day, but he did not have a world wide marketing system. Trying to control even the Mexican market, he ran into conflict with the Waters Pearce Co. or rather with Standard Oil, which owned 2/3 of Waters Pearce's stock and he was forced to reach an agreement and the marketing system he needed did not have the opportunity of being created. Cowdray had too much oil to sell it easily in profitable conditions and too little to put the world market under his feet. In fact he obtained good contracts with the Royal Navy and got some other profitable possibilities, but in 1912 prevailing market conditions forced him to accept an agreement with Standard Oil to sell them 6/ 20 million barrels of crude oil a year. Finally, due to the Mexican Revolution, Cowdray became involved in political intrigues and his situation in Mexico was made increasingly uncomfortable when Carranza defeated Huerta, because he was considered as a Huerta

IV

supporter. In 1919 Cowdray abandoned the oil industry; the
8/
Mexican Eagle was sold to the Shell Group. These facts will be
considered in the next chapter in connection with Cowdray's
unwillingness to invest in Venezuela.

Among the newcomers into the oil market only two American
concerns, namely Gulf and Texaco, and one British concern reached
a world wide level. This last consortium was formed by entrepreneurs
who got the Crown's partnership when the government bought a
9/
controlling stock of Anglo-Persian Co; it subsequently became BP.

The high price for crude oil prevailing in the world until
1913, gave a partial protection for the smaller concerns and
postponed the crisis. In August 1913 the crude oil price in
New York was US \$2.50 per barrel while in Russia the price was
10/
40 copecks per pood; between 1907 and 1913 the world output had
11/
increased by about 30%. But then the oil companies ran into
difficulties because of conflict of interests, and the greater
oil consortia were forced to drop oil prices. In January 1915
the price for crude oil in Russia had fallen to 30 1/2 copecks per
pood while in New York, the crude oil barrels cost US \$1.15. This
new situation brought bankruptcy to many of these "small" oil
companies, but the enormous control which the big consortia had
over the market can be seen if one considers that despite the
bankruptcy of many companies, world output increased by 7% during
1913-1914. It was just 1/2% below the increase rate for the
12/
period 1912-1913, before the beginning of the crisis.

Some of these oil companies which were able to survive,
became mere "concession hunting" companies, before disappearing.
They used the equipment and expertise they had in obtaining new

concessions and after exploring them and discovering good oil resources, then sold these ventures to the big consortia. Often these small companies were used by the large consortia to press their own demands on the local government.

Therefore, while the number of countries offering oilfields to be exploited, increased, the number of companies involved in large oil ventures outside the USA diminished. Texaco, Gulf and Anglo Persian became world wide oil consortia only during the 1920's and in 1912 only Shell and Standard Oil were willing to initiate these kinds of oil enterprises.

Therefore the period 1907-1912 was a bad time to initiate bargaining approaches with the big oil consortia. At that time their power, particularly that of Shell, was unchallenged. Moreover, although the world output was increasing at a rate averaging about 10% annual, the world output was just over 1 million barrels daily. Today the USSR and Saudi Arabia alone produce over 21 million barrels daily between them. Consequently, the well known oil resources of which exploitation was easy, produced more than enough to meet the existing demands, and many of these potential oilfields remained idle. In such a world oil market the oil consortia were able to impose their own conditions.

An event which occurred in Trinidad shows clearly what was going on in the world oil market. In 1910 one of the "small" oil companies operating in Trinidad, the North Naparina Oil Company, asked the colonial government for a change in the conditions under which the concession had been granted. After two years of negotiations between the company and the authorities, agreement was reached and as a consequence Shell was willing to establish 13/ operations in Trinidad.

Thus, the Venezuelan government had no possibilities of success. Moreover, the need for new revenues forced them to try to sell their oil resources. Lieuwen has pointed out that 1920 was the first attempt made by Venezuela to obtain a better share of its own oil.^{14/} In fact this early bargaining period might not have been taken into account by Lieuwen because he may have considered the Venezuelan oil industry not to have been yet born. However it clearly had been.

The Venezuelan change of policy and the subsequent appearance of the Venezuelan oil industry is the subject of the next chapter. But now it can be said that the change was carried out in two stages. The first one was the issue of the second Valladarez concession-contract on the 2nd January 1912. The second stage was the verdict settled by the Federal Court of Cassation which declared non constitutional the 40th and 42nd articles of the Mining Code of 1910 (27th June 1912).^{15/}

NOTES

1. González G., Godofredo Derecho Minero Venezolano (Caracas 1945) pp. 127-128.
2. Vigas as well as Aranguren's concessions were published in the official Gazette 9,990 of February 1907. Enclosure in C. Dormier's (British Minister at Caracas) despatch No. 27 to Lord Curzon, 26th March 1920 F.O. 371 Piece 4622 No. 2523.
3. González G., Godofredo. Derecho Minero Venezolano (Caracas 1945) pp 148-149. Nevertheless, Betancourt states that another tax over oil exported or sold inside the country had to be paid; it amounted to 50% of the tax paid by imported kerosene. Betancourt, Rómulo. Política y Petróleo (Mexico City 1956) pp. 40-41.
4. Sir Vincent Corbett's despatch to Sir Edward Grey (Annual Report 1909) F.O. 371 Piece 1026 No. 13403.
5. A. Bax-Ironside's despatch No. 8 to Sir Edward Grey, 15th January 1906. F.O. 371 Piece 163 No. 4252.

6. Spender, John Alfred. Witman (Dickinson) Pearson. First Viscount Cowdray 1856-1927 (London 1930) p. 171.
7. Juan Pedro Didapp, Mexican consul at Norfolk (Virginia) and associated with Waters Pearce declared in 1910 that Pearson had nothing to do with Eagle Co. anymore. It was nothing but a prophesy because Witman Pearson still had full control over this company. Calvert, Peter. The Mexican Revolution 1910-1914 (Cambridge, 1968) p. 75.
8. Calvert, Peter The Mexican Revolution 1910-1914 (Cambridge 1968) p. 284.
9. Longrigg, Stephen H. Oil in the Middle East (London 1961) pp. 21-22.
10. The Pood is an old Russian weight equal to 40 Russian lbs (slightly more than 36 Imperial lbs).
11. The world oil output in 1908 was 285.56 million barrels and in 1913 it was 383.55. Therefore there was an increase of 34.3% between these five years. Espasa-Calpe Encyclopedia Vol. 44 (Madrid 1921) pp. 242-243.
12. Petroleum, a Difficult Year (article) The Times 22nd January 1915 p. 6.
13. The Times, 2nd October 1912 p. 54.
14. Lieuwen, Edwin Petroleum in Venezuela (3rd Edition New York 1967) pp. 24-32.
15. Milne reported the possible abolition of articles 40th and 42nd in the Venezuelan Mining Code (still in progress when Milne's research was being done) as a great achievement and a badly necessary measure to make possible any further development of the Venezuelan oil industry. Milne, G.T. Reports on the Conditions and Prospects of the British Trade in Central America, Colombia and Venezuela (London 1913) p.

CHAPTER VII

Venezuela becomes An Oil Producer

The second Valladares concession - On the 23rd December 1911, just a fortnight after the Tregelles concession had lapsed, Doctor Max Valladares demanded from the Ministry of ^{1/} Fomento a wide oil concession covering the whole of the area previously granted to John Allen Tregelles. The proposal was rejected by the Mines Director because it did not establish which kinds of oil deposits he wanted to obtain. After a few amendments, Valladares demand was sent back to the Ministry. The contract, having been approved by the Consejo de Estado was signed by Doctor Aquiles Iturbe, Minister of ^{2/} Fomento on 2nd January 1912. Leopoldo Baptista, then member of the Concejo de Estado, had expressed his opposition to the contract, because he found it dangerous for the nation's interests to grant to one isolated person or company such a wide concession. ^{3/} Two days later the concession was transferred by Doctor Valladares to the Caribbean Petroleum Company, a new subsidiary of General Asphalt Co. especially incorporated to hold this new Valladares concession.

As there were very few rules referring to oil in the 1910 Mining Code, the second Valladares concession actually became the Hydrocarbon Law which regulated this activity inside Venezuela during its initial period of development. In general terms it remained in force for six years, until the first Hydrocarbon Decree was enacted; however in connection with the initial concessions it remained in force for all the period covered by this research.

In general outline the new Valladares concession was issued in the same terms as the Tregelles one. The exploration period was fixed at two years; this decision made the 27 million hectares of the concession area almost meaningless. Due to its size and the lack of means of transport in the country, to prospect accurately such an area in a mere two years period was almost impossible. The provision referring to the selection of plots in Tregelles concession, also appeared in the Second Valladares one. This more accurate text prevented the loophole previously described in the previous chapter which in the case of the concessions granted by Castro proved to be too damaging to the Venezuelan interests. In terms of royalties, this concession was particularly advantageous to the concession-holder. The territorial royalty was still Bs.4 per hectare as in the four year old concessions granted by Castro, as well as the Tregelles and the First Valladares concessions, but the royalty per ton extracted dropped by 50% or more; instead of Bs.4 - per ton extracted as in the 1907 concessions or 5% as in Tregelles and First Valladares concessions, the royalty was fixed at Bs.2 - per ton extracted. This rebate was awarded
^{4/}
to all the concessions previously granted.

The Second Valladares concession was a kind of counter-proposal extended by the oil companies to the Venezuelan government. Valladares proposals recall the similar one put forwards under the Trinidadian government by South Naparima Old Co. mentioned in the previous chapter. The agreement which was obtained in Trinidad after two years discussions, in Venezuela was obtained in a
^{5/}
couple of weeks.

The Second Valladares concession included the territory of all

these granted by Castro in 1907. With Vigas, Planas and Jimenez Amaiz, there was no problem; Valladares concession expressly excluded the sectors within the area which had been previously granted to other persons. But Aranguren concession only referred to asphalt deposits. Then General Aranguren demanded from the Ministry of Fomento a resolution establishing that, since the Mining Code included asphalt, pitch, tar, etc. and any kind of hydrocarbons in the same article, any asphalt concession had to be understood as a hydrocarbon one. The thesis of Aranguren was accepted by the Ministry and a document sent by Valladares on behalf of the Caribbean Co. denying this point of view was rejected by them. ^{6/}

As previously said, the Valladares concession also got the area previously granted to Valbuena, Espina y Bohorquez. After the resolution issued by the Ministry of Fomento in favour of Aranguren, the three partners, whose concession area was also included in the Aranguren area, initiated a law suit against him (1915). In this trial they had the support of General Juan Crisóstomo Gómez, Juan Vicente's brother. But at that time, Antonio Aranguren had already incorporated the Venezuelan Oil Concessions Ltd. whose chairman, Duncan Elliot Alvez visited Gómez and warned him that the trial was damaging the good name of Venezuela among British businessmen. Gómez, who was at that time particularly interested in "attracting foreign capital" (to increase national revenue) obtained soon after these talks with Elliot Alvez a verdict in ^{7/} favour of V.O.C.

The second important victory obtained by the international oil companies was the abolition of the articles 40th and 42nd of the 1910 Mining Code. On the 19th June 1912 the Venezuelan Attorney

General asked from the Federal Court of Cassation to consider whether the abovementioned articles of the Mining Code did not contradict the Venezuelan Constitution and the Civil Code. Eight days later the Federal Court of Cassation declared both articles as unconstitutional.

As soon as the company had obtained all what they asked for, it initiated oil explorations around the granted area on a large scale. So, during 1912, Caribbean sent a team of 35 geologists, who, assisted by a similar number of Venezuelan civil engineers, explored the territory included in the concession. At the end of 1913 the company had selected 1,028 plots totalling 514,000 hectares (1,269,580 acres). After building a road to begin the test drilling they bored in two sections on both sides of the Maracaibo. When these initial works had been finished and drilling rigs had been received, six wells between 600 ft and 1,700 ft deep were initiated (January 1914). On 13th of July 1914 the first of these wells, called Zumaque No. 2 was successfully finished. It began to produce 50 barrels a day.

Nevertheless, Caribbean did not obtain any output until 1917.^{2/} The existence of oil suitable for exploitation on a commercial scale had been proved; now it was necessary to build other premises which were indispensable for these activities. A six inch pipe-line from the "Mene Grande" oil fields to San Timoteo was built. This pipe-line, 15 Km long, had two pumping stations and was able to move 250,000 gallons per day. Not far from San Timoteo, the San Lorenzo refinery had been built. This little refinery which could treat less than 1,000 barrels per day, was able to obtain almost all oil products (lubricants excepted). It was planned only to fulfil

the needs of the Venezuelan market. The rest of the crude oil was to be sent to Curacao, where in 1918 a refinery which treated 10/ 6,000 barrels a day was already working. To store oil, the company had 5 tanks of 55,000 barrels each. Finally, a sea port especially fitted to deal with crude oil, roads and even houses was necessary to be built; in the next section we will go back to this 8/ subject.

In general terms the forerunners in the development of the Venezuelan oil industry were small enterprises although very soon they gave way to the larger ones. General Asphalt was a holding company, but devoted to asphalt enterprises. At least this was the explanation given by its board to the shareholders when they decided to sell the whole of the Caribbean Co. to "a large oil combine", after the successful drilling and when Caribbean shares were being sold in Wall Street at over 200% of its nominal price (1914). The General Asphalt board also stressed that they did not have the large amount of capital Caribbean needed during this initial stage.

McBeth reports that a number of other enterprises were invited to hold Caribbean, and that only Shell accepted and took 11/ over the company. Although this event is not mentioned in "An 12/ International Oilman", it suits very well the image Henri Deterding had of himself, namely that his success was due to a special sixth sense which impelled him to take risks which others had rejected beforehand. This may have been true between 1901 and 1907 when his Empire was created, but now in 1914, he could operate in a way which was impossible for others. General Asphalt did have a marketing system, but to sell asphalt, not kerosene or gasoline.

Standard Oil of New Jersey had had a world wide marketing system for decades and was developing a world wide oil drilling framework, but it still preferred to deal with independent oil drilling enterprises. Other companies simply did not have a world wide oil marketing system at all. Moreover there was something more behind this event. Since 1913 General Asphalt was in process of being absorbed by the Shell Group. This process was strongly linked with the incorporation of the Burlington Investment Company.

Burlington was a financing company incorporated by General Asphalt and Shell in 1913. The purpose of this company, whose initial capital was £1,000,000 seems to have been the gradual absorption of General Asphalt by Shell. Therefore the company survived until 1928, when its task had been fulfilled. In the incorporation-contract of this company was stated that General Asphalt had to sell its oil ventures to the Shell combine.^{13/}

Although Shell had had control over the Caribbean Company since 1914, this combine tried to hide the fact until 1922.^{14/} Then the combine recognised 75% ownership over Caribbean (the other 25% belonging to the General Asphalt Co.).^{15/} In 1927, in connection with disagreements between the Shell Group and some V.O.C. shareholders, when one of these latter ones said in a V.O.C. shareholders' meeting that the Caribbean Company was wholly owned by Shell, nobody denied his assertion.^{16/} Apparently the Anglo Dutch combine tried to hide its ownership of Caribbean in order to obtain full support from the White House as the Caribbean Petroleum Co. had been registered as a US concern. It could have been done in order to prevent any action against them from the US government,

17/

according to the Sherman Law.

The Development of other Venezuelan Concessions - The only old concession which was directly taken by Shell was the Vegas one.

Andres Jorge Vigas seems to have behaved just like a concession-monger. Sir Henri Deterding said that the concession he had got,

18/
was bought by the Shell Group from a certain Mr Curtin. The

Shell Group incorporated to deal with the concession a subsidiary called Colon Development Company in which the Royal Dutch-Shell combine got 75% of the stock; the other 25% belonged to an

American company known as "Caribb Syndicate". According to McBeth

19/
it had got the concession.

The Colon Company was the least developed Shell concern in Venezuela during the period covered by this research. It commenced exploration works in 1914. After solving a number of difficulties

they started drillings during the last months of 1914, but the

well was abandoned at 700 feet due to great difficulties with equipment and labourers. In 1915 the company succeeded in its

second well on the Rio Oro. In 1916 the Rio Oro well, a little

over 1,000 feet deep, was able to give approximately 200 barrels

a day, while drillings near Rio Terra were auspicious. Nevertheless

20/
the company's output was below 110,000 barrels in 1927. Colon

Company became the reserve Shell kept for the future.

Caribbean and Colon were the only two enterprises developed by Shell from its initiation. In the latter case this participation was publicly recognised while in the case of Caribbean the initial Shell presence was hidden. The other oil enterprises in Venezuela were initially developed by "independent" companies, although Shell and other large combines took over these enterprises as the small com-

panies proved themselves unable to face the initial difficulties they found.

Particularly important is Venezuelan Oil Concessions Ltd. which took over the Aranguren concession. Antonio Aranguren was not just a concession monger. He attempted to become an oil entrepreneur on a world wide scale; he became a kind of Venezuelan Gulbenkian. Although he failed in trying to emulate the famous Armenian oilman Calouste Sarkis Gulbenkian ^{21/} he had some initial success.

In 1911 Aranguren went to London and there met Duncan Elliot ^{22/} Alves. This New Zealander who had not yet begun any important activity as an oil entrepreneur was eventually to become one of the main forerunners in the Venezuelan oil industry. On the 24th October Aranguren granted Alves an option for purchasing the concession.

On 15th August 1913 when the rebate of royalties had been already granted and the oil rights of the concession had been cleared, it was sold to Bolivar Concessions Ltd. This recently incorporated company had £30,000 capital, divided in 30 shares of £1,000 each; its main shareholders were Duncan Elliot Alves (5 shares) and Antonio Aranguren (3 shares). Some months later Bolivar Concessions became Venezuelan Oil Concessions Ltd. (£100,000 ^{23/} capital in 100,000 shares £1. each).

On 19th January 1914 the company increased its capital by 50%. Moreover, in spite of some unsuccessful drillings in Santa Rita, ^{24/} test drilling in Santa Rosa oilfields gave hopeful results. It became clear, however, that the development of this wealthy concession required no less than £3,000,000 capital. They needed not only oil rigs but also pipelines, ports, tankers and even railways

as the area was extremely wild. In 1915 the V.O.C. shareholders were informed that an agreement between the Shell Group and the company had been reached.

McBeth also reports overtures previously initiated by V.O.C. to obtain Lord Cowdray's partnership.^{26/} It could be suggested that Lord Cowdray had enough problems with his Mexican oil not to look for new ones. The problem faced by the other brainchild of Elliot Alves and Aranguren, British Controlled Oilfields Ltd., which in 1919 took over the Planas concession, will show us the fate reserved for the oil companies without their own marketing system.

According to this agreement the Shell combine would get control over V.O.C. by buying 205,000 shares of £1 each (but the combine had to pay only £2 per each 3 shares). The Shell Group gained also control over the management of the company and were paid for this with a fixed rate over 15 years and thereafter with 7% of the company's profits.

V.O.C.'s capital now had to be £500,000. But the Burlington Development Company was charged with incorporating a new company with £3,000,000 capital which had to buy all the properties of the existing company. An especial clause in the agreement's articles pointed out that the incorporation of the new company had to be done two years after the war. Finally the contract granted to Mr Alves his position as chairman of the company for five years and the position of other two directors in their places for three years; Antonio Aranguren was one of them.^{26/}

Apart from the Great War, two problems hampered any further development of V.O.C. until 1921. Firstly the mentioned law suit

versus Espina, Bohorques and Valbuena, whose final verdict in
favour of V.O.C. was issued on 15th April 1916^{7/} and then, what
is called in this research, the old crisis of 1919. This crisis was
due to a sort of non declared war between the Venezuelan government
which tried to increase the Venezuelan share in its own oil, and the
companies which tried to stop the Venezuelan demand. As a consequence
of these problems, V.O.C. did not have any output until 1922 and
consequently it did not get any profit. Despite these facts its
shares were well regarded on the stock exchange. Its prices rose
from about 30% over its nominal value (May 1916)^{28/} up to 90%
over its nominal value (December 1917).^{29/}

The role played by Burlington in this operation suggests that
V.O.C. was placed under Caribbean guidance. This is a good
example in which the small entrepreneurs had to ask for help
from the great oil consortia and how high a price they had to pay for
such help.

Bernabe Planas' heirs, with Aranguren as attorney, incorporated
in London the Central Mining and Investment Corporation. In 1914
the enterprise was offered to a number of possible purchasers,
Lord Cowdray among them. The entrepreneurs invited to take over
did not accept the offer; only Cowdray was willing to take part in
the enterprise and then only as a sleeping partner.^{30/} In 1915
Central Mining became the Falcon Oil Syndicate closely linked
with V.O.C. although this Syndicate never became part of the Shell
Group. Although they had some success in the initial exploration
any further development of this company was hampered by lack of
capital. The Falcon Oil Syndicate just survived until 1919. Then
Duncan Elliot Alves incorporated with the support of the British

Controlled Oilfields Ltd. which absorbed the Falcon Oil Syndicate.

Another example of a small concern hampered by lack of capital was Pauji Co. It had a concession in Trujillo. In the view of the US ambassador, in 1916 this company tried to survive in order to sell its concession to a great oil consortium.
^{25/}

Therefore the big oil combines took control of the Venezuelan oil industry neither because of control over the technology nor illegal activities on the part either of the international companies nor the local governments. It was due to the large amount of capital these consortia could handle and, over all, the world wide marketing framework they had. This framework enabled them to obtain full advantage from the economies they could obtain by producing oil in a high scale.

The next section is devoted to explain better how it happened in Venezuela as a natural consequence of the existing conditions in the world oil market and how it also affected the oil market in a world wide scale.

First Problems which the Venezuelan Oil Industry had to face - The principal difficulty these companies had to face was the lack of means of transport, especially lack of roads. In 1912 Caribbean Petroleum had to build roads over swamp areas in order to transport material when the first wells were dug. Colon after the successful digging in Rio Oro also became engaged in the construction of roads. This problem was less great in case of V.O.C. because it was working on the very bank of the Maracaibo Lake.

Another common problem for all these companies was the fact that they had to work in swamp areas. It complicated both, the building of roads and other buildings and the instalation of the

25/
drilling rigs.

The lack of manpower also affected all these companies.

According to Sir Marcus Samuel, as he reported to the Shell shareholders meeting gathered on 12th June 1917, manpower with materials and transport were three vital elements very difficult to obtain in Venezuela.^{31/} Caribbean sought a solution by bringing manpower from abroad; about a third of its staff (about 400 workers) were foreigners, especially West Indians.

However, there were some problems which affected only some of these concerns. Colon was especially affected by the presence of Indian Tribes, namely the Motilons, in the area they were working. Subsequently they needed a sort of private army to prevent any Indian attack; they created a force from 60 to 100 armed guards to protect the exploring teams while another force from 50 to 60 guards protected the oil fields.^{31/} B. McBeth, however, reports that long before landowners in the area obtained labourers by highjacking Indian children; this suggests that these guards could be also used to get manpower.^{32/}

V.O.C. had difficulties with the drilling rigs; the first ones were not suitable to be used in the special conditions of the place. So in 1914 an order was placed for drilling equipment in the USA. The vicinity to the shores of Lake Maracaibo was an advantage as far as transport is concerned, but this also represented a handicap, namely the generally unhealthy working conditions due to the impossibility of protecting the men from malarial mosquitos. The company had to face another problem, but in Caracas, as Espina, Bohorquez and Valbuena initiated the previously mentioned law suit against V.O.C. alleging their better rights. As already

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said no ill-effects were suffered by the company, but the event aroused anxiety among the company's shareholders. When the law suit resulted in a verdict in favour of V.O.C., the company requested from The Times a special report about the event.^{33/}

Caribbean Co., once it had become an oil producer, had to face new kinds of problems. The principal one was the shallow mouth of the Maracaibo Lake as well as the shallow coast of Venezuela on the surrounding area. This is the reason given by Sir Marcus Samuel in 1916 to build the principal refinery in Curacao.^{34/} But the transportation from Maracaibo to Curacao was a problem which remained unsolved until 1920. Then a solution was sought by the purchase from the Royal Navy of a number of monitors. These obsolescent war vessels became the shallow drought tankers able to sail across this mouth less than 12 feet deep, to convey oil from Maracaibo to the refinery of Curacao.^{35/}

All these investments were repaid in 3 or 2 years as the rate of profits these companies obtained ranged between 30% and 50%.^{36/} However, these investments had important effects on the development of the Venezuelan oil industry.

It was previously explained how these necessary large amounts of initial investments precluded the early development of the oil activities in Venezuela. Now because of the same problem, the Venezuelan oil industry fell under the control of the transnational oil combines.

It is not only the fact that a large amount of money was needed to initiate a successful enterprise there; the high rates of profits to be expected would attract capital from everywhere. Sir Marcus Samuel, talking about Venezuela in one of his speeches

to Shell shareholders said:

"Extensive geological work and some drilling have satisfied us that the associated companies have acquired extremely valuable territories. Development will be slow and expensive. I believe that a large addition to world supply of oil will be provided when our plans are fully carried out." (22nd June 1915). 37/

But the case is that these investments had no connection with the bulk of crude oil to be exploited. Therefore the only way to develop a profitable oil enterprise in such conditions was by extracting huge quantities of oil; otherwise the cost per unit of crude oil would become increasingly high. During the early 1910's only Shell and, to some extent Standard Oil (New Jersey) were able to take advantage of this situation as they had a world-wide marketing system; other companies would become dependent on Shell or Standard Oil and would not be able to obtain such profits.

Another set back which hampered the early development of the Venezuelan oil industry was the First World War. The Great War will reappear later in this analysis as it was an important factor in the development of the oil industry. It made oil a strategic commodity. In fact, aeroplanes and fired war ships existed before the war, but only the USA had had a wholly oil fired navy since 1913. At the beginning of the war only 40% of the British Navy was oil fired; by the signature of the armistice 95% of the British Navy had been provided with oil fired engines. As far as planes are concerned Britain, whose industry made tens of thousands of aeroplanes in 1918 had just 80 in 1914. 39/ The invention of tanks and submarines ought also to be taken into account, as well as the fact that lorries, cars and oil-based TNT were

increasingly used. In the last month of the war the oil used by the allies in the Western front alone, exceeded by 20% the whole of the oil used by all the fighting armies during the entire year 1914.

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Nevertheless, the First World War while encouraging the oil industry in world wide terms, hampered Venezuelan oil business. The oil companies involved in oil exploration in Venezuela met increasingly greater difficulties in obtaining the equipment they needed, as British industry was now engaged in war production. In fact oil was becoming one of the main strategic materials, but all the Venezuelan oil enterprises except the Caribbean Company were at the exploration stage, at that time when oil was needed right away. A war like the First World War which absorbed the whole economy of each fighting country left no time for thinking of the future. Thus only the Caribbean Petroleum Company was producing oil at the end of the war; the other companies had to wait until its end. Apart from that even Caribbean had some problems obtaining supplies due to the facts that the British industry was entirely involved in the war effort and the German submarines created strong difficulties in the transport. Shell lost about 25% of its tanker fleet during the war.

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NOTES

1. Ministry of Fomento is usually translated as Development. In this work the way being used (the Spanish word underlined) is the form which has been used in the despatches from the British Embassy at Caracas during the period covered by this research. The word Fomento means in Spanish "Encouragement".
2. Betancourt, Rómulo. Política y Petróleo (Mexico City 1956) pp. 41-42.
3. González G. Godofredo. Derecho Minero Venezolano (Caracas 1945) pp. 152-154

4. For instance the application presented by A. Aranguren was accepted by resolution issued on the 12th May 1913. Published by the Official Gazette No. 11,970 F.O. 371 Piece 10653 No. 2253.
5. The Times 2nd October 1912 p. 54.
6. The application presented by A. Aranguren regarding the character of an asphalt concession was accepted by resolution issued on 18th June 1912. On the 26th June Dr Valladares issued a protest against this acceptance. The final resolution reinforcing Aranguren's opinion was published on 4th July 1912. F.O. 371 Piece 10653 No. 2253.
7. In fact, Juan Crisostomo Gomez had acquired 25% of Espina, Bohorquy and Valbuena. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981) p. 83.
8. C. Dormier's despatch No. 13 (British Minister at Caracas) to Lord Curzon. 31st May 1920. F.O. 371 Piece 4622 No. 1805.
9. According to B.S. McBeth there were some Venezuelan oil exports during 1914, although there was no oil exports at all in 1915 and 1916. Venezuelan oil exports in 1914 meant 0.01% of the whole exports of this year. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981) p. 226. Information calculated from: Alamo Ibarra, Roberto. Resumeres estadisticos del comercio de los Estados Unidos de Venezuela correspondientes al lapso 1908-1928 y primer semestre 1929 (Caracas 1930).
10. HM's Petroleum Executive's Memorandum to the Foreign Office 8th April 1919 F.O. 371 Piece 4234 No. 71449.
11. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981) p. 74.
12. The book "An International Oilman" was written by the Journalist Stanley Naylor in 1934, after a long interview with Henri A. Deterding. It contains Deterding's biography as well as his views about the world economic situation prevailing at that time.
13. Board of Trade; Public Record Office BT31 21169/126572. General Asphalt granted the Shell Group the privilege of buying its oil share stock according to a list previously established in another contract signed in Paris.
14. Although the General Asphalt Co's board reported an agreement with a "longer oil enterprise" in its Annual Report of 1915 (Financial Times, 29th December 1919. Shell Archive, Cutting Papers Vol. 20 p. 10 left), in 1918 Sir Marcus Samuel had reported in the Shell Annual Meeting of 1918 a kind of agreement with General Asphalt (The Times, 31st June 1918, p. 11) and the alliance between Caribbean and Shell was officially recognised (Financial Times 8th November 1920. Shell Archives, Cutting Papers Vol. 25 p. 11) Shell's ownership over Caribbean was frequently denied (Financial Times 29th December 1919. Shell Archives, Cutting Papers Vol. 20 p. 10 left, Financial Times 8th November 1920. Shell Archives Cutting Papers Vol. 25 p. 11. etc.).

15. Beaumont's despatch No. 85 (HM's minister at Caracas) to Lord Curzon, the 13th September 1922. F.O. 371 Piece 8530 No.85.
16. Mr Chester Beatty's speech at the annual meeting of V.O.C. Holding Company, 25th January 1927. The Times, 26th January 1927, p. 19.
17. Deterding reports his dealings with General Asphalt in order to buy Caribbean. He said that he agreed the purchase in talks with James Clarke Curtin who came to London to discuss it. Deterding, Henri-Naylor, Stanley. An International Oilman (London 1934) pp. 97-98.
18. Deterding, Henri-Naylor, Stanley, An International Oilman (London 1934) pp. 98-99.
19. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981) p. 113.
20. In 1926, Colon's output was 99,233 barrels. In the first six months of 1927 it was 50,863 barrels. Oil Report from the British Consulate at Caracas. F.O. 371 Piece 12063 No. 5372.
21. Calouste Sarkis Gulbenkin (1860-1952) This famous oilman was born in Scutari. Son of a wealthy businessman, he studied in Istanbul, Marseilles and London. Once returning home he obtained legal rights over a large number of seepages around Mosul and Asia Minor. It enabled him to challenge the mining rights granted by the Sultan to the German company which owned the railway to Baghdad; in this contest he was supported by Shell and the British government. In 1914 when after an agreement between the Deutsche Bank, Shell and Anglo-Persian, Turkish Petroleum was incorporated, Gulbenkian got 5% of the stock. The company suffered several changes until it became I.P.C. in 1927, but Mr Gulbenkian's 5% never suffered any change. Gulbenkian also took part in other oil enterprises (particularly in Mexico and Venezuela) as a minor partner of Shell, but his share in I.P.C. was the principal part of his wealth; therefore he is known as Mr 5% until today. In 1902 he became a British subject. He married and had a son and a daughter.
22. Sir Duncan Elliot Alves (1870-1941). Born in Dunedin (New Zealand), son of an engineer. He spent most of his lifetime in Great Britain. In 1911 he became increasingly involved in oil activities, particularly in Venezuela. In 1913 he incorporated V.O.C. and in 1919 he created B.C.O. He was eventually awarded the "Busto de Bolivar" decoration by the Venezuelan government. He gave economic support to the foundation of the chair of Oil Technology in Birmingham University.
23. Board of Trade. Public Record Office BT31 21360/128209.
24. The Times, 20th January 1914 p. 16.

25. Oil Report sent by the US ambassador of Caracas in 1916 quoted in a memorandum sent by HM's Petroleum Executive to the Foreign Office on 8th April 1919. F.O. 371 Piece 4254 No. 71449.
26. The Venezuelan Oil Concessions Ltd second annual meeting's report; held on 19th December 1915. The Times 20th December 1915 p. 16.
27. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981) p. 76.
28. The Times, Unquoted Securities. Oil. 1st May 1916 p. 14; 17th June 1916, p. 14 and 30th June 1916, p. 12.
29. The Times, Unquoted Securities, Oil. 13th July 1917, p. 11; 16th July 1917, p. 11; 8th December 1917, p. 13 and 14th December 1917 p. 14.
30. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981), p. 77.
31. The Times, 13th July 1917 p. 12.
32. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981, p. 384).
33. The Times, 9th January 1917, p. 29.
34. The Times, 12th July 1916, p. 14.
35. The Financer, 7th July 1920, Shell Archive. Cutting Papers Vol. 23 p. 15 right.
36. V.O.C. obtained in 1926, 55% profits. V.O.C. Extraordinary Meeting 25th January 1927. The Times, 26th January 1927, p. 29.
37. The Times, 23rd June 1915, p. 13.
38. "Memorandum On the Petroleum Situation" Enclosed in a despatch sent by Lord Curzon to Sir A. Giddes (Ambassador in Washington) 21st April 1921 Cmd. 1351 London 1921.
39. The Times - reporting about the publication of part 160 (Vol. 13) of The Times History and Encyclopedia of the War. 10th September 1917, p. 3.
40. Espasa-Calpe Encyclopedia 1920, vol. 44, (Madrid 1924) pp. 242-243.
41. Shell lost 12 tankers, totalling 75,000 tons and nine others were badly damaged. Sir Marcus Samuel reported it in the "Shell" shareholders meeting, held on 1st June 1919. The Times, 2nd June, 1919, p. 21.

CHAPTER VIII

Venezuelan oil policy following after the "Mene Grande" discovery

Effects of "Mene Grande" discovery on the Venezuelan oil policy - In fact, the successful drilling of Zumaque 1 had a great impact on Venezuela's oil policies, particularly on its attitudes towards foreign investors. The Venezuelan policy makers became strongly confident in this new source of revenue and tried to obtain from oil as much as they could.

This excess optimism was based on the above mentioned achievement, but also on the development of the oil industry in world wide terms, boosted by the First World War and the subsequent development of the internal combustion engine. This is the period when oil producing countries first obtained some of the strong bargaining power they still retain.

This Venezuelan attempt to re-negotiate with the oil companies the conditions of the original concessions led to a hidden confrontation between Venezuela and the companies. It reached its bitterest moment in what is called in this research "the Venezuelan oil crisis 1919-1921". The development of this struggle and its end in 1921 is the subject of this and the next chapter. In this struggle, Venezuela was defeated; the reason why it was defeated is linked with one of the main hypothesis of this research, namely, the weak internal structure of Venezuela which enabled companies and powers to take advantage of it. How the oil companies and their supporting powers exploited this weakness in this particular case is explained in these two chapters.

Gómez's Government and his attitude towards the Great Powers -

Few historians see the dictator of V. Gómez in a positive way.

^{1/} Brian S. McBeth is one of those few. He presents Gómez as the man who put order in the Venezuelan budget, who developed Venezuelan education and health, who created a modern road system and other public works, and in short, who brought Venezuela to the twentieth century.

His enemies are so divided in the view which they present of him that it is difficult to find common ground for their rejections; perhaps the fact that he used his power to increase his personal wealth is one of the few commonly accepted assertions.

Betancourt and others like Marcano and Salcedo Bastardo, who follow the line of Acción Democrática present Gómez as a ^{2/} puppet of the White House, and consequently of the US companies. If Gomez used to have some occasional difficulties with British companies, it was, according to these writers, due to suggestions Gomez had got from the US embassy. For some American writers, like ^{3/} Lieuwen and Rourke, more connected with the transnational corporations, Gómez is a ruthless dictator who used his absolute political power to exploit both the Venezuelan nation and the international companies. Finally, some modern writers less linked with the events of 1928 and 1935, give to Gomez a mainly negative, but rather human personality. For D.A. Rangel, for instance, Gomez was a cunning and picturesque character whose flamboyant personality shone out in the Venezuela of this time ^{4/} which, in 1900 was still living like in the Colonial Period.

At a time when there was nobody else to overshadow him, his cunning enabled him to take over the government in 1908 and to

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remain in this leading position for the rest of his lifetime.

According to the evidence found in the present study.

D.A. Rangel's opinions are superficial or even wrong at some points, while at others his statements must be re-interpreted in the light of new evidence. However, in general terms his view about Gómez seems to be the most accurate one.

Gómez, the ruler, was above all, a businessman. If he tried to remain in power, it was due to the fact that within Venezuela, control over the government was the main key to prosperity in business.

An implied view of Rangel ought to be stresses which he actually did not point out but which underlies his thinking namely the fact that if the modern Venezuelan state was not Gómez's creation, it was at least achieved through Gómez. According to Rangel the only international creation of Gómez was the modern army, formed to destroy the old caudillos; the rest was achieved by "King Oil" rather than "The Master of Power".
5/
It might be argued that the "King" also played an important role in the formation of the army. Although its creation had been blueprinted by Castro, prior to the oil boom, the "King" provided the revenues to bring it to formation.

Venezuela was changing, not against Gómez's will, but, to some considerable extent, independently of it. Gómez was able to shift his policies, friends and attitudes according to the circumstances in order to be the master of the situation at every turn. In 1928, when he had exhausted the possibilities of manouvre and his power had faded, the old man was still the one best prepared to unify the ruling classes. He obtained a comfortable

position by remaining in power while others ruled in his name.

Thus Gómez cannot be presented as a mere puppet of the White House, as Betancourt tried to do. The abovementioned views held by writers connected with the foreign companies and those held by British diplomats appointed in Venezuela - especially before 1922 - show a quite different emphasis. To some extent Gómez was a "nationalist" in so far as nationalism meant more money for him and his followers. In 1914, the British Minister at Caracas, Frederic Hartford, complained in one of his despatches to Sir Edward Grey:

"I do not think there is any real desire for progress. The Government clique, the President and his rapacious relatives can always make large sums by the mere sale of concessions, or by renewing existing contracts at a price." 6/

He struck a compromise between the interests of these national groups which supported his government on the one hand, and the Great Powers and the transnational companies on the other. Otherwise these Powers could unbalance his government and put him at risk of being overthrown by his own supporters; the memory of Castro's fate was still fresh in his mind. However he was permanently trying to obtain from the foreign companies as much as he could without clashing with them and their supporting nations. At the same time the Great Powers supported Gómez as a lesser evil (This was particularly true before 1922).

It can certainly be agreed that Gómez's personality is not enough to justify his success if the Powers had not given strong support. The internal situation prevailing in Venezuela during this period helped him to achieve his political success. After Crespo or even before, as the need for a powerful central government

was generally realised, regionalism, although surviving to some extent until today, became a pale echo from the past. But the old caudillos still existed; then, a powerful central government, able to destroy them was generally needed. After Castro's failure Venezuelan rulers understood they could raise the national flag, but not so high as to create problems for the Great Powers. The ruling classes faced no real internal challenges; the industrial workers and the middle class were almost non-existent, while the illiterate peasantry posed no threat at all. Thus the unchallenged ruling class was able to divide itself on minor issues, the most prominent of which was the question of concession and concession-mongers. This is the "shameful utilitarianism" blamed by General Hernandez in the letter to Leopoldo Baptista quoted in Chapter 4.^{7/} This question was underlying the activities of the caudillos and others opposed to Gómez until 1928.

This real nature of the Venezuelan political struggle up to 1928 increased the internal power of Gómez, but made him weak in terms of international affairs. A change at the top only meant a change of personality not of policy. This situation gave the Powers and the Companies the possibility of blackmailing the Venezuelan government by giving some support to the caudillos, conspiring abroad, without danger of promoting a real revolution which could put their interests in jeopardy.

To finish this general view of Gómez, it is necessary to comment on one of the statements of Rangel which seems to be erroneous. He insists on the excellence of the well organised secret police set up by Gómez against his political enemies, worldwide. In further chapters, evidence will be given to prove that

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this secret-police force was too weak to operate without the help of the police of other countries, especially Scotland Yard. This was one way used by the Powers to bring pressure on Gómez, as Britain did when he tried to attack Shell's priviledges.

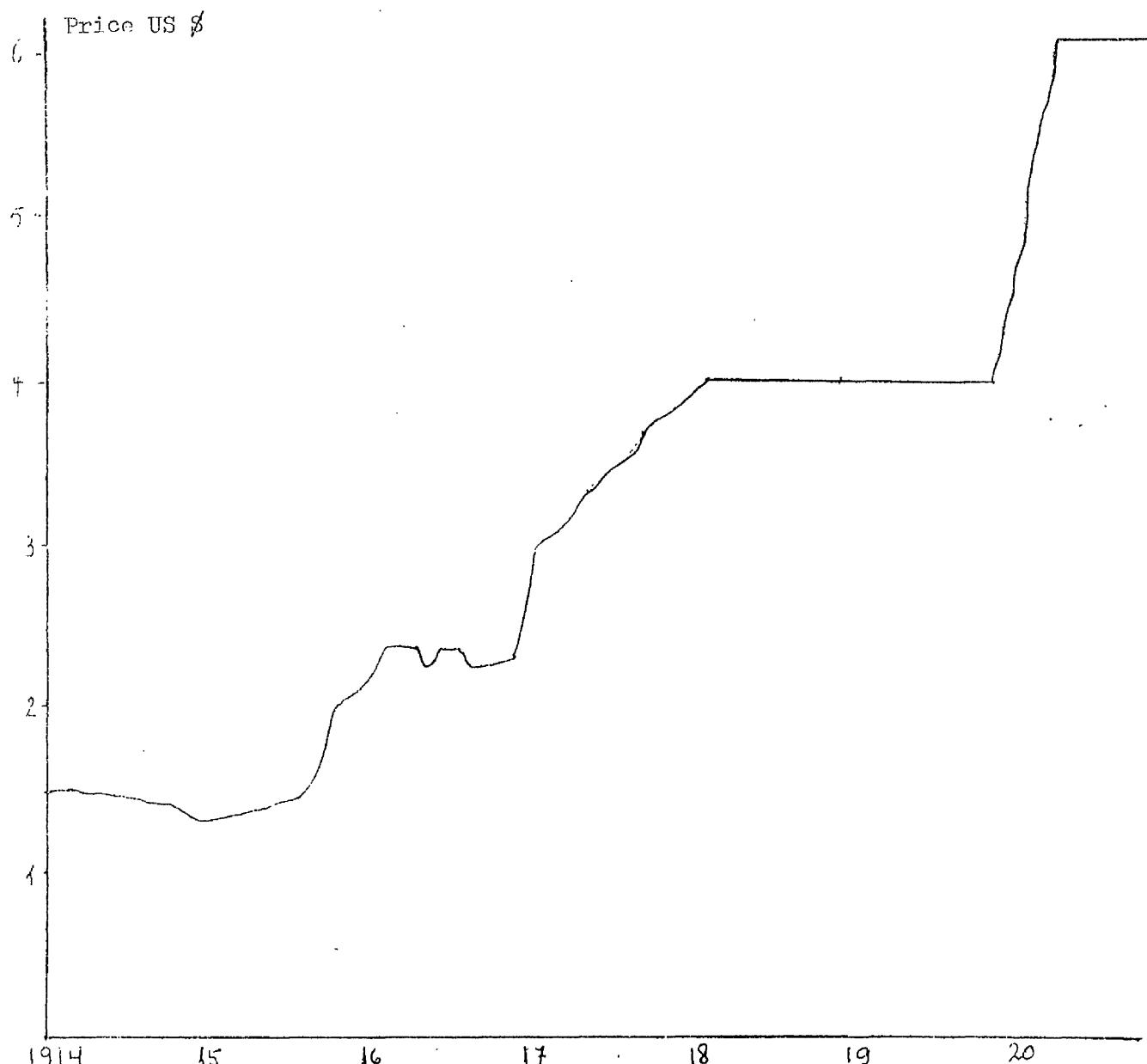
How the oil market was affected by the Great War - The Venezuelan attempt to increase revenue from its recently established oil industry was not based only on internal factors, although they were extremely important ones. Zumáque I had shown the existence of shallow oil deposits in Venezuela at, or even above 1,000 feet. Venezuelan ports were nearer to New York and Europe than Tampic or Veracruz. Finally, with the opening of the Panama Canal and the increased number of ships propelled by oil fired engines, Venezuela was like a filling station next to the main road from Europe and Eastern USA to the Pacific coast. Therefore the Venezuelans were in a powerful position to demand more revenue because even then their oil would be cheaper than elsewhere. Venezuela was entitled to expect at least a share from these natural advantages.

But apart from these internal advantages, which were offset by certain difficulties like the wilderness of the country and the shallowness of its coasts, there was an external element which strengthened not only the Venezuelan bargaining power, but the bargaining power of every oil producing country; it was the First World War. As previously said, the war made oil a main strategic element; General Joffre compared it with blood.

The initial effects of war on the oil market were negligible. For instance, British oil imports increased only by 6% in 1914.
Consequently, prices continued going down until December 1914. 8/

Graph No. 1

Crude oil price during and just after the First World War



Source of the Graph No. 1

The Times: different
information between 22nd
January 1915 and 6th December
1920 2/

Graph No. 1 shows how the crude oil prices changed in the New York market between 1915 and 1920. At the end of the war the price was 196.3% higher than on 1st January 1915; on the 31st December

1920 this price was 450% higher than in 1915.

There are two elements which promoted these high rises in oil prices during the war. Apart from the increased use of oil for warfare purposes, important oil sources, namely Russia and Rumania, became temporarily out of production. Both had played an important role during the first months of war. However, when Turkey entered into war on the side of the Central Powers (first week October 1914), Rumania was no longer able to send its production through the Straits of Bosphorus and Dardanelles. It was eventually solved by carrying the Rumanian oil through the Russian territory. But later, in 1917 when the Germans conquered Rumania, the Rumanian output fell to less than 33% of its standard production. This drop was due to a well organised sabotage of these oilfields ^{10/} by the allies just before the Germans conquered this territory.

After 1915 the Russian oil industry was particularly affected by labour unrest. Strikes, which lasted for months, crippled the Russian oil production. The Russian output of 1913 was not ^{11/} reached again until the late 1920's.

In these ways, the war affected the oil market in both structure and prices. Its effects lasted until after the armistice.

First of all the great oil combines were able to enjoy the relative support of the Great Powers and they took control of the oil market with no official interference. In the USA the Supreme Court had forced the dissolution of Standard oil in 1911. However nobody complained when all the thirty four companies which appeared after Standard's dismemberment continued working in alliance, led by Jersey Standard's manager John Archbold. In Great Britain, W. Churchill, then First Lord of the Admiralty, who, in 1914 had

accused Shell of blackmailing the Royal Navy, in 1915 expressed publically the government's gratitude to Shell for its services to the war effort.^{12/} After the armistice three of their main executives were awarded; Sir Marcus Samuel was made a viscount while H. Deterding and R. Walley-Cohen became K.B.E.'s.

A kind of de facto agreement among the oil companies along the lines suggested by Sir Henri Deterding was established. The situation did not change with the end of the war and this sort of oil cartel was maintained after the armistice and rose dramatically between these two periods. As a result of this agreement, between February 1918 and October 1919 and between April 1920 and January 1921 oil prices were stable. The price of US\$6.10 per barrel, prevailing since April 1920 created conditions in which small oil corporations were able to survive, because this price gave them a "standard" profit, which at that time was about 6%. Meanwhile the great oil consortia obtained incredibly high profits. Table No. 5 shows the rate of dividends paid by the "Shell" Transports and Trading Company and the Royal Dutch Petroleum Co. between 1908 and 1919. It must be remembered that the dividend does not include that part of the profits which was retained as capital increase.

In fact the war only accelerated a process which had begun some time before. Oil demand had increased incredibly fast and it forced prices higher. On the other hand the diminishing waste, as every kind of hydrocarbon now found commercial use, reduced costs. It created an increasingly large gap between oil prices and oil costs. This gap, which could be called the "oil surplus", continues to be a real fact in any economy based on the free market system, and exists

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even when the oil companies do not take advantage of it. During the period being studied now, the big oil combines were able to catch almost all the "oil surplus" by fixing oil prices high enough to allow the survival of the smaller oil companies. In this way these big consortia obtained high profits because they were able to enjoy economies in costs brought about by large scale production.

Table No. 5

Dividends of Royal Dutch Petroleum Co. and "Shell"
T & T Co between 1908 and 1919

Year	Royal Dutch	Shell		Year	Royal Dutch	Shell	
1908	28%	20% Free of Tax		1914	49%	35% Free of Tax	
1909	28	22½	"	1915	49	35	"
1910	28	22½	"	1916	38	35	"
1911	19	20	"	1917	48	35	"
1912	41	30	"	1918	40	35	"
1913	48	35	"	1919	45	35	"

Source - The Financer 6th July 1920 13/

This situation encouraged not only Venezuela but all the oil producing countries to seek a better return from their oil treasure. This struggle reached its climax during the 1920's and will be observed again in further chapters.

Gómez's mining policies until 1921 - Castro was overthrown by people who had been amongst the strongest supporters of his policies. When Gómez took over, there were therefore changes only for those aspects of policies which had led to Castro's overthrow. Even later, when Gómez sought new support and called the old caudillos to power in order to put Baptista and Paul aside, his mining policies did not change, as Castro's mining policies had

been the traditional ones followed by every Venezuelan government for decades.

Changes of oil policy in Venezuela were eventually brought about in 1912 by the international oil companies which actually boycotted the Venezuelan oilfields. As previously pointed out the change was marketed by the issue of the second Valladared concession and the amendment of the other ones. These concession-contracts had force of law; therefore the holders of these old concessions were well protected against any further change in the Venezuelan law.

During the 1910's the Venezuelan oil policy must be understood as a part - a small part - of the concession policy followed by Gómez, because not only had concessions become the most important issue in Venezuelan politics but because also there was no real oil law until 1918, and consequently, through the oil concession-contracts the whole Venezuelan oil policy was drafted.

Until 1914, oil concessions in Venezuela were less important than any other kind of concession. The concessions policy followed by Gómez annoyed the British investors and consequently the British Government. In his previously quoted despatch, Frederic Hartford reported:

"In the last year just closed namely every British undertaking in Venezuela had a struggle to defend their interests." 6/

Among the multiple problems faced by the British concerns, Hartford mentioned unfair competition, blackmail and unfriendly attacks from the Government and the press. But the main problem was the attempt of the Venezuelan government to annul concessions, once they had become profitable enterprises. These attempts were

based on twisted interpretations of the law.

But due to Gómez's partnership with the old caudillos, the policies followed by him during the first years of his government produced a sort of internal opposition which was strong enough to be exploited by the Powers. So, in 1911 a conspiracy was discovered in Venezuela. Gómez denounced it as a Castroist one. In this way Gómez obtained the full support of the USA, because they were especially anxious to avoid Castro's return. The British Charge d' Affaires at Washington, Brice, reported in 1912:

"The United States Government are of the opinion that nations desiring to see a responsible government in Venezuela... would prevent the use of their ships and territory in manoeuvres which would hamper the Venezuelan Government in dealing with the menace of Castro's return." 14/

The sensational way in which the US media reported these events produced some concern in influential circles within Great Britain. This concern became publicly apparent when an M.P. asked the Foreign Secretary in Parliament about these stories. Minister Grey answered that he had no information about the subject, apart from that supplied by the press. 15/ But Sir Edward Grey was well informed not only about the situation inside Venezuela, but also about the dealings of some of the most important exiles involved in the conspiracy. 16/

This event shows, firstly, that Gómez was able to exploit jealousy between Great Britain and the USA and secondly that Castro's presence in Venezuelan politics was no more. He himself had become nothing more than a name used by Gómez to obtain US support. The Castroist party split into two groups, one to be absorbed by Gómez's party and another to join the caudillos.

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After 1913 Gomez changed his internal policy. Now, rid of Baptista and Paul, the old caudillos were no longer needed. Apart from some of them who had accepted Gomez's conditions, these occasional allies were put aside and very soon they were abroad, hatching conspiracies against the Venezuelan dictator. One of these few caudillos who remained at Gomez's side was Felix Garvira. He played an important role in the formation of the new Venezuelan army. The discovery of "Mene Grande" oilfields in 1914, had a great impact on the Venezuelan oil policy. Firstly, Oil policy and oil concessions became an important element within the whole Venezuelan concession issue, even though the Venezuelan oil output was non-existent until 1917 and negligible until 1921. In Venezuelan politics oil was to become an issue in itself after 1920. Secondly, the "Mene Grande" discovery also encouraged Venezuelan politicians to intensify the oil policy they had followed before. Royalties went higher, areas were smaller, concession periods were shorter and duties to be fulfilled by the concession-holders were increased. This mining policy was expressed in the Mining Law enacted on the 22nd June 1915. As pointed out in the second paragraph this new law did not affect the concessions granted before 1914 because these old contracts had force of law.

"Val de Travers" was prevented from transforming an asphalt concession which they had bought from a French company, into one for oil.^{17/} The Venezuelan government thus prevented a concession granted before 1914, and consequently much more advantageous to the company than this new kind of grants awarded following the 1915 law, entering into effect. The only concession-contracts still in force which were not affected by the new law were the four granted

by Castro in 1907 and the Valladares concession of 1912.

Just after this law was enacted the team of geologists sent by Standard Oil reported that in Venezuela there was no trace of oil, except in the already granted areas.^{18/} Seems to be that what the Standard Oil geologists discovered was that the other areas were highly affected by the new law. If they did not find oil in the areas which had not been granted yet their report was very inaccurate; after 1922, when the Venezuelan oil legislation had been changed, US companies found enough oil in these areas^{19/} to surpass the Venezuelan Shell output.

During the First World War, Gomez followed a policy rather similar to that of the other Latin American country which was a main oil producer, namely Mexico. It was to keep a neutral position, rather favourable to the Central Powers. This attitude was not changed even after the USA entered the war and despite the pressure the USA put on Venezuela to force such a change. For instance, the USA declared by unofficial statements that Venezuela could no longer be considered a friendly country. But the USA also took measures which went far beyond what the International Law could accept, like the unlawful retention in Puerto Rico of a shipment from Spain to Venezuela, containing paper and other goods needed by cigarette consumers. El "estanco" (State monopoly on trade in goods needed by smokers and card players) was an important source of revenue in Venezuela.^{20/} During the 1910's the amount yielded by the estanco averaged 24% of the whole Venezuelan annual revenue.^{21/}

Gomez's international policy seems to have had no connection with the political ideas reflected by the Keiser as he and V. Carranza

held a similar position despite the Mexican ruler's conviction that his policies were diametrically opposed to Gómez. The reason why Gómez was pro-German seems to be connected with his policy towards foreign capital. Due to the activities developed by the German investors in Venezuela (apart from a railway, German capital invested in the country was entirely devoted to foreign trade enterprises) they had less difficulties with the Venezuelan government. Moreover, due to the fact that they had arrived later than the British (and the US) entrepreneurs they had accepted less advantageous conditions than the first arrivals and, finally, the German capital invested in Venezuela was almost negligible compared with the British. The Mexican situation was very similar.

The new ministers appointed by Gómez after his alliance with the caudillos was ended, were doctors, sometimes trained in European or US Universities, well informed about what was going on beyond the Venezuelan frontiers. As previously said, Gómez and his "most nationalist ministers" were keen to "attract foreign investments", but not to bring progress in vague terms. What it was hoped the foreign capital would bring was revenue. Therefore the Venezuelan government tried to force the foreign companies to accept the conditions imposed on them. It became apparent when a law was enacted for force the foreign companies to accept the conditions imposed on them. It became apparent when a law was enacted in June 1918 according to which all foreign companies whose principal object of exploitation, trade or industry was in Venezuela were to be registered as national companies. This law promoted deep concern in the British government, as nine large companies and several smaller ones operating in Venezuela were British. Moreover,

one of the two large US companies working in Venezuela was the Shell subsidiary Caribbean Petroleum Co. The British protest against this law was kindly answered by the Venezuelan Minister for Foreign Affairs, Dr Mosquera, by sending his principal advisor, Dr Gil Borges to the British legation to explain the objects of ^{22/} the law, but it was still enacted without any amendment.

The Mining Law enacted on 27th June 1918 shows the same policy. As far as oil is concerned, this law claims the ownership of this resource by the nation; its exploitation is given to concession-holders but without resigning the property right on it. This policy had been clearly defined in 1916 by the Minister of Fomento Manuel Díaz Rodríguez. This policy had obviously not suffered any change with the replacement of Díaz Rodríguez by Torres in 1917.

The entrance of the USA into war and later, the German defeat, did not affect Gómez's stability, partially due to the increased importance of oil in the world economy generally but also because the Powers found no better alternative to Gómez. Pressures on Gómez to break relations with the Central Powers have been previously mentioned. But the fact is that the US Government did not go beyond the above reported measures and they were not enough either to force Gómez to change his international policy or to destabilise Gómez's government.

A few weeks before the war's end a letter sent by Gómez to his friend Dr Cesar Zumaeta was published by "El Universal" (28th September 1918). In this letter he declared that he had been always sympathetic to the allies' cause and explained that his neutrality had been due only to reasons of principle. ^{23/} He also changed a large number of his war time ministers. So Dr Mosquera was

replaced by Dr Borges in Foreign Affairs and Dr Díaz Rodrigues by Dr Torres in Fomento, but the policies followed by the previous cabinet were maintained in every aspect.

Thus the Mining Law of 1918 was followed soon afterwards by
^{24/}
the Coal and Oil Law (6th March 1919) and both laws drafted an oil policy which finally embodied the First Venezuelan Hydrocarbon Code (30th June 1920).
^{25/}

In general terms, the new legislation represented an important change in favour of the Venezuelan State with regards to the concession-contracts of 1912 and 1907. The royalties per granted area went from Br.2 up to Br.5 per hectare. The royalties per production went from Br.2 per ton up to 15% of the production, to be paid either in cash (at the world standard price) or in crude oil according to the desire of the Venezuelan government. The concession area could not be wider than 40,000 hectares and the exploration period was reduced to two years. Finally, after exploring the area, the concession-holder had to surrender 50% each selected hectare plot, and these 250 hectares would be granted by the government by auction.

In such conditions, Venezuelan oilfields were actually boycotted. No company showed any interest in new Venezuelan concessions while these reports which had established that all the Venezuelan potential oil bearing areas had been already granted, received wide publicity. Until 1922 only "Mene Grande" oilfield were in production.

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10. The sabotage which crippled the Rumanian oil production was achieved when the counteroffensive launched by the Central Powers was in progress (Sept.-Dec. 1916). It was organised by the British

military attache, Colonel (later Lord) Thompson, London especially sent Norton Griffith to help him in this task. Years later, General Ludendorff recognised the great achievement of Thompson and Griffith. In fact they prevented Germany gaining any advantage from the acquisition of oil which they obtained from the Treaty of Bucharest (Ludendorff, Memoires, 1st Volume, p. 358) Lord Hankey. The Supreme Command 1914-1918 (London 1961) Vol. 2 p. 535.

11. The Russian oil crisis began early in 1915. Petroleum, a Year of Rising Prices (article) The Times, 21st January 1916, p. 7.
12. Both of Churchill's statements were reported by Sir Marcus Samuel in his speeches to "Shell" shareholders. The accusation on 22nd June 1914 and the expression of gratitude on the 22nd June 1915. The Times, 23rd June 1914 (p. 19) and 23rd June 1915 (p.13).
13. Shell Archives. Cutting Papers Vol. 23 p. 11 right.
14. Bryce's despatch No. 72 to Sir E. Grey. Received on the 28th May 1912. F.O. 371 Piece 1277 No. 20351.
15. Mr Grawsherry Williams asked about the subject. House of Commons 13th June 1911. The Times 14th June 1911, p. 13.
16. Sir E. Grey had been constantly told about the Venezuelan internal troubles from Venezuela as well as from the activities of Gomez's enemies abroad. The following despatches are negligible number of these regarding this matter: W. O'Reilly's (British Chargee d'Affairs at Caracas) despatch to Sir E. Grey 27th August 1910. F.O. 371 Piece 1027 No. 34162. F. Hartford's despatch No.39 to Sir E. Grey 13th November 1911 F.O. 371 Piece 1277 No. 58416. F. Hartford's despatch No. 41 to Sir E. Grey 25th November 1911. F.O. 371 Piece 1277 No. 51235 and Young's despatch (British Minister at Bogota) to Sir E. grey. 31st December 1911. F.O. 371 Piece 1551 No. 6533.
17. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981)
18. Marcano, Eduardo. Los Comienzos de la Industria Petrolera en Venezuela y la Legación de los Estados Unidos en Caracas (artículo en la revista IUPC Caracas 1976) p. 66.
19. The US owned companies were able to produce over 50% of the Venezuelan output during the first half year 1929. Until then, over half of the annual output of Venezuela had been produced by Shell subsidiaries. United State Daily, 1st October 1929. Sent to London as enclosure in one of Sir E. Howard's despatches (British Ambassador in the USA). on 10th October 1929. F.O. 371 Piece 13558 No. 7003.
20. H. Beaumont's despatch (British Minister at Caracas) No. 14 to Lord Balfour. March 1918 F.O. 371 Piece 3433 No. 62700.
- 21 During the war the estanco increased its importance in the Venezuelan revenue (39% in 1917 and 41% in 1918) McBeth, B.S.

Juan Vicente Gomez and the Oil Companies (Oxford 1981) p. 230.
Source: C.N. Clarck F.O. 199/266 (July 1929) and US trade information bulletin 783 p. 12.

22. H. Beaumont's despatch No. 5 to Lord Balfour 25th April 1918. F.O. 371 Piece 3433 No. 117118.
23. The article in El Universal went to London as enclosure in H Beaumont's despatch No. 39. F.O. 371 Piece 3433 No. 183037.
24. Official Gazette 1370 of 7th March 1919 Enclosure in H. Beaumont's despatch N.24 to Lord Curzon 15th March 1919. F.O. 371 Piece 4354 No. 61861.
25. C. Dormier's despatch (British Minister at Caracas) No. 87 to Lord Curzon. 12th December 1920. F.O. 371 Piece 4622 No. 8392.

CHAPTER IX

The Venezuelan Oil Crisis 1919-1921

Venezuela becomes an oil exporter - As soon as "Zumaque 1"
 was successfully completed, Venezuela became a Promised Land as far
 as oil was concerned and the press announced the strong possibility
 of having in Venezuela a future Mexico.^{1/} There were some problems,
 many connected with transport, but there was no problem in the
 detection of oil. These difficulties took two years to overcome
 and in 1917 Venezuela appeared in the oil producer's ranking. In
 1918 the Venezuelan output was 2.7 times as much as in the previous
 year (see Table No. 6).

Table No. 6

Venezuelan crude oil output between 1917 and 1921

Year	Venezuelan output (1,000 barrels)	$\frac{1}{2}$ annual increase	Ratio with 1917	% of world output	Venezuelan oil exports (1,000 barrels)	% exported of the Venezuelan output
1917	121	-	100	0.02	57	47
1918	321	165	265	0.06	147	46
1919	304	-5	251	0.05	14	5
1920	462	52	382	0.07	-	-
1921	1,449	214	1,198	0.19	1,004	69

Source: M. M. H. Algunos Aspectos de las Actividades Petroleras
 Venezolanas, Mundiales y Apendice Estadistico 1967, p. 1-Al85^{2/}

As in 1918 the San Lorenzo Refinery entered into production,
 this was the last year Venezuela had to import oil products for
^{3/} its own consumption. Since 1917 Venezuela had also been an oil
 exporter, and in 1917 and 1918 Venezuela exported nearly half of its

own production. In 1918 over 99.5% of its petroleum exports were of unrefined oil (see Table no. 7).

Table No. 7

Venezuelan Oil Imports and Exports in 1918

	Imports		Exports	
	Tons	%	Tons	%
Kerosene	2,388	71.0	4	negl.
Gasoline	960	28.5	88	0.5
Crude Oil	-	-	26,062	99.5
Others	25	0.5	-	-
TOTAL	3,373	100	26,154	100

Source: Report of Petroleum: Enclosure in C. Dormier's despatch No. 13 to Lord Curzon. 31st March 1920. 3/

San Lorenzo's activity led to a drop in oil prices within Venezuelan territory. One gallon of kerosene had dropped in price from Es.3 to Bs.2.40 (from 2s. to 1s 10d.), and gasoline went down in price from Bs.2.95 to Bs.2.50 (from 2s $3\frac{1}{2}$ d to 1s $10\frac{1}{2}$ d). The former oil supplier of Venezuela had been the West India Oil Company (subsidiary of the Standard Oil Co. of New Jersey).

This activity in oil had, however, made very little change in the economic activity of Venezuela. Agriculture still provided over 95% of Venezuelan exports. Coffee alone represented around 36% of Venezuelan exports in 1917, less than 38% in 1918 and over a half of these exports in 1919. Oil made up only 0.4% of Venezuelan exports in 1917 and 1% in 1918 while asphalt which was a hydrocarbon, and also a Venezuelan commodity represented 1.4% 4/ in 1917 and 1.5% in 1918.

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The importance of the recently established Venezuelan oil industry was also negligible in terms of absorption of manpower. In a country with about 3 million inhabitants, "Caribbean", the only company which had reached the stage of production, employed just over 400 men. The other enterprises involved in oil exploration had less than 200 workers altogether. Due to the lack of skilled labour many of these men came from abroad, especially from the West Indies.

In 1916, the US embassy in Venezuela, sent a memorandum reporting the development of the Venezuelan oil industry.^{5/} It reported the existence of about 10 companies, almost all incorporated in London, involved in oil exploration. This was the main importance of Venezuela's oil in the late 1910's, namely as a source of further supply in a world increasingly hungry for oil. Therefore, the companies found particular difficulty in putting pressure on Gómez to change his new oil policy. As it has been explained, the boycott against the new Venezuelan oil concessions was being carried out, but it could not last indefinitely; Venezuelan oil was badly needed in the world market.

As previously said what is named in this work "the Venezuelan oil crisis 1919-1921" was the bitterest stage of a struggle between Venezuela and the oil companies, in which Venezuela attempted to obtain a better share of its own oil. This struggle between Venezuela and the oil companies, in which Venezuela attempted to obtain a better share of its own oil. This struggle was hidden, because not one of the contestants taking part recognised the struggle, but Table No. 6 shows how bitter it was. Moreover, Table No. 6 cannot show the forms of political pressure put on the

Venezuelan government. These are to be explained later.

US oil companies and the Venezuelan oilfields during the 1910's -

It has been said that after 1905, Standard Oil had initiated oil enterprises beyond the U.S. frontiers. In fact some unsuccessful attempts had been initiated shortly before. At the end of the First World War. Standard Oil N.Jersey's, subsidiary International Petroleum Company controlled nearly 80% of the Peruvian output. However, to create a world wide drilling system, was difficult if not impossible, as Shell, which controlled the world market, would do anything to hamper Standard Oil in this task.^{6/}

Therefore, despite some important attempts to develop a further world wide drilling system - in some cases successful - Standard Oil preferred to leave this task to other companies from which, it bought crude oil. During the 1910's Standard Oil obtained crude oil in Mexico from Doheny's Huasteca Co. and even from Lord Cowdray 's Mexican Eagle Co.

The First World War improved the position of the US companies, especially Standard Oil, in the world oil market, as Shell failed in supplying the allied armies. 80% of the latter's needs were supplied by the USA and 25% of the total was provided by Standard Oil of New Jersey.^{7/} During the war US output was increased by 34% (266 million barrels in 1914 and 356 millions in 1918) while the world output only increased by 25% (404 million barrels in 1914 and 503 millions in 1918). Consequently, the US output which was 65.8% of world production in 1914, was 70.8% in 1918.^{8/} The US tanker fleet which had been just 158,267 tons in 1913, was 1,790,648 tons by 1920. In 1913 it represented 10% of the total of tankers crossing world seas; by 1920 the percentage had risen to 51%.^{9/} Moreover,

the US government was supporting the US companies where it was
10/
possible. Phillipines and Haity are two examples.

However, the policy followed by the Standard Oil of New Jersey, was to leave the drilling activities to other "independent" enterprises, which would then become their eventual suppliers. This was the policy followed by Standard Oil in Venezuela until the late 1920's.

The "small" US oilmen appeared in Venezuela after 1914. They were small concerns like Sun and Pure, receiving full technical support from Standard Oil of New Jersey. However, at the end of the day, the small company was wholly responsible for the success or failure of the enterprise. In 1916 the US embassy at Caracas drafted an accurate memorandum concerning the Venezuelan oil activities. He shows that the USA had a special interest in the subject although the only US oil company reported in this document is the Caribbean Petroleum Company.

During the early 1920's, the British Minister at Caracas reported the presence in Venezuela of a number of US concession-hunters. 11/ He gave names like Addison-Mackay, Kay and Woods. Addison-Mackay is the most important among them as he was the man who drafted the Hydrocarbon Laws of 1921 and 1922. 12/ He had arrived in Venezuela in 1917.

But these concession-hunters and the companies which were behind them had got concession drafted according to the same rules which were established by the "unworkable" law of 1920. None of these companied did anything to develop the concessions they had won and consequently no Venezuelan oilfield owned by US concerns (excepting Caribbean, of course) produced any part of Venezuelan

output until 1924.

Shell in Venezuela before 1920 - Two out of four oil concessions granted by Castro in 1907 were under Shell control. The second Valladares concession was also transferred to Shell; all these concessions were not affected by the new laws. However, Shell was not particularly active during this period. Only "Caribbean" had reached a production stage and in 1919 this company had just ^{14/} five wells all over its 500,000 hectares concession area.

There were both internal and external reasons for their lack of activity. (development). Shell, as other foreign concerns working in Venezuela, was suspicious about the attitude of the Venezuelan government should their enterprises prove profitable. Due to the development of the new Venezuelan oil legislation, future attempts by this government to annul the old concessions were to be expected.

But there were also external problems. Shell was particularly badly battered during the First World War. Its powerful fleet was one of the main targets for the German submarines; as pointed out in Chapter 7, ^{15/} 25% of its fleet was sunk. Subsequently, at the end of the war the British tanker fleet, although increased from 862,760 tons to 1,257,546 tons between 1913 and 1920, had decreased from 56% of the total world tonnage in 1913 to 36% in 1920. However, as part of the Shell fleet sailed under Dutch, US or other flags, it was still by far the largest tanker fleet in the world owned by a single consortium, though Shell's own influence was diminishing.

Apart from the war, the Russian Revolution was also a setback for Shell, as the bolshevicks expropriated all their ventures

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there without any compensation. "Shell" oilfields in Russia had yielded 32% of Shell world output in 1914. That year the Russian oilfields ranked second among Shell crude oil sources,
16/ less than 1% behind Dutch East Indies, which ranked first.

But all these events would have had only temporary consequences if there had not been a permanent element which allowed them to persist. This permanent element was the fact that the USA was not the only the main oil producer, but also the main oil consumer. Although this phenomenon was particularly clear during the 1920's - Table No. 8 shows it well - it has always prevailed in the world oil market from the very beginning of the oil industry to this day.

This fact gave the US Government the possibility to intervene in the world oil market on behalf of the US consortia, and the big ones were able to take advantage of it. For instance the British Government made some attempts to prevent US consortia from entering the Middle East and the Commonwealth, while Holland attempted to do the same in its colonies, but the policy, clearly planned on Shell's behalf, failed. To reach its world wide dominant position, the Shell Group had been present in the USA since the beginning of this century. During the 1920's the USA ranked among the three main Shell crude oil sources, yielding 18/ between 1/3 and 1/4 of Shell's output; therefore Shell was unable to face the retaliatory measures the USA could take and, and, consequently, the US companies had to be allowed to compete with Shell in both, British and Dutch colonies.
19/ For similar reasons, the "oil entente" signed by Great Britain and France in San Remo (24th April 1920)
20/ failed only a few months

after being signed.

Table No. 8

US oil imports and exports between 1921 and 1926

Year	imports	exports	Balance in % of the US output favour exports or		
	(1,000 barrels)		imports	exported	imported
1921	125,364	66,399	58,965		12.5
1922	127,308	69,587	57,721		10.3
1923	82,015	94,943	12,928		1.7
1924	77,775	110,992	33,217		4.6
1925	61,824	106,968	45,144		5.9
1926	60,384	123,583	73,199		9.4

Source: US Department of Commerce (1927)^{17/}

Because of the great power of the USA in the world oil market a sort of unsigned agreement seems to have come about, according to which Shell withdrew from Latin America. During the period studied here the mass media reported a bitter contest between Shell and Standard Oil. In later chapters evidence will be given to deny the reality of such a contest. Between 1914 and 1920 this struggle actually took place to a minor extent, but even then it was much less bitter than it has been depicted. There are some facts which should be taken into account in detecting the sort of agreement which has been suggested. Shell never entered Peru and did not undertake any new concession in Venezuela between 1915 and the end of the period studied in this research. Mexico can be considered as an exception; Mexican Shell output increased from 20% of the whole Mexican output

in 1920 ^{21/} up to 63% in 1937 when the Mexican oil industry was
^{22/}
nationalised.

The Venezuelan oil policy between 1919 and 1920 - Thus, the oil policy drafted in the concession-contracts issued after 1914, had failed. The only ventures being either explored or exploited were not affected by the new policy as they enjoyed concession-contracts issued before 1912.

Minister Torrez and his advisers were also well aware of what was going on all over the world. The high profits obtained by the oil consortia were also known and Venezuela, as well as other oil producing countries was eager to increase its revenue from this source of wealth. The Colombian oil law of 1919 is a good ^{23/} example of this generalised attitude. It ought to be said that this policy among oil producing countries was most widespread during the 1920's; Colombia and Venezuela were merely the forerunners.

In fact, after 1919 the big oil combines were no longer unchallenged as far as appropriation of the "oil surplus" was concerned. Apart from the governments of the oil producing countries, car and transport industries, the governments of the oil consuming countries etc. also became interested in obtaining a share in the "oil surplus". This phenomenon will be explained later because it had delayed effects in Venezuela.

The Venezuelan government was aware of the buoyant New York oil market, where crude was making US\$6.10 per barrel. In view of the optimistic world situation envisaged by the oil producing countries, Torres ignored the initial failure of his oil policies to produce development, and continued with those same policies. Thus he issued his Mining Law of 1918 and his Coal and Oil Law

of 1919. World needs for oil meant that the kind of boycott being carried out by foreign oil companies regarding the Venezuelan oilfields could not last for much longer.

However, there was a weak point in the Venezuelan position which had to be defended. Shell and the newly incorporated British Controlled Oilfields Ltd. (This last concern owned Planas concession) had large concession-areas and their contracts were not affected by the new legislation. So they could compete with the government by leasing part of their concession-areas for a rent amounting to less than the difference between the royalties and taxes to be paid under the new legislation and the royalties and taxes to be paid according to these old concession-contracts (in fact this sort of lease was established at least once by BCO Ltd). Therefore, the nullification of the old concession-contracts was necessary for the government to have any possibility of succeeding with this new oil policy. The fact that Shell and BCO were actually supporting the boycott on Venezuelan oilfields held by US companies both encouraged the government of Caracas to carry out the attempt to nullify the old concessions and gave a good pretext to gain this nullification.

As previously said, a kind of world wide contest between Shell and Standard Oil took place during the First World War and just after the armistice. However, the struggle was exaggerated by the mass media when this contest was in progress. These reports by the press seem to have misled the Venezuelan government which assumed it could obtain US support in its attempts to annul the old British owned oil concessions. This wrong belief was reinforced by some legal attempts launched on behalf of certain

minor US oilmen to annul the Valladares concession. Although there was no official association between these companies and Standard Oil, the actual link (previously explained) with this great US oil consortium was well known.

However to obtain the nullification of these old concessions was only a small part of Torres oil policy. The most important part of it was to enact a new Hydrocarbon law which would give to Venezuela the best possible share of its oil wealth.

How this oil policy was implemented - The Venezuelan government initiated its attempts to annul the old concessions by attacking the Caribbean Petroleum Company. The accuracy with which this concession-contract had been issued made the company more vulnerable as it could not exploit loopholes on its own behalf. The campaign against CPC had been initiated in 1916. The lawyers appointed by the company issued a memorandum on its behalf, explaining the reasons why the company had proceeded more slowly in its works than was expected and stressing the disadvantageous position of the company, as holder of the Valladares concession; the grantholders of the concession granted by Castro in 1907 only needed a single well anywhere on the concession-area to fulfil these duties. Eventually the case of the company was rejected and CPC after paying a Br.409,000 fine £16,360) only retained 409 plots out of 1,008 previously selected (204,500 hectares instead of ^{24/} 514,000).

Caribbean produced the whole Venezuela output until 1922. Table No.6 shows particularly clearly the effects of these events. The final verdict had some positive effect regarding Venezuelan interests, as the Venezuelan output, after decreasing by 5% between

1918 and 1919, increased by 52% between 1919 and 1920. However
25/
Venezuelan oil exports went down to zero.

In spite of its scant success in this first stage, the Venezuelan government decided to go ahead with their attempts to annul the old oil concessions. The next stage was directed against the concessions granted by Cipriano Castro in 1907. In October 1919, the Colon Development Company, which held the Vigas concession was prosecuted as, according to the Government, the concession-contract had lapsed because the concession-holder 26/ had not fulfilled the duties he had agreed to undertake.

In fact the contract established that the concession had to be ruled according to the 1906 Mining Law and also established that the concession-holder had to initiate the works in the area within four years of the publication of the contract in the Official Gazette. The concession-contract also established that the concession-holder had to draw a map of the concession-area, dividing it in 200 hectare plots. The royalties to be paid upon the granted area were charged only on the previously selected plots. In the Attorney-General's view there was a contradiction in the contract. It was to be governed by the Law of 1906, but it had an area of over a million hectares when the mentioned law only allowed concessions for some thousands of hectares. According to the Attorney-General this last rule had to be taken into account even though the 1906 Law excluded oil from its rulings, and left the government to establish these concession as it wanted. To solve the alleged contradiction the lawyers of the Venezuelan government considered that each 200 hectare plot had to be taken as an independent concession and as exploitation had been initiated in only four of

these hundreds of concessions within the four years period; the company would be able to retain only eight hundred hectares of the million initially granted to it.

The lawyers of the company argued that the word "concession" (concession) appeared in singular in the concession contract, it meant the concession was considered as only one. The alleged contradiction between the Vigan contract^{27/} and the Mining Law of 1906 did not exist. If this law did not accept concessions for more than some thousands of hectares, it also excepted oil from its rules and gave right to the executive to issue the concessions without any restriction.

The government rejected these statements as childish; according to such an interpretation the company would be able to fulfil the duties undertaken in the concession-contract by digging a single well and thus the company would retain for forty years the exclusive right to exploit the existing oil resources within an area of one million hectares by paying royalties for only two hundred hectares. After correspondence to discuss this which lasted for a couple of months, the problem was submitted to the Federal Court of Cassation.^{28/} Soon after VOC^{29/} and BCO were involved in similar litigations, as all these concession-contracts issued by Castro in 1907 followed the same pattern.

Without the nullification of these old concessions any new Hydrocarbon Law would be meaningless. Now, when the legal proceedings to get this nullification were in progress, a well studied law was enacted on 20th June 1920;^{30/} in order to give to Venezuela the highest share possible from its oil wealth. The new law fixed the royalty per granted area in Br.5 per hectare and the

royalty over production in 15% of the whole company's output - paid either in crude oil or in cash (at the standard price in New York) according to the will of the Venezuelan government. In comparison with the old concessions (Bs.2 per hectare and Bs.2 per ton), taken into account that the standard price in New York was US\$6.10 per barrel (Bs.30.50) and that a ton is roughly 7.5 barrels, the royalty per granted area had been increased by 150% and the royalty over production by 1,600%. The concession-area granted to each company could not be larger than 40,000 hectares and the exploration period was reduced to two years. Finally, after exploring the area, the concession-holder had to surrender 50% of each selected 500 hectare plot, and these 250 hectares would be granted by the government by auction.

At the beginning of 1921 the Federal Court of Cassation gave a final verdict in the litigation between the Venezuelan government and the Colon Development Company. As it was to be expected this Highest Venezuelan Tribunal supported the government's views in all its points. The litigation between the government and other British owned companies holding the same kind of oil concessions were still in progress, but their position was hopeless after this verdict.

Romulo Betancourt tries to present the case as a natural reaction of Dr G. Torres facing the blunt violation of the Venezuelan law by these companies and that this action was inspired by US oilmen. Finally, Betancourt presents the solution of the problem, the giving back of these concessions to their holders, as being imposed by the USA, because 25% of Colon's stock was
^{31/}
owned by a US company. According to certain opinions expressed

by Torres and mentioned by the British Minister it is clear that Torres' target was to annul these contracts which in his view were bitterly unfair with regards to the Venezuelan interests.^{32/}

The concessions of 1907 can in fact be considered as unfair for Venezuela, but the legal view held by the government was clearly weak. Moreover, according to the British documents, the verdict was delayed for nearly a year because the government tried to reach an agreement with the companies, and it was not possible because H. Deterding did not accept any solution in which the companies had to surrender the advantages granted by the old concession-contracts.^{33/}

Betancourt, stressing his view that the core of the litigation was a struggle between US and British capitalists, describes US oilmen as vultures hovering over the Colon company's corpse. But, apart from any literary allusion used by Betancourt, McBeth can only present one case to back Betancourt's description: Pure Oil Co. applied to obtain the area included in the Planas concession (owned by BCO Ltd.).^{34/} The lack of real interest in these concession-areas shows that the real advantage of these old oil concessions was not the quantity of known oil resources within their areas but the special treatment they had according to their concession-contracts; this advantage would not be obtained by anyone else if these contracts were annulled. What Americans really needed was the abolition of the 1920 Hydrocarbon Law. This law was eventually described by the British Minister as an "unworkable law".^{35/}

Both, British and US oilmen were holding a kind of boycott over the Venezuelan oil in order to defeat Torres' policy. But now the

world situation was rather different than in 1912. In 1920 the world output had increased by about 90% as compared with the mentioned year.^{36/} Moreover, the situation prevailing in Russia as a consequence of social unrest before 1917 and because of civil warfare after the Soviet Revolution, crippled one of the main oil producers. Thus, Torres was right to some extent. The boycott could not last for much longer.

But the oil consortia and their supporting Powers could exploit Venezuelan disturbances to force Gomez to advance these oil policies. In fact they did it with full success; the role played by the exiled caudillos on behalf of the transnational companies was invaluable.

Companies and caudillos together against Gomez - Since the very beginning of Gomez's rule, exiles tried to obtain support of both foreign governments and private capitalists in order to launch an invasion and to "liberate" the country. Apart from flattering declarations - like ("Britain USA etc.) is a democratic country and therefore has the duty to help the liberation of Venezuela from the dictator Gomez - private entrepreneurs received the promise of attractive concessions as a reward in case of success. These exiles became more active after the armistice. They assumed that they had then more chance of obtaining support due to the neutrality maintained by Venezuela during the First World War.

Britain was particularly convenient for these conspirators; its colony of Trinidad was in a very strategic place. Therefore Britain was one of the countries where the conspirators put more emphasis in order to obtain support.

Until 1919, these conspirators did not obtain any success in the

efforts to seek support for their conspiracies in any foreign country, particularly Great Britain. The British Government was not particularly happy with Gómez and his government, but in Venezuela there were nine large British companies and many smaller ones (the US Caribbean Petroleum Co, which was controlled by Shell ^{37/} was not included). In case of civil war the premises of these companies would be under threat of being damaged or even destroyed. Even in 1920, when the British Government had changed its views regarding this problem, it was rather worried about the effect that political disturbances inside Venezuela could have on British companies working there. Concerning this problem, the British Minister at Caracas wrote in May 1920:

"If a revolution were to break out it would probably not be very serious and foreign interests would not greatly suffer." ^{38/}

So, the British Government was not willing to support any attempt to disturb the peace inside Venezuela as long as Gómez remained just acceptable to the British interests.

Weapon export prohibition from Trinidad was maintained, and the conspirators did not obtain even tolerance for their actions inside the British Empire.

But lack of internal support was not the only problem these conspirators did not obtain even tolerance for their actions inside the British Empire.

But lack of international support was not the only problem these conspirators faced. They were divided into as many groups as there were caudillos. Although all of them were against Gomez they had difficulties accepting any one of them as the overall

leader.

But suddenly in 1919, all these exiled caudillos were able to find a common leader in the person of Dr Ortega Martínez. It seems that they got foreign help even to achieve this agreement; private letters interchanged among them are conserved as official papers by the Foreign Office.^{39/}

After having obtained the unity, the civil war began. There was some warfare in the eastern parts of Venezuela, but the main effort was concentrated in the Western Region, using Colombian territory to sustain the rebel force. Although a cavalry unit initiated some actions in Apure, the main offensive was launched against Táchira. San Cristóbal, capital of the latter state fell under rebel control, but Táchira's governor General Eustoquio Gómez (Juan Vicente's uncle) once reinforced was able to retake the city.^{40/}

Venezuela had changed. Now the army was powerful enough to stop these guerrillas without hesitation. The only possibility of success for this revolution was the army's splitting, but apart from some exceptions the army remained united around Gómez.^{40/} The international press tried to exaggerate the importance and success of the rebels in this guerrilla warfare, but at the end of 1920 Gómez was master of the situation.^{41/} Moreover, in this difficult moment Gómez showed all his resources as an opportunist. To ensure his position a series of populist measures, like price control on goods of popular consumption were imposed.

But Gómez had won only the first battle. His enemies, well supplied by Powers and companies, were preparing a second offensive. In many cases, they needed no more help than the authorities turning a blind eye to their activities; they had enough money to

buy a good stock of weaponry by themselves. A good example of this was General Linares Alcantara, a West Pointer, son of a former Venezuelan ^{42/} president, who was preparing a shipment of weapons and ammunition to send to Venezuela; Gomez's secret police were partially aware of this event, but they were unable to do anything. However, the main problem for Gomez did not come from abroad. Many of these who supported his government, did so because his dictatorship gave peace. Therefore a long civil war would undermine his government no matter what partial victories his army could obtain.

Finally Torres' oil policy suffered another setback. The US government had kept an absolute silence about the Colón case, and the US ambassador at Carácas, T. McGoodwin, had denied support to the "Caribb Syndicate" (US partner in the company). This fact suggested that Torres was succeeding in exploiting the rivalry between British and US companies. But just after the final verdict against Colón, the US ambassador visited Gomez to talk on behalf of the company because of the 25% of the stock owned by the mentioned US concern.

Thus a few weeks after the verdict of the Federal Court of Cassation against Colon, the old concessions were reestablished. In fact the representatives of Colon, VOC and BCO signed a new contract with the Venezuelan Government. According to this new contract all the privileges granted to the concessions of 1907 were conserved except that the duties connected with exploration periods and selection of plots were precisely defined. The companies would have five years to select plots for exploration, the companies would have to pay a special royalty upon these plots

selected for exploration amounting to only Bs.0.20 per hectare. During a second five years period they had to select plots for exploration; then they would have to pay upon these plots the full territorial royalty amounting to Bs.2 (March 1921).^{43/}

Once Gomez had been forced to withdraw from his oil policy, the caudillos were no longer needed. General Linares Alcantara had chartered two vessels, the Odin and the Harrier, but both were embargoed due to actions of Scotland Yard when they were being loaded in Amsterdam and Swansea respectively. The Harrier had been the HMS Harrier, sold by the Royal Navy just after the First World War.^{44/}

How Gómez withdrew from his nationalist oil policy - The agreement between the Venezuelan Government and the three above-mentioned British companies was the beginning of a series of measures which shaped a new attitude towards the transnational oil companies. As previously pointed out, these three companies (namely Colon, VOC and BCO) owned three of the four concessions granted by Castro in 1907. The agreement, signed in March 1921, gave new life to the referred concessions which had been actually abolished by the Federal Court of Cassation less than a month before.

Almost simultaneously, Dr Gil Borges, Minister for Internal and Foreign Affairs^{44/} and one of the leading persons in this oil policy, was dismissed. Dr Gumercindo Torres became isolated in the cabinet.

After the agreement between Venezuela and the three companies, the Hydrocarbon Law of 1920 became meaningless; under such circumstances, concessions granted under the above mentioned law resulted in such disadvantages with regards to the old concessions that no

one would be interested in these concessions. So on 11th July 1921 the Official Gazette No. 14414 published the New Hydrocarbons Law sanctioned on 16th June.^{45/} The new law brought great advantages to the concession-holders. The exploration term, in which the concession-holder had to select plots was extended from two up to three years. The maximum extension allowed to a single concession-holder was increased from 40,000 up to 120,000 hectares and the royalties over production were decreased to 10% of the company's output. However, this duty to surrender 50% of each selected plot was maintained.

In June 1922, Gomez was reelected for the period 1922-1929. When he formed his new cabinet Dr Torres was not recalled, being replaced as Minister of Fomento by Dr Alamo.^{46/}

Finally on 9th June 1922 a new Hydrocarbon law was enacted.^{47/} The new law put no limits to the area that a single concession-holder could hold, the concession-period was extended from thirty up to forty years and the royalties over production to be paid were diminished to 5% of each concession-holding company's output. The concession holder became able to hold 100% of each selected plot.

When the law was being studied by parliament, private companies were invited to give their opinions. Shell and BCO did not reply to this question; their concessions were not affected by this law. Only one British company, namely the British Equatorial Company, answered the Venezuelan question. In fact the proposals stressed by this company (which was affected by the new law) were less advantageous to the companies than the articles of the law as it was finally enacted. For instance, British Equatorial did not attempt to abolish the article which forced the concession-holder to surrender 50% of each selected plot.^{48/}

In studying the Hydrocarbons Law of 1922, Godofredo Gonzalez says:

"The tax system undergoes a radical change: taxes are considerably reduced and it is difficult to understand the reason why." 49/

The British Minister at Caracas, H.D. Beaumont gave a non diplomatic explanation of the enactment of this new law by saying:

"...at the same time the American financier mentioned in my despatch OTA No. 3 of June 15th last year (Addison MacKay) has again been active in influential quarters by methods which tactfully employed appeal with special force to South American legislators." 47/

It could be understood that H.D. Beaumont was suggesting that the American concession-hunter had bribed a number of Venezuelan congressmen.

In fact, these events can be explained without supposing any bribery. After having failed in the abolition of the old oil concession, the Venezuelans could not expect any good effect from the Hydrocarbon Law of 1920. The old concessions were large enough to allow the old concession-holding companies to lease part of their areas to other concerns so that there would be little or no development in other areas of Venezuela. By the new law, new concessions were granted and at least a part of the Venezuelan oil gave a bit more revenue.

The crisis of 1919-1921 finished in a sort of overthrow, but the person who overthrew Gómez was Gómez himself. In fact this statement seems a bit odd. However, at least as far as oil was concerned, the change was stronger than in December 1908. Gómez remembered as head of government, but in only one year all the

Ministers had been changed, especially the Minister for Foreign and Internal Affairs Dr Gil Borges and the Minister for Fomento Dr Gumercindo Torres, both of them leading figures in Gomez's previous cabinet. Moreover, Dr Borges went into exile just after leaving the cabinet; Borges never became involved in any dealing with other Venezuelan exiles. Between 1922 and 1928 Gomez can be considered as subservient to the Great Powers and international companies, especially regarding oil affairs.

This subservience is nevertheless only real to a certain extent. Gomez had been tamed but he did attempt to release himself on at least one occasion (1924-1925). He tried again a new hydrocarbon law to obtain the abolition of the old concession. As before, he attempted to use the alleged rivalry between British and US interest, but he failed. His enemies however, succeeded in exploiting the caudillos to press him.

The US attitude must be observed; they kept an initial silence which led the Venezuelan government into the belief that they were being supported in their attempts to abolish the old oil concessions. When the real US attitude became known, the psychological shock to the Venezuelan Government was therefore that much greater. Marciano ^{50/} and Betancourt evidence shows a bitter disappointment to the oilmen interested in the concession-areas controlled by Colon. What the US attitude actually shows is that the main oil consortia, either British or US, were fighting together against the smaller companies and the disagreements between the big oil companies were exaggerated to hide the real struggle.

In fact the US oilmen had nothing to gain by the abolition of the old oil concessions. In spite of the report drafted by

Standard Oil geologists in 1915, the rest of the Venezuelan territory was rich in oil resources, as was eventually proved. The real advantage these concession-holders had, was the contracts which forced the Venezuelan Government to give them special treatment. But if the contract was abolished, the company which obtained the area would no longer enjoy the advantages of the old contracts.

1922 marks the beginning of the British withdrawal from the Venezuelan oilfields. Until 1924 British companies produced 100% of the Venezuelan output and US companies only obtained over 50% of the Venezuelan output from 1927 onwards. But after 1922 no new British company initiated works in Venezuela, and moreover, most either sold their concession to US companies or amalgamated with them. By 1940 only Shell remained in Venezuela.

It was, nevertheless, not a consequence of the litigation against Colón. The only reason which can allow such a view is the chronological connection between both events, for there is nothing else connecting both occurrences.

NOTES

1. Financial Times, 25th February 1920; Shell Archives, Cutting Papers Vol. 21, p. 5 left. Financier, 6th July 1920; Shell Archives, Cutting Papers Vo. 23, p. 11 right. Loyd List, 4th September 1920; Shell Archives, Cutting Papers Vol. 24 p. 12 left.
2. Although from the same source, the Venezuelan annual outputs were quoted by Mejía Alarcón, Pedro Esteban. La Industria del Petróleo en Venezuela (Caracas 1972) p. 154, and the annual exports by Morón Guillermo. A History of Venezuela (London 1964) p. 224. The international information is taken from Encyclopédia Espasa-Calpe Supplement 1931 (Madrid 1933) vol. 8 pp. 380-381. The rest of the Table has been calculated from this information.
3. Oil Report. Enclosure in Mr C. Dormier's despatch No. 13 to Lord Curzon 31st March 1920. F.O. 371 Piece 4622 No. 1805.
4. McBeth, B.S. Juan Vicente Gómez and the Oil Companies (Oxford 1981)

- p. 226. Quoted from Alamo Ibarra, Roberto. Resumenes estadísticos del Comercio Exterior de los Estados Unidos de Venezuela correspondientes al lapso 1908-1928 y primes semestre 1929 (Caracas 1930).
5. The US report of 1916 was included in a Memorandum sent by HM Petroleum Executive to the Foreign Office. 8th April 1919 F.O. 371 Piece 4254 No. 71449.
 6. Barnes, John K. Deterding - The Napoleon of the Oil World. (fifth article of the series "The Crisis in the World's Oil Supply). World Work January 1921 p. 55. Shell Archive Cutting Papers Vol. 25.
 7. Denny, Ludwell, We Fight for Oil (New York-London 1928) p. 28.
 8. Encyclopedia Espasa-Calpe, Volume 44 (Madrid 1921) pp. 242-243.
 9. Manchester Guardian 27th January 1921, Shell Archives Cutting Papers Vol. 26 p. 11 centre (245)
 10. Letter from Lord Curzon to Davies, on 9th August 1920. Quoted by Foster, Henry A. Iraq. (London 1936) p. 106.
 11. C. Dormer's annual report to Sir A. Chamberlain. 25th June 1925 F.O. 371 Piece 9638 No. 5372.
 12. H. Beaumont's despatch OTA No. 3 to Lord Curzon 15th July 1921 FO 371 Piece 5721 No. 5977 and H. Beaumont's despatch No. 47 to Lord Balfour 15th June 1922. F.O. 371 Piece 7325 No. 4286.
 13. Addison McKay had arrived in Venezuela to acquire the copper mines owned by the South American Copper Syndicate. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981).
p. 82. Marcano, Eduardo. Los Corminzos de la Industria Petrolera en Venezuela y la Legacion de los Estados Unidos en Caracas (Caracas 1976) p. 67.
 14. McBeth B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981) p. 77.
 15. The Annual General Meeting of the "Shell" shareholders, held on 1st July 1919. The Times 2nd July 1919 p. 21.
 16. The Times 28th January 1915, p. 13.
 17. Denny, Ludwell We Fight for Oil (New York-London 1928), p. 282.
 18. In 1920 US fields owned by the Shell Group yielded 28% of its output Money Market Review and Investor's Chronicle. Shell Archives Cutting Papers Vol. 27 p. 49.
 19. Denny, Ludwell, We Fight for Oil (New York-London 1928) p. 283.
 20. Signed by Mr Philippe Berthelot and Sir John Cadman, and confirmed by Lloyd George and Millerand a day later. Cmd.675P (1920) LI 895.

21. Despatch to His Majesty's Ambassador At Washington Enclosing Memorandum on the Petroleum Situation. Lord Curzon to A. Geddes 21st April 1921 Cd. 1351 (1921).
22. Mexican Government. El Petróleo de México. (Mexico City) 1963 n. 90 in p. 84.
23. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981) p. 113.
24. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981) pp. 77-79.
25. McBeth, quoting Dr Alamo states that some oil was exported in 1920 (see note 4) but Moron, quoting the official records of the Ministry of Mining and Hydrocarbons states that no oil was exported in 1920 (see note 2).
26. C. Dormer's despatch No. 27 to Lord Curzon. Sent on 26th March 1920 F.O. 371 Piece 4622 No. 2523.
27. Vigas Contract. Venezuelan Official Gazette No. 990. Enclosure in C. Dormer's despatch No. 27 of 26th March 1920. F.O. 371 Piece 4622 No. 2523.
28. C. Dormer's cyphered telegram No. 22 to Lord Curzon 4th May 1920. F.O. 371 Piece 4622 No. 2895.
29. British Controlled Oilfields Ltd. to the Under-Secretary of State, Foreign Office 7th June 1920 F.O. 371 Piece 4623 No. 3694.
30. Enclosed in C. Dormer's despatch No. 87 to Lord Curzon. 12th December 1920 F.O. 371 Piece 4622 No. 8392.
31. Betancourt, Rómulo. Política y Petróleo (Mexico City 1956) p. 61.
32. C. Dormer's despatch No. 58 to Lord Curzon 25th June 1920 F.O. 371 Piece 4622 No. 5152.
33. C. Dormer's cyphered telegram No. 11. 25th March 1920 FO 371 Piece 4621 No. 1764. C. Dormer's cyphered telegram No. 13 20th April 1920 FO 371 Piece 4621 No. 2320.
34. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981) pp. 130-131.
35. H. Beaumont's despatch OTA No. 3 to Lord Curzon 15th July 1921 FO 371 Piece 5721 No. 5977.
36. Espasa-Calpe Encyclopedia. For 1920 Supplement 1931 (Madrid 1933) Vol. 8 pp. 380-381. For 1912 Main Edition (Madrid 1921) Vol. 44 pp. 242-243.
37. In 1918, the main British companies working in Venezuela were "La Guaira Harbour Corporation", the "La Guaira & Caracas Railway Co", the "Puerto Cabello & Valencia Railway Co" the Venezuelan Oil Concessions Ltd" the "Bolivar Railway Co", the "South American Copper Syndicate", the "National Match Factory" the "Colon Development Co" and the "Venezuelan Meat and Products Syndicate". It does not include the "Commercial Bank of Spanish America" (non affected by the new law about

- foreign companies working in Venezuela, then being discussed in the Venezuelan Congress) and a few smaller concerns.
 H. Beaumont's despatch OTA No. 5 to Lord Balfour 25th May 1918.
 F.O. 371 Piece 3433 No. 117118.
38. C. Dormer's despatch No. 34 to Lord Curzon. Received on 21st May 1920. F.O. 371 Piece 4623 No. 3228.
39. It is the case of the letter sent by General Jose Manuel Hernández to Dr Leopoldo Baptista, from La Habana on 10th September 1919 and a letter sent by Doctor Leopoldo Baptista to General Jose Manuel Hernández from New York on 20th September 1919. F.O. 371 Piece 4623 No. 3370.
40. C. Dormer's despatch No. 108 to Lord Curzon 4th December 1920.
 F.O. 371 Piece 5721 No. 66.
41. The Times published two reports about this Venezuelan war. Both were vague and untruthful regarding to the events as they are known nowadays. On 14th October 1920, The Times' correspondent sent a vague report from Caracas about the rise of a revolt. The Times, 15th October 1920, p. 9. On 18th October 1920 The Times' correspondent at Curacao reported important rebel victories. General Olivares had taken La Victoria helped by a revolt within the local garrison while General Penalosa had obtained great victories; Generals Blanco and Fombona were masters of the situation in Tachira (The victory of La Victoria never happened and Generals Blanco and Fombona did not exist). He also reported a ruthless reprisal in Caracas. The Times 20th October 1920, p. 9.
42. Memorandum of Scotland Yard to the Foreign Office 5th August 1926.
 F.O. 371 Piece 11.202 No. 4392.
43. H. Beaumont's despatch No. 16 to Lord Curzon. Received 17th March 1921. F.O. 371 Piece 5722 No. 1926.
44. Sir Howard's (British Ambassador at Madrid) despatch No. 793 to Lord Curzon. 13th December 1921. F.O. 371 Piece 5723 No. 9248.
45. C. Dormer's despatch No. 87 to Lord Curzon. 12th October 1920
 F.O. 371 Piece 4622 No. 8392. Dormer's Despatch No. 114 to Lord Curzon (Annual Report) 31st December 1920. F.O. 371 Piece 5722 No. 993-993-47. H. Beaumont's despatch No. 16 to Lord Curzon, 17th March 1921 F.O. 371 Piece 5722 No. 1926 Betancourt Romulo. Política y Petróleo (Mexico City 1956) p. 64.
46. H. Beaumont's despatch No. 50 to Lord Balfour 27th June 1922.
 F.O. 371 Piece 7324 pp. 167 left-169 right.
47. H. Beaumont's despatch No. 47 to Lord Balfour 15th June 1922.
 F.O. 371 Piece 7325 No. 4286.
48. Memorandum about the Petroleum Law of Venezuela. Department of Overseas Trade to the Foreign Office. 16th June 1921. A29721.

49. González G., Godofredo Derecho Minero Venezolano (Caracas 1945) p. 165.
50. The same despatch sent by the US Embassy at Caracas, dated on 14th November 1921, in which the ambassador reports some actions on behalf of the Colon Development Company, had been quoted by E. Liewen, R. Betancourt and E. Marcano.
Liewen Edwin Petroleum in Venezuela (3rd Ed. New York 1967) note in p. 25 Betancourt, Rómulo. Política y Petróleo (Mexico City 1956) p. 60. Marcano, Eduardo Los Comienzos de la Industria Petrolera en Venezuela y la Legación de los Estados Unidos in Caracas (Caracas 1976) p. 67.

CHAPTER X

The Rapid Development of the Venezuelan oil industry during the 1920's

When the "Barrosos 2" well at "La Rosa" oilfield became a powerful oil gusher with an estimated initial dailey output of ^{1/} 80,000 barrels, it is generally considered that a new stage of fast development in the history of the Venezuelan oil industry began (December 1922).

Table No. 9 shows us that during 1920-1928, the Venezuelan output increased by an annual average of 102%. In 1920 59% of the Venezuelan exports were coffee and cocoa while only 1.7% were hydrocarbons; in 1928 coffee and cocoa were only 18.1% while ^{2/} hydrocarbons were 74%.

But the discovery of "Barrosos 2" was not alone in causing such essential changes. In fact 1921 registered a Venezuelan annual output increase of 214% and in 1922 of 54%, before "La Rosa's" exploitation had even begun. The event is more connected with the change of the Venezuelan oil policy and subsequently with the end of the boycott imposed on Venezuela by the International oil consortia. Moreover, evidence exists which suggests that engineers of Shell were partially aware of what could happen with Barrosos 2 and therefore stopped drillings there (these drillings had been initiated some years before) and works on this well were restarted only when the crisis had ended.

As previously stated, the problem never was how to find oil in Venezuela. Due to the lack of initial development, Venezuela had not an initial market which could sustain such activity and had

to rely almost entirely on the foreign markets. In fact, the Venezuelan oil boom of the 1920's is as much a consequence of the situation in the world oil market; nevertheless the rapid increase in world oil demand, as it is of internal developments, is not in itself enough - between 1921 and 1927 the Venezuelan oil output increased by nearly 42 times while the world output increased by only 87%.

Table No. 9

Venezuelan oil production between 1921 and 1930

Year	Output (in 1,000 barrels)	% increase	Ratio with 1921	Venezuelan Exports (in 1,000 barrels)	% of the Venezuelan output to be exported
1921	1,449	-	100	1,004	69
1922	2,235	54	154	1,833	82
1923	4,327	94	299	3,410	79
1924	9,129	111	630	8,248	90
1925	19,933	118	1,376	18,424	92
1926	35,654	79	2,461	32,762	92
1927	60,419	69	4,170	56,956	94
1928	105,957	75	7,312	100,602	95
1929	136,074	28	9,391	130,566	96
1930	135,246	-2	9,334	134,451	99

Source: M.M.H. Algunos Aspectos de las Actividades Petroleras Venezolanas, Mundiales y Apendice Estadístico p. 1- A185. 3/

The world oil market during the 1920's was a particularly complex one. The great international oil consortia met an increasing number of challengers for the control of the "oil surples".

In this complicated situation the oil consortia got a good partner, or rather a good servant, in General Juan Vicente Gómez, who helped them to overcome their new difficulties.

However, Gómez did not willingly accept this humble role, nor was he forced into it solely by the "free conditions of the market". The oil companies and their supporting Powers, blackmailed Gómez by exploiting Venezuelan internal political disturbances to their own benefit.

Venezuela between 1922 and 1928 - It might be suggested that 1922-1928 is the period when Gómez reached his maximum of power. The constitution was changed on three occasions during this period, namely in 1922, 1925 and 1928. These new constitutions increased the personal power of Gómez and strengthened the authority of the central government in general terms.

The opposition had practically no opportunity for any action. Inside Venezuela the ruthless dictator repressed them without pity. Abroad, national governments (especially the British and US) stopped any action of the rebels, although public statements denounced the crimes of the dictator. Such activities did not affect Gómez in any way.

1922-1928 is the period in which Gómez's family ruled Venezuela as if it were their own property. The army was headed by Gómez's elder son, José Vicente, while the Vice-presidents were Gómez's brother, Juan Crisóstomo, and his son José Vicente. Other relatives were some of the governors, members of the parliaments (either national or regional) etc. and, what was most important, Gómez's relatives were also the most important "concession mongers". The type of Ministers Gómez had during this period were technocrats,

strongly devoted to Gómez and his family. Describing the new cabinet appointed by Gómez in 1922, the British Minister H. Beaumont wrote:

"This new ministry may be described as a business cabinet, unified chiefly by the common devotion to the President or members of his family, without political colour of any kind. It may be expected to deal fairly with foreign interests in accordance with ^{2/} the evident wishes and present policy of the President.

The internal power of Gómez reached its highest tide between 1922 and 1928. However his international situation was weaker than ever. While other oil producing countries had become able to use the power given by the increasing importance of oil, Venezuela was unable to do so, becoming a sort of paradise for the transnational companies.

Oil had become the main political issue in Venezuela and this is the subject of this research. While Gómez's oil policy during this period deserves a special study, some general ideas must be advanced and some views previously shown must be examined.

In 1921 the Great Powers and the transnational oil companies had defeated Gómez by using Gómez's political enemies to their own advantage. This effective strategy could be used again, and it made Gómez's international position particularly weak. The method was used again at least once, namely between 1924 and 1925, and the results were as effective as before. This event is to be studied later in this chapter.

The opposition against Gómez was, until 1928, weak, but not only because it was repressed inside the country and stopped abroad. Based upon obsolescent theories the opposition was becoming increasingly divorced from the Venezuelan reality.

Neither Gómez nor the caudillos were able to attract the passive part of the population (over 95% of the Venezuelan inhabitants); the British Papers suggest that Gomez did obtain the support of the majority among the active rest. Moreover, if either were in any way successful in attracting the passive majority, it was Gomez. When the external opposition tried to obtain support from the US Trade Union leader Samuel Gompers, Gomez presented a Venezuelan ^{4/} Trade Union leader on his side, namely Jesús María Hernández. Whatsoever one's feelings about the reality of this Trade Union, the fact is that Gómez was able to present one worker on his side, but his opposition none. The rest of South America was facing the first industrial actions during this period and almost all of them had a bloody end. The first Venezuelan oil strike took place in June 1925 and affected the "Mene Grande" oilfields; and soon afterwards, workers in other oilfields followed in their wake. The government did not support the strikers in any way, but no one was injured, and the workers finally obtained some improvement in their ^{5/} conditions; almost simultaneously the Colombian oil workers ^{6/} initiated a strike which ended in a massacre. The Gomez jails were full of political opponents but very few prisoners, if any, were workers.

Gómez's attitude towards the first Venezuelan oil strike has been presented in a different form by the modern writer Jesús Prieto Soto. Augusto Malabé, the man who led the workers during this industrial action, was kidnapped a few months after the strike had finished and disappeared for ever. Prieto Soto said that the ^{7/} abduction had been performed by "the men of the regime". It might be pointed out that it could be dangerous to accuse Gómez's men

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without any kind of direct evidence; let us remember that since the very beginning of the Venezuelan oil industry the companies engaged in oil activities had themselves employed armed groups "to protect their premises from robbing Indians".^{8/} These armed teams usually worked in favour of the government, but their purpose was not to serve the government, but the companies.

Thus the only thing this weak opposition had was plenty of money and on certain occasions, some support from the international companies and their supporting Powers. Therefore it was hardly able to weaken Gómez's international position. Moreover, as the caudillos did not represent any real change in policies and did not have any popular support, they did not represent any major danger to the government apart from the destruction that would occur as a result of warfare. Venezuela was certainly not like Mexico, where the civil war promoted a revolution which put the interests of the companies in serious jeopardy.

In fact, provoking a civil war was a last resort, unlikely ever to be used, but Great Britain exploited this possibility to blackmail Gómez whenever it needed to put pressure on him. There is no evidence to assume that the British government gave economic backing to these conspiracies, but the British authorities turned a blind eye to these plots, being organised within the Commonwealth, when Gómez had to be forced to change his attitude towards British interests. The USA did not trust the caudillos as Great Britain occasionally did. They preferred to work with the Zulia's separatism. They tried to create a puppet republic including the Colombian and Venezuelan territories within the Guajira Peninsula and the banks of the Maracaibo Lake.

Meanwhile Great Britain was being increasingly replaced by the USA as the most influential Power in the Venezuelan Economy.

As far as international trade was concerned, British exports to Venezuela, which represented 30.3% of the total Venezuelan imports in 1912, dropped to 17.6% in 1921 and in 1922 was 21.8%.

On the other hand the USA increased its share of Venezuelan imports from 27.3% in 1912 to 58.4% in 1921; in 1922 it was 51.5%.

Venezuelan exports to Britain which represented 8% of the total in 1912, in 1921 represented 2.3% and in 1922, 4.1% while Venezuelan exports to the USA which represented 32.5% in 1912 were 35.2% in 1921 and 33.1% in 1922.

However, this increased UnS. share in the Venezuelan foreign trade did not imply control. In the threshold of the 1920's about 70% of the foreign investments inside Venezuela were British.^{10/} But after 1921, when the First National City Bank of New York opened a branch in Caracas, the situation underwent a rapid change, particularly so at the end of the decade. While US companies were being established in the country, other enterprises, previously established either by Britons, French or citizens from other countries were sold out to US corporations.

Grounds on which the Venezuelan oil industry was developed -

As previously said, oil discoveries in Venezuela were in no way a great surprise; the real problem was how to find a market for the well known Venezuelan oil. As the internal market was negligible, it had to depend almost entirely on world oil demand.

The increasing world demand encouraged oil production and consequently the world oil output increased by 87% between 1920 and 1927. Although merchant ships changed to diesel only in a very

gradual fashion and coal fired steam engines continued to be preferred by railways even after the Second World War (in 1945, 90% of the US railway engines were coal fired), the car industry underwent a very rapid development during the 1920's. In 1928 the US and the British car outputs were 225% and 281% as large as the outputs of these same countries in 1921.^{12/}

While this fact encouraged oil consumption, another invention made oil products less costly, and consequently the "oil surplus" increased in size. This invention was the development of the cracking method which enabled the refineries to decide on the amount of each by-product to be obtained from each kind of crude oil according to the market demand. It allowed the refineries to avoid falls in the price of certain by-products when production of crude oil had been increased to meet higher demand for other hydro-carbon products. Moreover, due to the cracking method, the waste also diminished.^{13/}

Table No. 10

Profits of Shell T & T Co. between 1920
and 1927

Year	dividend
1920	35% free of tax
1921	27½ "
1922	22½ "
1923	22½ "
1924	22½ "
1925	22½ "
1926	25 "
1927	25 "

Source: Annual Shareholder's meetings 1921-1928. ^{14/}

However, the profits of the great oil consortia decreased during this period. Table No. 10 shows how Shell Transport and Trading Co.'s dividends went below 30% during the 1920's.

Although the "Oil Surplus" had increased, the big oil combines now had powerful challengers struggling to take part in this "Surplus" for themselves.

First of all other industries tried to take a part of this "Surplus" either indirectly or directly. In general terms, a special taxation upon oil products could give revenues to enable the government to activate the economy. During the 1920's this way was only partially developed in the USA, because influential circles preferred just the opposite policy; cheap oil would encourage the car industry while the transport industry would enjoy a decrease in costs.

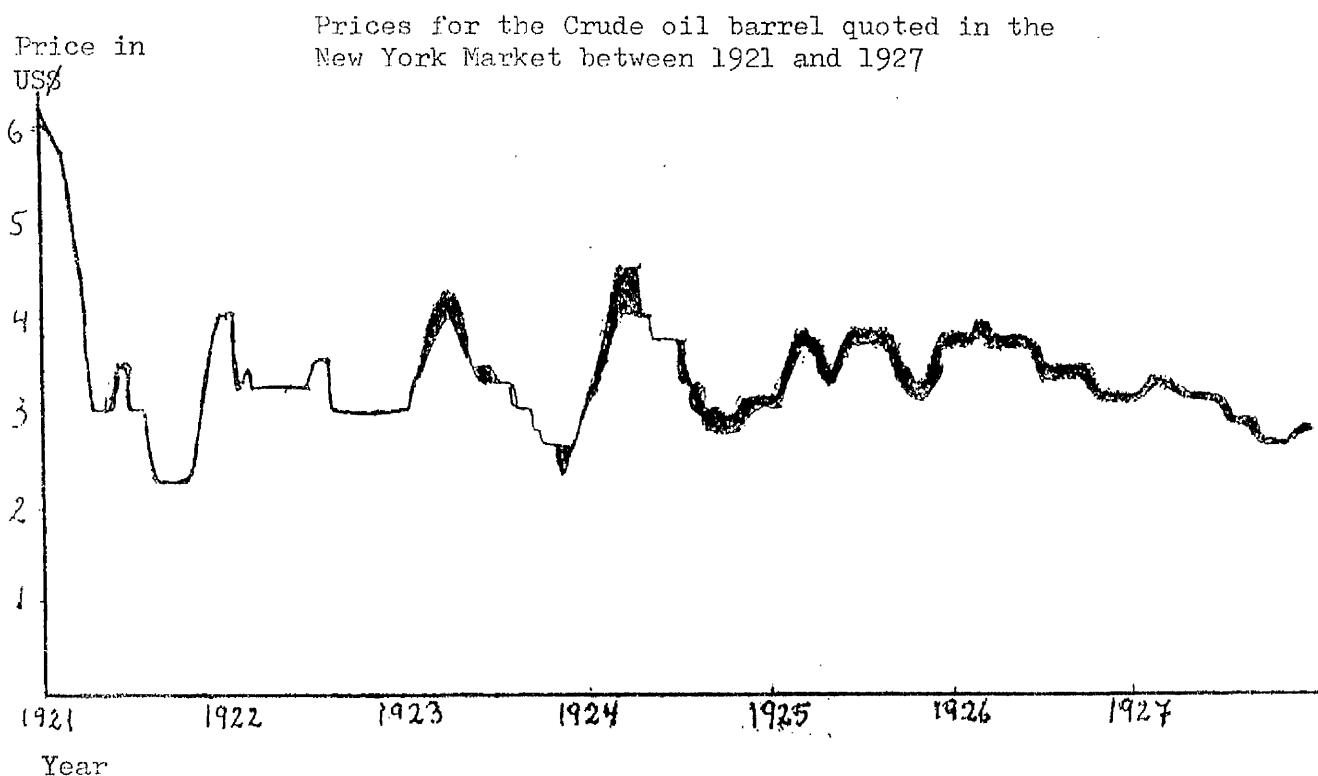
But the other main challenger is more directly connected with our research. The oil producing countries became eager to take a better share of their oil wealth themselves.

This new situation shaped the oil market during the 1920's. First of all the alliance between all the oil companies was no longer possible, as oil prices had to go lower. Graph No. 2 shows the fluctuations of the crude oil prices in New York between January 1921 and December 1927. From this graph it can be realised that the oil cartel formed by all the companies no longer existed. A bitter struggle had begun, in which the large consortia tried to take advantage of every possible element in order to keep at least part of their high profits.

The small companies were easily defeated. Apart from those working inside the USA only a few small companies were able to

survive after 1930 (Burma is one of these exceptions). In this context, like Venezuela, Mexico, Iran, etc. helped in the establishment of the big companies. They could produce a very cheap oil provided that the output was high enough to absorb the initial investments. Only a big consortia was able to work in such conditions as they had world wide marketing systems able to deliver such outputs in a profitable form (see graph No. 3).

Graph No. 2



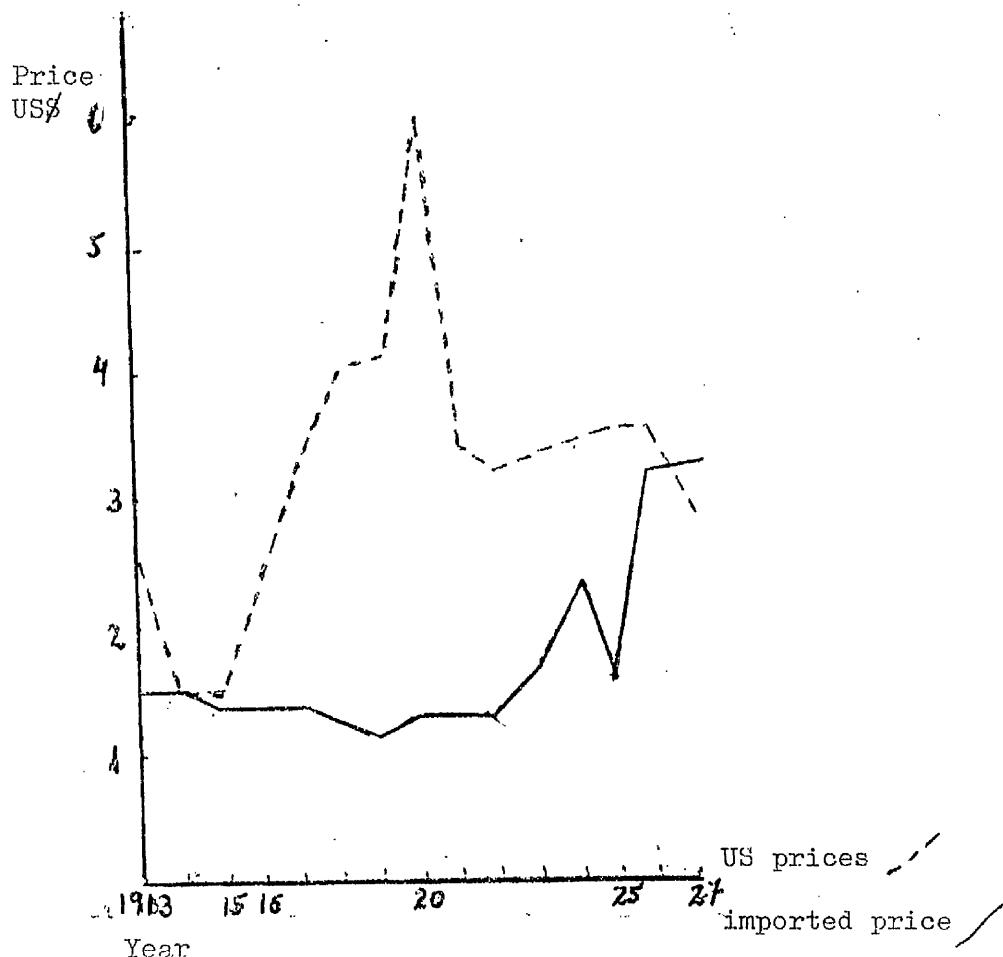
Source: Prices quoted by "American Produce Market" section in The Times. 15/

During the 1920's the USA took full control of the world oil market. They not only produced over 2/3 of the world output. They also consumed over a half of its output, and this consumption is calculated without taking into account the crude oil which was

imported into the USA to be re-exported once refined.

Graph No. 3

Prices of US and imported oils in the US Market



Source: Graph No. 2 with regards to the US oil and El Petróleo de Mexico concerning imported oil. 16/

Therefore the US government was able to impose its oil policies all over the world, and the world oil market became subordinated to the US one. No problem about oil history during the 1920's can be rightly studied without linking it to what was happening in the US market at the same time. Due to the high consumption, oil prices inside the USA were higher than anywhere else. Therefore, the US government was able to keep internal oil

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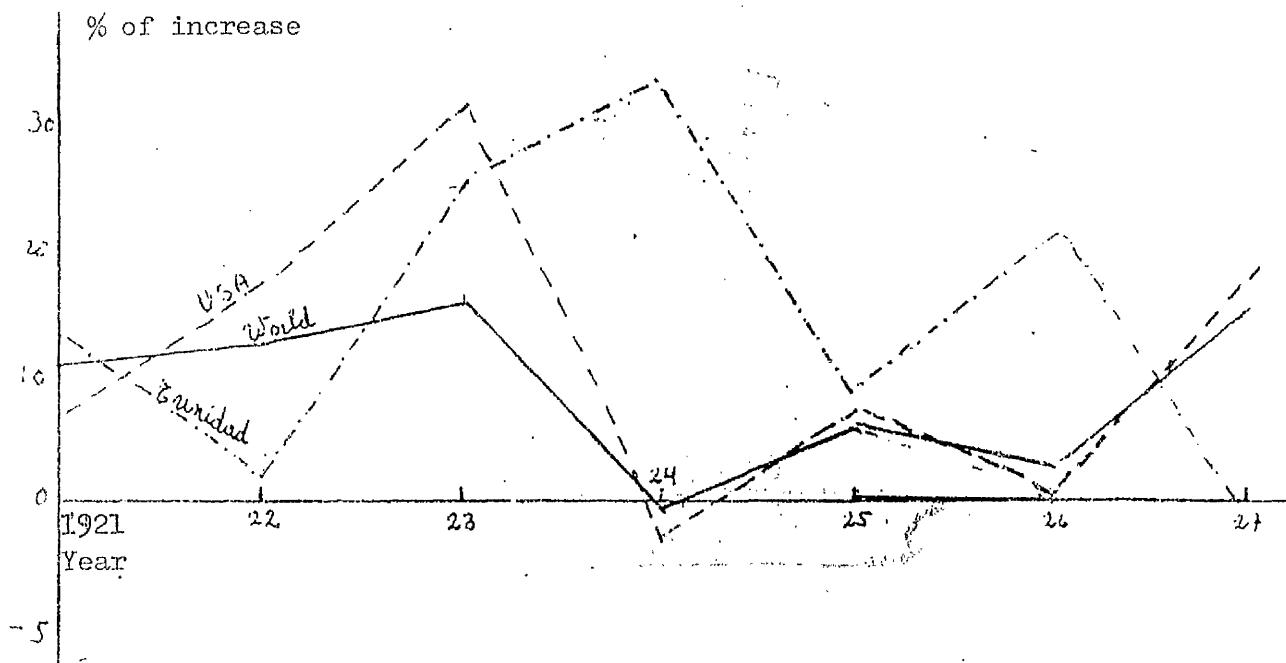
prices within certain margins by changing customs duties on imported oil. Consequently, if as was said previously the oil obtained from the oil exploiting countries was to be cheap, the oil industry in the oil producing countries had also to become subordinated to the US oil policy. Subsequently the local economies would have to suffer because of it. Graph No. 4 shows the changes in the output increases of the USA and Trinidad between 1921 and 1928 and how the Trinidadian oil was being used to balance the world oil production according to US interests.

But the oil producing countries would not accept this unfair situation. They were encouraged by the well known high profits the big oil consortia were obtaining and were embittered by the US policy which damaged their interests. However, these feelings alone would have produced little action had it not been for two events which weakened the position of the big consortia and thus made it possible for the oil producing countries to challenge the power of these big consortia. These two events were the Soviet Revolution and the Mexican Revolution.

In 1919, after the withdrawal of General Dunsterville's force and the collapse of the Caucasian Republics, the Red Army entered the Trans-Caucasian territory and brought the nationalisation of the oilfields without compensation to reality. This event seriously weakened Shell interests, as it had important investments there. Standard Oil (New Jersey) was not seriously affected by the event; it had bought the Nobel premises there but at a very cheap price as this deal was agreed after the nationalisation decree had been issued and when the Soviet victory was an established fact.

Graph No. 4

Annual increases of US, Trinidadian and World outputs
during 1921-1927



Source: Calculated from Espansa-Calpe Encyclopedia Apendice 1931.
Vol. 8. 17/

The Soviet problem was followed in 1921 by the Mexican crisis. Until that year, in spite of the revolution, Mexico was still a paradise for the oil exploiting companies. Although there was some labour unrest in the country and the Mexican government had raised new oil taxes on many occasions, manpower was still cheap and taxation was comparatively low; in 1921 Mexico produced over 190 million crude oil barrels and was easily the runner up in the World producers ranking (it produced over 5% of the world output). But in 1921 the USA decided to diminish oil imports by raising custom taxes upon such imports and Mexico retaliated by

imposing 60% custom tax over exported crude oil. This first
struggle in which Shell stood on the Mexican side ^{18/} lasted until 1924. In 1925 Mexico enacted a new oil law and began a second struggle in which it had to fight against both British and US interests; the second crisis lasted up to 1928. Both international crises were complicated by a situation of labour unrest which stopped activities in both oilfields and refineries for long periods.

Therefore the oil consortia faced serious problems in both the second and third countries in the world producers ranking. And as the US oil certainly was very expensive, these countries were the main source of cheap oil. It encouraged other countries like Argentina, Turkey, Egypt, Rumania and even the Dutch East Indies, to try to obtain a better share of their own oil wealth.

This struggle between great oil consortia and oil producing countries, forced them to stop any struggle between themselves. Shell and Standard Oil reached agreements concerning different parts of the world in order to face the oil producing countries together. None of the consortia could win a struggle between themselves, as the oil producing countries would simple take advantage of this struggle. These local agreements gave rise to a comprehensive pact which included the whole of the world, excepting the USSR. It was established by Sir Henri Deterding on behalf of Shell and Walter Teagle representing Jersey-Standard, in Achnacarry (Scottish highlands) in September 1928. The Standard Oil companies of New York and California, Texaco, Gulf and Anglo Persian joined the Achnacarry cartel soon afterwards.

However, the agreement was not enough to enable the consortia to

deal with their problems in Mexico and the USSR; the oil companies had enough power to defeat either of these two main producers on their own but not to face the challenge of both countries together. The situation had become worse due to the policies followed by other oil producers. In this case the role played by Venezuela was overwhelmingly important. Due to the large quantity of oil Venezuela had, and because of its oil laws (so convenient to the foreign companies) Venezuela became the only producer through whom the oil consortia could bring about the defeat of the other oil producing nations, especially Mexico.

After an attempt to reach an agreement with the Soviet Government (Genoa 1921), the oil companies tried to organise a boycott against the Russian oil (The Hague 1922), but it failed because one company was able to resist the temptation of the cheap oil offered to them. Mexico, however, was categorically defeated in the battle. It was much easier because Mexico was entirely subordinated to the US market. When Mexico capitulated in 1928, its output was just 26% of its own 1921 output.

Venezuela played a crucial, though passive role, in crushing the Mexican oil policy during the 1920's. Shell, Doheny and other oil producers transferred their capital from one country to the other and, as Table No. 11 shows, Venezuela was able to replace the Mexican oil in the world market.

How Venezuela was forced into a policy convenient to the interests of the international oil consortia: It could be argued that Venezuela obtained great advantages from this alliance with the big oil consortia. Oil, which produced a negligible part of the Venezuelan Gross National Product in 1920, in 1925 gave 9.5%

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of this product and in 1928 it represented 24.3% of the G.N.P. The G.N.P. itself grew in absolute terms; in 1935 it was nearly ^{21/} 2.4 times as large as in 1925. Mining, which in 1921 yielded just 3% of the Venezuelan revenue, in 1928 had become the source of 20% of this revenue.

Table No. 11

Replacement of Mexico by Venezuela in the world oil market

Year	Mexican decrease (million barrels)	Venezuelan increase (million barrels)	% of Mexican decrease given by Venezuela
1922	11.2	0.8	7
1923	32.7	2.1	6
1924	9.9	4.8	48
1925	24.2	10.8	45
1926	25.1	15.7	63
1927	26.3	24.8	94
1928	13.9	45.5	327

Source: Mexican information from Mexican Official Records and Venezuelan from M.M.H. Algunos Aspectos de las Actividades Petroleras Venezolanas, Mundiales y Apéndice Estadístico 1967 p. 1-Al185. ^{19/} 20/

The subject of this thesis is not to decide whether Venezuela was enjoying a sort of symbiosis with the great consortia or whether these consortia were Venezuela's parasites, even accepting that Venezuela obtained valuable advantages from this alliance, the fact is that it did not accept the alliance freely.

In previous chapters the way in which Venezuela was driven to change its oil policy in 1921 has been explained. This way was frequently used during the 1920's. Here the exile played an

important role on the foreign companies' behalf. The most important example of this kind of crisis was (developed) between 1924 and 1925. In fact, in 1924 Gómez launched a new offensive in order to obtain a better share of Venezuelan oil for the Venezuelan nation. As previously said, any change in the Hydrocarbon law was meaningless as long as the old concessions were still in force; after the agreement between the Venezuelan government and the holders of these old concessions (1921) it was impossible to abolish all of them at one go.

However, the abolition of any one of these old concessions would be enough if it involved a particularly prolific enterprise. In 1923 "Caribbean" still yielded through its "Mene Grande" oilfield about 75% of the Venezuelan output, but after the discoveries of the "La Rosa" and "Lagunillas" oilfields, VOC became the most promising company. Therefore the offensive was launched against the Aranguren concession.

Initially the Venezuelan government tried to take advantage of some articles in the old concessions which established that the concession holders were not allowed to drill in certain areas, like navigable rivers, and all these areas were now declared vacant, to be granted to other concession-holders according to the 22/ Hydrocarbon Law of 1922.

But then came the main assault, aimed at abolishing the Aranguren concession as a whole. In Chapter No. 7 the law suit against VOC initiated by Espina, Bohorquez and Valvuina was reported. After failing in their attempts to annul the Aranguren concession, Espina and his partners initiated a new law suit against "Caribbean". After a long period of inaction their law suit

was suddenly activated. At the end of 1922, the judge of the first instance settled a verdict in favour of Espina, Bohorquez and Valvina.

Although British, Dutch and US diplomats initiated some sort of diplomatic pressure on behalf of the company, Shell seemed not particularly worried about the problem; even after the verdict and when its appeal was still pending, the consortium paid to extend the Caribbean concession for another thirty years (1942-1972). Shell had to pay Br.5 millions (£200,000) by annual instalments of ^{23/} Bs.1. million.

In fact, the real target of the suit against Caribbean was VOC. For, in order to obtain a favourable verdict, the lawyers of Shell were forced to demand a settlement from the Federal Court which declared that an asphalt concession was not the same as an oil one.

In this way, the final verdict in favour of Caribbean gave rise to a new litigation initiated by the Venezuelan government against VOC, as the Aranguren concession referred to asphalt only. Therefore the resolution in favour of Aranguren extended by the ^{24/} Department of Mines on 18th June 1912 had to be considered as a concession itself and this concession was illegal because ^{25/} it was granted in an unlawful way. According to the Venezuelan Constitution of 1909 any concession granted by the government had to be studied by "Consejo de Estado" and this resolution had not been studied by this Council.

The litigation against VOC was the beginning of a whole campaign initiated by the Venezuelan government in order to increase the Venezuelan oil. Meanwhile, the discussion of a new Hydrocarbon Law

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was introduced in parliament, but the litigation against VOC, nevertheless remained as the main object of the campaign.

This litigation against VOC consisted of a series of bargainings, with numerous intrigues which lasted for nearly a year. After the settlement in favour of Caribbean, the lawyers of VOC were in an embarrassed position. Thus General McDonogh, a top level executive, sent by Shell to Venezuela to deal with the affair on the spot, established that the company had at least to pay some money if it was to solve the tricky situation.

Both McDonogh and Andrew Agnew; another Shell executive who eventually replaced McDonogh in Caracas, failed in trying to solve the problem. They did obtain some success in diminishing the amount of money to be paid by the company. It was reduced from the initial E.s.40 millions (over £1.5 millions) to Rs.26 millions (£1 million). But the key problem remained unsolved. According to the Venezuelan government, the VOC concession was an old one and had to be ruled by the Venezuelan Hydrocarbon Law.

But at that moment, the government of Trinidad suddenly abolished the prohibition on the export of weapons to Venezuela. Soon afterwards the British Minister at Caracas, H. Hobbson, visited Gómez to talk with him about the VOC affair. After this a bill was sent by Gomez to parliament which was enacted after a short period of time. According to this new law VOC would have to pay Bs.10 millions (nearly £400,000) after which payment the company would keep all the privileges enjoyed by the old concessions, and in addition would be able to drill in the beds of navigable rivers and other places which the old concession holders were not allowed to exploit.

The solution appeared so suddenly that when the success was reported by Agnew in July 1925, Deterding did not trust the effectiveness of it. Therefore, Sir Henri suggested to Agnew an agreement with Jersey Standard or any other US corporation at the same level of power, in order to prevent any new problems.^{27/} This idea was rejected by Agnew, whose view was eventually confirmed by events. This proved to be the last major attack against the old concessions and so the agreement suggested by Deterding proved unnecessary.^{28/}

When VOC had solved its problems, Trinidad re-established the prohibition on exports of weapons to Venezuela (October 1925).^{29/} Previously, two important cargos of weapons were discovered and subsequently embargoed. The one was found by Scotland Yard on board of the S.S. Odin, chartered by General Linares-Alcantara to support a conspiracy led by him.^{30/} The other was on board of the SS Angelita and was embargoed in La Havana by the Cuban police. It had been chartered by Leopoldo Baptista and had sailed from New York without having any difficulty there.

Linares-Alcantara's conspiracy was a world wide network which Scotland Yard took two years to finally dismantle. Although centered in Trinidad, it had offshoots in many other cities and countries. Among Linares-Alcantara's supporters were a number of non-Venezuelans, some of whom enjoyed diplomatic status. Scotland Yard only obtained the names of two of them, namely the Swedish Navy Captain David H. Lindblad and the German citizen Friedrich W. Peterson.^{31/} Lindblad was Consul of Norway at Trinidad.

The newly appointed British Minister at Caracas, Seeds, described the event in glowing words:

"It concerned the validity of the company's titles; an undoubtable flaw in this, had arrived from the cupidity of the 'robber gang', inevitable in all business connected with oil. Although however, the gang had support of influential individuals, backed by no less a personage than the President's son and heir, a single interview with General Gomez enabled Mr Hobbson, at that time His Majesty's Minister, to obtain immediate settlement." 29/

The information previously reported suggests the arguments Minister Hobbson might have used to obtain this immediate settlement. Although a causal connection between these political and economic events has not hitherto been stated by researchers, it is arguable that the chronology outlined above strongly indicates such an interpretation.

Since the attempt to abolish the Aranguren concession had failed, any change in the Hydrocarbon Law became meaningless or rather inconvenient. When the bill of 1924 became the Hydrocarbon Law of 1925, no real change with regard to the 1922 Hydrocarbon Law had been made.

Thus, the well-planned attempts to change the Venezuelan oil policy carried out between 1924 and 1925 eventually failed and the same oil policy was maintained between 1922 and 1928. This policy, which was particularly convenient to the foreign oil companies, had its basis in the Hydrocarbon Law of 1922. The replacement of this law by the Hydrocarbon Law of 1925 did not represent any change at all.

However, this policy was not the consequence of conviction. Gomez was forced by political expediency to follow a certain policy. He was being blackmailed by the Foreign Powers and transnational companies through the use of his political enemies.

NOTES

1. H.D. Beaumont's despatch to Lord Curzon (Annual Report 1922) 18th January 1923 F.O. 371 Piece 8,530 No. 726.
2. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981) p. 226.
3. The mentioned M.M.H. Publication was quoted by Mejía Alarcón, Pedro Esteban. La Industria del Petróleo en Venezuela (Caracas 1972) p. 154 in connection with output and by Morón, Guillermo A History of Venezuela (London 1964) p. 224 in connection with exports.
4. Rangel, Domingo Alberto Gómez, el Amo del Poder (Valencia 1975) p. 281.
5. Pérez Salinas, P.B. Retrospección Laboral (Caracas 1971) pp. 41-42.
6. Urrutia, Manuel. The Development of the Colombian Labour Movement (Yale 1969).
7. Prieto Soto, Jesús: Luchas Obreras por Nuestro Petróleo.
8. The Times, 13th July 1917 p. 12.
9. About 1912 the source is Milne, G.T. Report on the Conditions and Prospects of British Trade in the Central America, Colombia and Venezuela (London 1913) p. 169. About 1921 and 1922 the source is H.D. Beaumont's despatch No. 726 to Lord Curzon, 18th January 1923 (Annual Report for 1922) F.O. 371 Piece 8530 No. 726.
10. H.D. Beaumont's despatch No. 5 to Lord Balfour 25th May 1918. F.O. 371 Piece 3433 No. 117118.
11. In 1934 only 47.3% of the ship tonnage crossing the world's seas was oil fired. Source Mexican Government. El Petróleo de México 2^o edition, Mexico 1963) p. XX. Original source Peyret, Coureau and other authors. La Petróleo et son Economie.
12. British information calculated from British Road Federation Basic Road Statistics 1952 (London 1952) pp. 12.

The original sources had been Motor Manufacturers and Traders The Motor Industry in Great Britain 1935 for 1921 and Return to Motor Traction for 1928. US information taken from US Department of Commerce Statistical Abstract for the USA 1938 (Washington 1939) p. 370. The original source had been Automobile Manufacturers Association Bureau of Public Roads.
13. In 1913 Indiana-Standard started to employ a cracking system designed by his chief chemist William Burton in its Whiting Refinery. Solberg, Carl Oil Power (Chicago-New York 1976) p. 69. In Britain a company was incorporated in 1916. It was entirely devoted to refine crude oil by cracking method. Its name "Petrol Process Syndicate". The Times 24th August 1918, p. 4.

14. The minutes of the shareholders' meetings of "Shell" Transport & Trading Co. which were source for Table No. 10 were published in The Times 5th July 1921 (pp. 15-16) 5th July 1922 (p.22), 28th June 1923 (p.22) 25th July 1924 (p. 21) 23rd June 1925 (p.23) 23rd June 1926 (p. 22) 22nd June 1927 (p. 24) 26th June 1928 (p. 24).
15. The Times Section "American Produce Market" About 400 different days between January 1921 and December 1927.
16. Mexican Government El Petróleo de México (2nd Edition Mexico City 1963) p. 73.
17. Espasa-Calpe Encyclopedia Apendice 1931 (Madrid 1933) Vol. 8 pp. 380-381.
18. Shell's support to the Mexican oil policy was clearly expressed by H. Deterding in a short speech during the Shell meeting held on 4th July 1921. The Times 5th July 1921 p. 16-17.
19. Quoted by Mexican Government El Petróleo de México (2nd ed. Mexico City 1963) p. 18.
20. Quoted by Mejía Alarcón, Pedro Esteban La Industria del Petróleo en Venezuela (Caracas 1972) p. 154.
- 21 Rangel, Domingo Alberto El Rey Petroleo (Caracas 1969) p. 149.
22. Bermett's despatch No. 62 to A. Chamberlain 24th November 1924 F.O. 371 Piece 9638 No. 6962.
23. C. Beaumont's despatch No. 85 to Lord Curzon 13th December 1922 F.O. 371 Piece 8530 No. 83.
24. The application presented by Aranguren regarding the character of an asphalt concession was accepted by a resolution issued on the 18th June 1912. On the 26th June Dr M. Valladares issued his protest against this acceptance. The final resolution reinforcing Aranguren's opinion was published on 4th July 1912. F.O. 371 Piece 106533 No. 2253.
25. H.A. Hobson's despatch No. 22 to A. Chamberlain 12th March 1925 F.O. 371 Piece 10653 No. 1720.
26. H.A. Hobson's despatch No. 28 to A. Chamberlain 8th April 1925 F.O. 371 Piece 10653 No. 2220.
27. Henri Deterding's cyphered telegram to A. Agnew 20th July 1925 F.O. 371 Piece 10653 No. 3744.
28. A. Agnew's cyphered telegram to H. Deterding 23rd July 1925 Enclosure in H.A. Hobson's despatch No. 16. 23rd July 1925 F.O. 371 Piece 10653 No. 3778.
29. Seeds' despatch to A. Chamberlain (Annual Report for 1925) 12th January 1926. F.O. 371 Piece 11.201, No. 641.

30. C. Marling's despatch No. 313 to R. MacDonald. The Hague 6th August 1924 F.O. 371 Piece 10653 No. 3778.
31. Scotland Yard's memorandum to the Foreign Office 5th August 1926 F.O. 371 Piece 11202 No. 4392.

CHAPTER XI

Internal Structure of the Venezuelan Oil Industry During the 1920's

People who support the free enterprise system have the tendency to consider capital as a homogenous and impersonal element. If they recognise any contradiction within capital; it is connected with the different flags these companies come under. In the Venezuelan oil industry during the 1920's this was not the case. There were violent clashes between capitalists but the least important was that between British and US interests, although these conflicts were widely reported in order to hide the real ones.

A good example of this is the case of oil freight. During the late 1920's Venezuelan oil royalties and taxes on production were paid according to the standard prices for crude oil at the New York Products Market, less the cost of transport from Venezuela to the consumption markets according to the freight rates fixed by the transport companies. B. McBeth explains how "foreign capital" exploited it to defraud the Venezuelan government in the payment of royalties and taxes. In fact all the big oil consortia had oil transport subsidiary companies to do their own freight. Thus they could diminish the amount to be paid the Venezuelan State by declaring high freight rates.
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Oil freight rates were actually being used in this way, not only in Venezuela, but all over the world. It was used not just by "foreign capital" to avoid tax payment in Venezuela or anywhere else, but as a weapon in the hands of the large oil consortia to

keep their profits high by matching money whenever and wherever they could. For instance, Caribbean Co. fixed very high rates for VOC's oil to be shipped across the Maracaibo Lake to either the San Lorenzo refinery or to the oil harbour where it had to be shipped to Curacao.^{2/} In this way Shell transferred profits from a company where it owned only 50% of the stock, to another which was wholly controlled by the Group. Oil freight was a weapon for the great oil combines not only in Venezuela but all over the world. Oil tankers were not a good investment for shipping companies as they required heavy investment and were useful for a single purpose only.^{3/} Therefore Oil shipment gradually became controlled by the shipping subsidiaries of the big oil combines.^{4/} After 1927 the standard Oil Freight rates were very high.

The presence of British capital in Venezuelan oil - The Peruvian and the Mexican oil industries were developed by British "free" companies like "Lobitos", "Negritos" and "Positos" in Peru and "El Aguila" in Mexico. But the 1910's were a twilight period for British "free" enterprise in South American oil. While Peru was left to IPC, a Canadian subsidiary of Standard Oil (New Jersey),^{5/} "El Aguila" was sold to Shell.

In Venezuela the British "free" oilmen were squeezed out. In previous chapters the way in which they were replaced by Shell has been explained. Duncan Elliot Alves could have been the man to play in Venezuela the role of Lord Cowdray in Mexico, as he took two old concessions, namely Aranguren and Planas, under his control. It was explained in Chapter 7 how VOC, Ltd., the company which held the Aranguren concession, fell under Shell control.

In Persia, British "small" oilmen had obtained the Crown's

support when in 1913 the government bought over 50% of Anglo-Persian stock. By the creation of a group, held by Anglo-Persian as holding company, the scheme had been extended all over the world.^{6/} However Anglo-Persian was banned from operating in Venezuela as the Venezuelan law forbade any company owned, either wholly or partially, by a foreign country to operate inside Venezuela. Later it will be explained how Anglo-Persian was blocked when it tried to exploit a Venezuelan oil concession.

Anticipating this problem, Duncan Elliot Alves had tried to create a way in which this scheme could work in Venezuela. In 1919 the "British Controlled Oilfields" Ltd was incorporated in Canada. It had obtained a large quantity of concessions in Mexico, Central America, Colombia, Ecuador, Perú, Venezuela, Trinidad and British Guiana.^{7/} Its capital was fixed at Can \$40,000,000.

The British Crown had no investments in the company. However, the articles of this company awarded the company's management to a "Voting Trust" to be appointed by the British government; to become a member of this "Voting Trust" it was not necessary to be a shareholder in the company. In fact, when the voting trustees were appointed in January 1920, two out of seven were not BCO shareholders, namely the R. Hon E. Pretyman MP and Sir William Mercier KCMG;^{8/} Sir William was a Crown Agent for Colonies.

From the beginning, the company seems to have been nothing more than a way to create a kind of Anglo-Persian scheme fitted to the Venezuelan Law. Although BCO had obtained concessions in many countries the Venezuelan concessions meant over a half of the whole area granted to the company.^{9/} BCO initiated explorations in some of these countries;^{10/} but the only oilfield ever exploited

by them was "El Mene" in Venezuela. BCO also rented two oilfields, one in Venezuela and another in Colombia to be exploited by Standard Oil of New Jersey. It may sound rather strange that the shareholders agreed to give up the company's management to the British government when the British government did not have any investment in the company. But by denying any investment from the British government in the company it did not come under the Venezuelan law even though the company was wholly controlled by the British government.

In 1926 the company experienced a severe crisis in which it lost about 2/3 of its capital. This failure was the result of the British oil policy and due to the fact that the company was incorporated when it was no longer needed.

The company was created with an initial capital over 33% larger than the "Caribbean" one. However its concession areas were two or three times as large. Taking into account that an oilfield not only needs drilling rigs but pipelines, tanks, harbours, refineries, etc. the company's capital was insufficient. This lack of sufficient capital was further exposed by the fact that the areas granted to the company were very far apart and in different countries; making necessary a duplication of investments which, at least partially would not have been required had the oilfields been in the same country and area.

Moreover the company did not invest a penny in other facilities apart from drilling rigs. The "El Mene" output was entirely sold to Caribbean. Even the pipeline to carry "El Mene's" crude from the oilfield to the Lake Maracaibo was owned by Caribbean. BCO was as dependent on the Caribbean under estructure as VOC

and Colon.

The role to be played by this company seems to have been to obtain oil concessions to be sold to the bigger concerns once they eventually became promising new oilfields.^{11/} But after 1921 Shell did not initiate any new oil extracting enterprise within South America, and Anglo-Persian, the only British enterprise apart from Shell,^{12/} able to develop successfully these kinds of enterprises within the area, was banned by Venezuelan law from operating within the country. Consequently, BCO found it had no possible British customers. Two years after its incorporation, the kind of company BCO was intended to be, became obsolete.

The US journalist Ludwell Denny explains the failure of this company as a consequence of the lack of experience among the voting trustees and some geopolitic reasons connected with a possible war between Great Britain and the USA.^{13/} This needs to be mentioned because Rómulo Betancourt supports Denny's views without any criticism,^{14/} yet five out of seven voting trustees were founding shareholders of the company and one of them, Mr D.E. Alves, who eventually became its first chairman, had been the first British entrepreneur to become involved in Venezuelan oil activities. So, to speak about lack of experience among the Voting Trust is nonsense.

As far as geopolitic reasons are concerned, the arguments are even weaker. Nevertheless Rómulo Betancourt supports it with greater enthusiasm. Denny pointed out that through BCO the British government sacrificed economic convenience in order to have control over the areas surrounding the Panama Canal as an insurance against possible war.

In fact to have oilfields next to the Panama Canal in a period in which oil fired marine engines were increasingly used, was like having a filling station on the side of the main maritime route between the Atlantic and the Pacific Oceans; to exploit this advantage BCO would have needed the refineries it never built.

In any case this advantage would only exist in peacetime.

The lack of validity of this view was proved in 1922, because from that year onwards the company became increasingly involved in business partnership with US companies and BCO's premises were eventually sold to US companies when the concern was dismantled.

Therefore, Shell was practically the only British concern playing an important role in the development of the Venezuelan oil industry; BCO was producing less than 5% of the Venezuelan output and all this production was taken unrefined by the Shell Group.

As previously pointed out it was the international combines which led the Venezuelan output until 1923, over 50% of this output between 1924 and 1927, and ranked first as a single oil producer among the transnational oil combines operating in Venezuela until after 1930. On the other hand Venezuela ranked among the three main contributing countries to Shell output from 1926 (see Table No. 12) and from 1927 became first in this ranking.
15/

Inside Venezuela, Shell acted through three main subsidiaries, namely Caribbean Petroleum Company, Venezuelan Oil Concessions Ltd. and Colon Development Company. These companies exploited each one of the three concessions awarded to Shell. Caribbean exploited the second Valladares concession; in the early 1920's its capital was US\$30,000,000. VOC exploited the area awarded to

Antonio Aranguren; in 1921 this company had £3,000,000 capital. Colon dealt with the Vigas award; during the 1920's its capital was below £500,000.^{16/}

Table No. 12

Shell output around the world (1925 and 1926)

Country	1925		1926	
	million metric tons	%	million metric tons	%
USA	5.6	40	5.8	37
Dutch East Indies	2.9	21	2.9	19
Mexico	2.4	17	2.1	14
Venezuela	1.6	12	3.1	20
Others	1.4	10	1.6	10
TOTAL	13.9	100	15.5	100

^{17/}

Source: Royal Dutch report for 1926.

In legal terms all these subsidiaries were directly controlled by the combine and no one was under control of any of the other three. There were some irrelevant differences between them. For example, Caribbean had been incorporated in the USA while the others were legally British. Caribbean and Colon were legally possessed by the main Shell subsidiaries, Anglo-Saxon and Batabish, while VOC was owned directly by the "parent" companies, Shell and Royal Dutch. No one of these three companies was wholly owned by Shell. In the case of Caribbean, 25% of its stock belonged to General Asphalt Co; in the case of "Colon the minor partner was a certain "Caribb Syndicate"; it was an American concern and also owned 25% of the company's stock. In the case of VOC Shell owned 50%

20/

of the stock only, the rest being distributed among a larger number of minor partners.

However, Caribbean led the other companies. In terms of output of crude oil Caribbean lost importance. It had been the first Shell subsidiary inside Venezuela to reach a production stage; between 1917 and 1922 it had produced the whole of the Venezuelan output. In 1927, although Caribbean output was over 4.8 times as large as then years before, it represented only 12% of the Venezuelan output and VOC produced three times the Caribbean output in that year.^{18/} However Caribbean was the only Shell subsidiary which had a tanker fleet both in the Maracaibo Lake and in the sea, two refineries (one in Curacao, another in Venezuela), harbour installations fitted to load the tankers, and other necessary facilities to deal with oil; the other Shell subsidiaries depended on services owned by Caribbean. Even the pipeline between "La Rosa" oilfields, where an important part of VOC output came from, and Maracaibo Lake belonged to Caribbean instead of VOC.

During the 1920's the full absorption of General Asphalt by Shell seems to have been achieved. In 1928 Burlington Co was dissolved as it was no longer needed; at that time the whole of the Burlington Board was formed by Shell top level executives.^{19/} Consequently Caribbean had become a Shell subsidiary wholly owned by the combine.

During the period studied by this research, Colon was the less important among the Venezuelan Shell subsidiaries. Until 1926 it did not obtain any output; in 1927 its small oilfields of Tarra and Rio Negro yielded less than 0.5% of the Venezuelan Shell output.^{18/}

VOC on the other hand was the main achievement of Shell in Venezuela during the 1920's. In 1921 the company was reorganised, establishing a capital of £3,000,000. In December 1922 the successful drilling of Barroso 2 well gave origin to the prolific "La Rosa" oilfield. A few years later the company developed the even more prolific "Lagunillas" oilfield.^{20/} In 1927 VOC had also "Ambrosio" and "Punta Benitez" oilfields, however 90% of VOC output was yielded by "Lagunillas" and "La Rosa" oilfields.^{18/}

VOC had no output until 1923, but afterwards it increased incredibly quickly. In 1924 VOC output was just over half as large as the Caribbean one,^{21/} in 1925 the Caribbean output surpassed the VOC output by just 30% and in 1926 VOC oilfields yielded more oil than the Caribbean ones.^{22/} In 1927 VOC produced three times as much oil as Caribbean, VOC oilfields yielded 75% of the Venezuelan Shell output and a third of the whole Venezuelan output.^{18/}

Although Caribbean did not have any share in VOC stock, these existed a sort of dependence of VOC on Caribbean. Since 1915 Burlington Co. had been in charge of VOC's reorganisation and after 1921 Shell managed VOC through Burlington Co. Moreover in 1921 VOC signed a contract with Caribbean according to which VOC had to sell all its output up to 4 million barrels to Caribbean at a fixed price. The price fixed by the mentioned contract, which had to last 15 years, was inferior to the world standard price. It should be born in mind that the Summer of 1921, when this contract was signed was the period when oil prices were the lowest between 1921 and 1927.^{23/}

Furthermore, the rates VOC had to pay Caribbean for the services

given to them by the latter company, like the use of harbour premises and the transport of oil by pipelines and tankers, were much higher than the world standard rates. Thus VOC was transferring a large part of its profits to Caribbean. Anyway, VOC's dividends in 1926, the first year when the company delivered any dividend to its shareholders, amounted to 15%. It was much higher than the standard dividends delivered by any enterprise except the oil ones, but 10% below the dividend given by Shell in the same year. It could be argued that part of the previously mentioned "oil surplus" obtained by VOC was being transferred to the Shell Group.

This situation promoted some sort of reaction among those VOC shareholders who were not either connected with Shell or Shell itself. The VOC board had 12 members, six appointed by Shell and six elected by the other shareholders. The protest against the above mentioned situation was carried out by the six elected directors led by the famous Calouste S. Gulbenkian. The problem began when VOC surpassed 4 million barrels a year; then Gulbenkian proposed to build a harbour next to the Caribbean one, which would enable the company to sell the excess of crude oil to other customers who would pay a higher price. Gulbenkian's proposals were rejected as one of the elected directors voted against, with the six ones appointed by Shell. Within the next month, Gulbenkian and the other four rebel directors resigned. One of them was Antonio Aranguren.

Although Shell defeated the rebels once again in the extraordinary shareholders meeting, held to discuss the problem, with Gulbenkian's proposals being rejected by 2,320,407 votes to 798,407 votes,^{2/} the crisis continued; the British press, particularly "The Times"

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supported the rebels. Finally a commission was appointed to study
25/
the situation, while a press campaign led by "The Times"
26/
suggested that Shell was defrauding its partners.

While the commission was making slow enquiries about the problem (eventually it never reached any practical solution) VOC gave a 55% dividend for 1926. After such a dividend, high enough to shut up whispering mouths, the situation went back to normal.

In 1929 VOC signed a new contract with Canadian Eagle, another Shell subsidiary which had built a refinery in Aruba to process part of the Mexican output. According to this contract Canadian Eagle would buy the part of the VOC output which exceeded the 4 Million barrels a year to be sold to Caribbean.

Thus Shell gave shelter to the "independent" oilmen, as minor partners in some of its subsidiaries, but these investors had to pay for this protection. The links between Caribbean (100% controlled by Shell) and VOC (50% controlled by Shell) shows clearly how the links between Shell and the "small" oilmen had been established in Venezuela and elsewhere. Moreover, British "small" oilmen who were still involved in the Venezuelan oil industry, either as minor partners of Shell in VOC, or as shareholders in the Crown directed corporation BCO were, at the end of the day, under the control of Shell and the big oil combine was taking advantage of them. Moreover, the fate of the VOC shareholders, whose subordination to Shell was officially declared, was much better than that of the BCO partners, whose company was officially "free"; while VOC had some profits and normally indeed higher than the standard ones, BCO was going into bankruptcy.

The last oil concessions to British companies which were not

part of the Shell combine, namely the British Equatorial Oil Company and the North Venezuelan Petroleum Company, were granted in 27/ 1920.

The British Equatorial Oil Company had got a number of new concessions, totalling 193,000 hectares. These concessions were located within the States of Zulia, Trujillo, Sucre and Monagas. 75,000 hectares had been granted to Pedro V. Navano (9th June 1920) 43,500 to Juan García Gómez (14th June 1919) and the rest to Jose M. Capriles (8th June 1920). Only the latter concession was sold to British Equatorial by the concession monger himself; the company finally obtained these concessions between April and September 1920. This is the little information about this company registered by the British Foreign Office. It is clear that neither Shell nor the British Crown were involved in it. When the company was eventually absorbed by the US Lago Oil and Transport Company in 1925, it had not yet achieved any output.

The North Venezuelan Petroleum Company had got the Jimenez 28/ Arrais concession, the only one among those granted by Castro in 1907 which had not been developed by 1920. The company was in fact a subsidiary of Anglo Persian which made it illegal, as Anglo-Persian was controlled by the British Crown. As the concession was taken up by North Venezuelan late in 1920 and the company's partnership with Anglo-Persian was never hidden, it might be assumed that a capitulation to the transnational corporations was already accepted by Gómez as inevitable even before the Federal Court had settled its verdict against "Colón" early in 1921. Therefore, the British Company took the Venezuelan concession without any fears for the future and the Venezuelan

government did not attempt any action against the company in
29/
spite of its unlawful situation.

North Venezuelan initiated the exploration in the concession area almost immediately. Then at the beginning of 1922 the company's manager visited the country and was officially received by the authorities; but later, while he was still on his way back to London, the company was suddenly declared illegal.

The truth about the struggle between British and US oil companies with regard to the Venezuelan oil - The fact is that the US Ambassador had visited Gómez in order to ask him whether the Venezuelan government had taken into account that Anglo-Persian was owned by the British Crown. In this diplomatic way the US government indicated to Gómez that any action taken by the Venezuelan 30/ government against North Venezuelan would have US support.

Those writers who, like Betancourt, try to prove the existence of a real struggle between Great Britain and the USA on oil, have in this event the strongest piece of evidence to support their views. However it is only an isolated event, while there are at least three occurrences involving Venezuela which show that some unofficial agreement between Shell, Standard Oil and other big oil combines was in existence. Moreover, it is clear that Deterding himself did not like State interference in a field which "naturally" belonged to free enterprise. Eventually, North Venezuela was not allowed to work in Venezuela but it was not stripped of its grant and the Jimenez Arriz Concession was not annulled. It was transferred to another British concern and if the concession eventually fell under "Gulf" control it happened because Shell was not interested in it.

British authorities suspected US intervention behind the VOC affair of 1924, but there is no evidence to sustain this supposition. Moreover US oilmen denied any connection with the matter. Mr Hobbson said:

"American companies interested in doing legitimate business and opposed to title breaking would be all on the side of immediate settlement." 31/

In fact, relations between the big oil combines inside Venezuela were particularly friendly during the 1920's. Apart from a "line fight" between Shell, Gulf and Lago in the oil fields of "La Rosa" and Lagunillas (1924) there were no other difficulties between them. This "line fight" eventually ended in an agreement in 1925 and after a new crisis caused by Lago by breaking the agreement (January 1927) a new agreement was established some 32/ months later. Moreover, although Lago had a large amount of capital, and some of its founding partners were big oil consortia, until 1932 it must be considered as a "small" company, as it had no marketing system and consequently it had to sell its output to those oil consortia which had such a system. The only venture developed by Standard Oil (New Jersey) in Venezuela before 1932 was a small field rented from BCO, whose whole output was sold unrefined to Shell; there is no better example of friendly relations 33/ between big consortia than this one.

The real struggle was between Shell and the "small" US companies, although these "small" oilmen were not all US citizens. Among the group of oilmen who tried to take advantage of VOC during the crisis 1924-1925, - the "Robbing Gang" about which Minister Hobbson and Seeds spoke with so much contempt - were the Buckley brothers. In

fact their company "Pantopec" had been incorporated in the USA and this corporation was one of the founding partners in the US "Lago" company. However the Buckley brothers were British citizens.

Therefore the Venezuelan oil struggle during the 1920's was not a war between British and US companies. It was a struggle between big and small companies in which both British and US governments supported the big consortia.

This is the reason why Deterding tried to solve the VOC problem by seeking the partnership of a big US oil combine. ^{34/} In 1929 when the US citizen Henry W. Shumacher demanded the nullification of the Caribbean contract, ^{35/} the British Minister at Caracas W. O'Reilly wrote reporting this litigation and another like it:

"Litigation unfortunately started by the Venezuela Consolidated against the Caribbean does not seem to give the latter any concern, nor does an attack of their Valladares concession on the part of an American of the name of Schumacker, especially as this concession is one in whose validity is Standard Oil also interested." ^{33/}

US companies in Venezuela - Without considering the small "Petrolea del Tachira" the forerunners of the Venezuelan oil industry were two US corporations, namely General Asphalt and Caribbean. These companies had been incorporated according to American law and part of their respective stock was owned by US citizens. However they were in fact British concerns which eventually became absorbed by the Shell Group.

The first oilmen from Wall Street who appeared in Venezuela, landed there in 1918. That year the New York-Standard sent a team of geologists to do some preliminary prospecting around

Venezuela. After their researches they reported that every inch of any trace of oil had been already granted to the British companies.
36/

In spite of this negative report, Venezuela was invaded by US concession-hunters. Addisson-MacKay has been previously mentioned; he was according to the British Ministers, the man who drafted the Hydrocarbon Laws of 1921 and 1922,
37/ but British despatches also mention other concession-hunters like Fred Kay and Woods.
38/

In 1922 British diplomatic despatches reported that US investments in Venezuelan oil had reached an amount similar to the British ones.
39/ However, the whole of the Venezuelan output came from British owned companies until 1924.

The first achievement by American oilmen in Venezuela was the blowing of the Barroso and La Paz gushers in 1923, both located fifty miles apart on opposite sides of the Lake of Maracaibo.
40/

In 1925 US oil companies produced part of the Venezuelan output for the first time. After that, the share coming from US companies increased rapidly, and soon afterwards surpassed 50%; about 20% in 1925,
22/ 41% in 1926,
40/ nearly 45% in 1927,
41/ just over 50% in 1928
18/ and about 57% in 1929.

In 1921 the US companies involved in oil exploration around Venezuela consisted of a large number of concerns owned by "small" US oilmen. The British documents report names like "Venezuelan Petroleum Company", the "Maracaibo Petroleum Company", the "Creole Syndicate", the "New England Oil Refining Company", the "Bacon Sun Company", etc. If the powerful Standard Oil Co. of New Jersey appeared in Venezuela during this period, it was playing the

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humble role which was previously reported. Jersey-Standard was still trying to leave drilling activities in the hands of "small" concerns which eventually would sell their output to them. These small concerns even got technical support from the Standard Oil Co. of New Jersey. This was the case of Maracaibo Co., when Jersey-Standard sent a team of geologists to explore their concession on their behalf.

However, in 1925 only two US companies, namely the Gulf of Venezuela and the Lago Petroleum Company, produced any output.

The Gulf Combine had entered Venezuela in 1923. It charted its subsidiary there by absorbing Venezuela Petroleum and Creole Syndicate.

The other company was created also in 1923 by Texaco, Pantopex, Pure, California-Standard and a number of New York investors. Lago absorbed a number of smaller companies and obtained a special concession to explore the bed of the lake of Maracaibo (Lago means Lake in Spanish). It held concessions for about 3 Million acres (over 1.2 million hectares).

In 1925 Lago's output was three times as large as Gulf's. In 1928 Lago's production was still larger but by this time the companies' outputs were almost similar.

Gulf of Venezuela was the subsidiary of a giant oil consortium, but Lago can be considered a "small" corporation. It had in fact powerful partners like Texaco and California-Standard, but none of them had control over the concern and consequently it could not be included in any combine.

In 1925 Lago was amalgamated with British Equatorial Company into the Lago Oil and Transport Company. In fact Lago actually

absorbed the British company, since the latter concern had ^{42/} concessions for just 7 hundred thousand acres (below 285,000 hectares). In Lago, the links between British and US interests can be observed. One of the main founding partners of this company was Pantopec Co., a company incorporated in the USA, but owned by the British Buckley brothers. After the amalgamation with British Equatorial, new British partners entered the company.

In 1925 Doheny's Pan American obtained a share stock large enough to take control on Lago Oil and Transport Co. ^{43/} The following year Doheny sold Pan American to Indiana Standard, and Pan American, now under new owners; took full control of Lago by exchanging the ^{44/} Lago share of all the other shareholders with Pan American ones.

Thus Gulf and Standard Oil of Indiana became the only US companies which had producing oilfields in Venezuela. The process through which the capital became controlled by these companies was carried out in Wall Street, the Venezuelan government having no part in it. In the same way Lago became part of Jersey-Standard's empire when Pan American was transferred in 1932.

As in the process through which British oil companies were replaced by US ones, the Venezuelan government had no part in this, an event which was decided far away from Venezuela's frontiers.

The events of 1928 in Venezuela and their effects in the further Venezuelan evolution - Thus up to 1928 the internal situation in Venezuela had undergone little change. Some new social groups had been developed. While the working class, still small in number, was appearing around the oilfields, a middle class, especially of university graduates and white collar workers, had become increasingly influential in the cities. However the new situation presented by the

emerging social groups was still under official control and the booming Venezuelan economy helped to cushion the social differences.

Due to any lack of challenge, the ruling class had indulged in internal fighting on matters of secondary importance. Against this background, the foreign companies were able to exploit these political disputes to their own advantage.

But 1928 marks a crucial change in Venezuela's situation. That year's carnival was the starting point of a series of riots.^{45/}

Although the leading role in these events was played by the University students, the social revolt affected all the Venezuelan social structure. Strong popular discontent towards the army was expressed and it affected the morale of this institution. The vice-president assumed that his opportunity had come, and he conspired against his father.^{46/} But the plot was discovered; José Vicente was forced into exile and the vice-presidency was abolished.^{47/}

At this moment, Gómez called on Gumercindo Torres again. Gumercindo Torres was now less radical. A new law enacted in 1929 did not make great changes to the 1925 law. The main targets of Torres' policy was not to increase the payments to be made by the oil companies either in tax or royalties, but to force the companies to pay fairly what was due according to the existing agreements and contracts. He also intended to discourage crude oil exports in order to compel the companies to build refineries inside the country.

To discourage crude oil exports a "Buoy Tax" had been enacted on 28th June 1926 (special tax on unrefined oil exports). But now Torres increased this tax by 100%; however a special rebate of 50% of this tax was granted to those companies which had started

construction on a refinery (2nd July 1928). Torres also attempted to build a state-owned oil port to control the real amount of oil exported from the country.

Even this new version of Gumercindo Torres was dangerous for the oilmen. In this context the "Falke" expedition was organised.

The study of this expedition in detail is not particularly connected with this research, although it has some relevance. It was organised in Europe. The conspirators created a provisional government in Geneva and sent a military expedition headed by General Roman Delgado Chalbaud. The expedition departed from Danzig and after a short stay in Santo Domingo, they reached the eastern coast of Venezuela early in August 1929. On the 10th August they attacked Cumana, capital of the State of Sucre General Emilio Fernandez and General Roman Delgado Chalbaud, died in battle, the rebels surrendered.

There are two aspects in this campaign, particularly interesting in showing how the Great Powers and their supported companies exploited the Venezuelan political disturbances for their own advantage, and why it was no longer possible after 1930.

The conspiracy was detected by the Venezuelan authorities at a very early stage. In March 1929 the conspirative plans of General Delgado Chalbaud were denounced by the Venezuelan Legacies of Paris and London.^{49/} Normally, on receiving such reports, Scotland Yard acted according to its own criteria, but in 1929 the British Government was interested in forcing a change in Vicente Gómez's oil policy; therefore Scotland Yard, instead of dealing with the affair on their own, strictly followed only the instructions given by the Venezuelans. Then, without real support from Scotland Yard, the

Venezuelan intelligence services showed total incapacity to deal with the problem. While SS Falke was departing from Danzig with no difficulty, Scotland Yard, following instructions from Gomez's secret police, was looking for a hypothetical shipment of weapons in the ports of Western Scotland.

The other aspect of the event is the fact that among the "Falke" invaders were old caudillos like Delgado Challbaud, Linares Alcantara, Aristeigueta, etc. together with people like Betancourt and Leoni who represented the new opposition that appeared during the riots of 1928.

In this context this adventure must not be observed as a merely isolated event. Late in 1928, Generals Regulo Olivares and Juan Pablo Penalosa launched an invasion from Cúcuta (Colombia) to Táchira. This invasion followed the classical pattern of such invasions, but its defeat was easier than ever. It was crushed in the very border area between both countries. In 1929 another invasion headed by Rafael S. Urbina was launched from Curacao against the State of Falcon, two months before the Falke ^{50/} affair. Among his men were Miguel Otero Silva, famous poet and journalist and Gustavo Machado, eventual founder of the Venezuelan Communist Party. This was the second invasion launched by Urbina; he had initiated another a year previously and he was to launch a third expedition in 1930. The second Urbina invasion was organised by his followers, particularly by Machado, while Urbina himself was merely invited to take part in it as the commander. This one was different in style. It was clearly against the foreign companies and sought support among the workers. It certainly did not obtain any support among the foreign companies

and powers.

Urbina's army did not obtain the support it expected. If it enjoyed any support from the working class, it happened in Curacao, not in Venezuela. However Urbina's expedition and, to a certain extent, the Falke one, had shown that the Venezuelan reality was changing. Now, Foreign Powers and companies were no longer able to exploit political dissent inside Venezuela. Otherwise they might promote a real social revolt in which foreign interests would be in real jeopardy.

The caudillism had been in decay for years, but now, without support from foreign interests it disappeared for ever. With the disappearance of the old caudillos, and the achievement of national unit, Gómez became unnecessary. If he remained in Power it was because the old tyrant was less likely to divide the Venezuelan ruling class, which needed more than ever to be united when new groups were appearing to challenge it. Gómez's son had been overthrown; but one of the José Vicente's followers, Eleazar López Contreñas became the actual heir. Gómez himself became a king without power, and López Contreras and Tinoco were the real rulers.
51/

Venezuela, however, became able to speak firmly at an international level, since the Achilles heel had been eliminated. Venezuela did not enjoy its improved international position immediately. As in 1912, in 1929 it was overtaken by adverse economic circumstances. Due to the world economic crisis 1929-1933 the power of the transnational corporations was increased and thus they were able to impose their terms. Dr Torres was dismissed (1931); after this he was not to be called again to take part in the cabinet. Although his laws and new oil rules were not changed,

they were not put into operation. But the Hydrocarbon Laws of 1935 and 1938 represented some relative improvement as far as the Venezuelan budget was concerned, in comparison with the previous situation, although the oil policy was not radically changed until 1943. Until 1945, Foreign Powers and companies were not to encourage political revolt inside Venezuela. They did so again in 1945, but through a coup d'etat led by the armed forces themselves.

Venezuela and the oil - During the nineteen twenties Venezuela underwent great transformations. A poor country, almost unpopulated and whose economy was principally based upon agriculture, became a wealthy country in which the mining activity was the basis of its economy. Oil was the element which promoted all these changes.

However we cannot say that Venezuela became a populated area. Population was largely increased during the 1920's due to the high rates of immigration; a city was practically created (Maracaibo, at present is the second urban centre). But today it has scarcely reached ten inhabitants per square kilometer, and after the Second World War Venezuela still had less than 4 million inhabitants.

Venezuelan poverty before 1917 was less obvious. It is true that the country which today ranks as the first nation in income per capita in South America, was at that time behind the majority of the countries in the area. Venezuelan railways totalled half the mileage of those in Uruguay, while Venezuela's land area was six times the Uruguayan area. But, can we consider as poor a country whose balance of payment, even at that time was between 30% and 50% in the black? Venezuela would be better described as wild and underdeveloped.

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Railways were not developed and finally were abandoned. But during the nineteen twenties, with the forced help of political prisoners, a modern motorway system was built (it was particularly convenient to Juan Vicente Gomez because his private enterprises supplied the raw materials needed for their construction).^{52/} The industries were developed later; lack of population and subsequently lack of markets precluded such developments until the nineteen fifties, and sixties.

In 1912 over 99% of Venezuelan exports came from agriculture; only three crops, namely coffee, cocoa and sugar can represented 90% of it. After 1921 it was vastly changed. In 1925 oil became the leading commodity among Venezuelan exports (42%) followed by coffee (31%) and cocoa (17%).^{53/} In the next year oil surpassed 50% of the Venezuelan exports and in 1928 hydrocarbons were 74% of the Venezuelan exports. In 1977, 94.7% of the Venezuelan exports was oil, followed by iron with 1.9%. All the other commodities together yielded 3.4% of the Venezuelan exports; over half of this was coffee.^{54/}

If we cannot say that everything changed overnight, during the 1920's Venezuela underwent a metamorphosis promoted by oil, and the social problems which arose in 1928 were the expression of this metamorphosis.

NOTES

1. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981) p. 396.
2. VOC Extraordinary Meeting, London 16th February 1926 The Times 17th February 1926 p. 21.
3. Due to effects of the war, the world experienced a grave shortage of tankers at the end of the Great War. Because of that, many shipping enterprises ordered new tankers. Subsequently the freight shortage of 1920 became excess in 1921, several tankers had to remain idle for long periods and the shipping companies had to pay off large amounts of capital. The Times, 3rd Feb. 1921 p.16.

4. The Times (City Notes) 1st April 1927.
5. "At present 95% of the oil business outside America is controlled by the two great oil organisations, the Standard and the Royal Dutch-Shell group "British Oil Policy (Article) The Times 20th May 1920, p. 20.
6. Burmah also got Crown support. In 1919 when the government bought 2/3 of a new ordinary issue of company's shares amounting £3,000,000 the Crown already had £1,500,000 invested in this company. The Mineral Oil Industry (article) The Times 23rd January 1920 p. 36.
7. Oil Topics (article) The Financer, 23rd August 1920. Shell Archive, Cutting Papers Vol. 23 p. 51 left.
8. Financial Times 16th January 1920. Shell Archive Cutting papers Vol. 20 p. 18 left.
9. British Controlled Oilfields (article) The Financial Times 30th July 1920. Shell Archive, Cutting Papers Vol. 23 p. 41 right.
10. During 1920, two oil rigs were sent to Costa Rica by B.C.O. The Financial Times 30th July 1920. Shell Archive. Cutting Papers Vol. 23 p. 41 right and The Times 2nd January 1923 pp. 16-17. BCO also sent oil rigs to Trinidad and Ecuador The Financial Times 30th July 1920 Shell Archive. Cutting Papers Vol. 23p.41 right and The Times 2nd January 1923, p. 17.
11. On 9th May 1922, D.E. Alves published an official statement in the press. The principal object of this statement was to report the agreement between BCO and Jersey Standard with regards to Buchivacoa concession in Venezuela. In this statement, he regretted he had been accused in both Great Britain and the USA of being the principal promoter of disturbances between both countries, because BCO was monopolising every new oil field in South America and subsequently leaving US interests out of the area. The Times 9th May 1922, p. 23.
12. In 1926 Burmah Co. made enquiries in order to initiate activities in Venezuela. On 5th December the company demanded from Minister Hobbson that he visit the Venezuelan Minister Dr Blanco on their behalf. The Minister replied that Dr Blanco had pointed out that the delay in registering the company was due to the fact that the company did not send the documents he had required in a letter of the 12th March 1926. The fact is that the Burmah Co. was never registered in Venezuela. H.A. Hobbson's letter to Messrs Johnson and Co. 16th December 1926. Enclosure in H.A. Hobbson's despatch No. 51 to O. Chamberlain 8th January 1927 F.O. 371 Piece 12063 No. 148.
13. Denny, Ludwell We Fight for Oil (New York-London 1928) pp.99-102.
14. Betancourt, Romulo Política y Petróleo (Mexico City 1956) p. 47.

15. In 1928 Venezuelan Shell output averaged 125,000 barrels a day versus 110,000 barrels obtained in the USA; Shell's daily output averaged all over the world was 334,000 barrels a day; therefore Venezuela and the USA yielded 36% and 27% of this output respectively. Denny, Ludwell We Fight for Oil (New York-London 1928) p. 283.
16. The Financial Times 7th October 1921. Shell Archive. Cutting Papers Vol. 29 p. 20-right.
17. Published by The Times (City Notes) 9th January 1927, p. 28.
18. Memorandum on Venezuelan oil production issued by the British Consulat at Caracas referring to the half-year ending on 30th June 1927. F.O. 371 Piece 12063 No. 5372.
19. Public Record Office BT31 21169/126572.
20. The first successful drilling in "Lagunillas" oilfield was completed at the beginning of 1923; then it seemed to be 50% more prolific than "La Rosa". The Times (reporting a telegram just received by the Venezuelan consul at New Orleans) 19th March 1923, p. 11. However, in 1925 "La Rosa" produced 84% of the Venezuelan Shell output and in 1926 "La Rosa" yielded 62% of it while "Lagunillas" output was scarcely 2 or 3% of the Venezuelan Shell output. Seeds' Annual Report for 1925 to Sir N. Chamberlain. Sent on 12th January 1926. F.O. 371 Piece 11.201 No. 641 and Memorandum on Venezuelan Oil Production issued by the British Consulate at Caracas, June 1927. F.O. 371 Piece 12063 No. 4952.
21. H.A. Hobson's despatch No. 2 to Sir N. Chamberlain (Annual Report for 1924) 7th January 1925. F.O. 371 Piece 10653. No. 509.
22. Seeds' despatch (Annual Report for 1925) to Sir N. Chamberlain 12th January 1926 F.O. 371 Piece 11.201, No. 641.
23. VOC Ordinary General Meeting held on 21st February 1921 The Times 22nd February 1921, p. 6. The Financer, 18th February 1921. Shell Archive. Cutting Papers Vol. 26 p. 22 right. Also The Financial Times 19th February 1921, Shell Archive Cutting Papers Vol. 26 p. 24 right. Also Investors Guardian 26th February 1921. Shell Archive Cutting Papers Vol. 26 p. 28 right. Also Oil News 26th February 1921 Shell Archive. Cutting Papers Vol. 26 p. 30 centre Also The Times 5th July 1921, p. 15 also "Oil in Venezuela" (article) The South American Journal 5th March 1921 Shell Archive Cutting Papers Vol. 26 p. 33 centre. Also The Financial Times 5th July 1921. Shell Archive Cutting Papers Vol. 28 p. 12 right. Also Financial News 21st September 1921, Shell Archive Cutting Papers Vol. 29 p. 10 right. Also "Interview with Duncan Elliot Alves" (Article) The Financer 29th September 1921 Shell Archive Cutting Papers Vol. 29 p. 16 left.
24. Henriques, Robert. Sir Robert Waley Cohen (1877-1952) (London 1966) p. 285.

25. The Arbitration committee was appointed by the VOC extraordinary meeting held on 25th January 1927, after a suggestion submitted by Lord Bearnsted himself. The Times 26th January 1927, p. 19. It was eventually formed by Sir John N. Barran Bt., C.E. Benson DSO, G.L. d'Abo and R. Stirling The Times 14th June 1927 p. 22.
26. For instance, on the 15th February 1927, The Times presented a list of 15 companies and the amount of dividend they paid per extracted ton they had on 1924, 1925 and 1926. Apart from VOC the smaller profit per extracted ton paid by these companies had been Shell Union in 1925 (15s 2d. per ton) and the highest had been given by Jersey Standard in 1925 (£2. 3s 3d. per ton). VOC had obtained only 6s 9d per ton in 1925 The Times 15th February 1927 p. 17.
27. Petroleum Department's Memorandum to the Undersecretary of State, Foreign Office (PDO 481) 24th December 1920 F.O. 371 Piece 4623 No. 9024.
28. The North Venezuelan Petroleum Company was property of Anglo Persian Co. and Trinidad Leasehold Limited. Petroleum Department's Memorandum to the Undersecretary of State, Foreign Office (PDO 481) 24th December 1920. FO 371 Piece 4623 No. 9024.
29. Petroleum Department's letter to the Foreign Office 15th June 1922. F.O. 371 Piece 7325 No. 3885.
30. Liewen, Edwin Petroleum in Venezuela (3rd Ed. New York 1967) p. 20 Betancourt, Rómulo Política y Petróleo (Mexico City 1956) p. 58 Marcano, Eduardo. Los Comienzos de la Industria Petrolera en Venezuela y la Legacion de Estados Unidos en Caracas (articulo Revista IUPC Caracas 1976) p. 66.
31. H.A. Hobson's cyphered telegram No. 9 26th June 1925 F.O. 371 Piece 10653 No. 3266.
32. McBeth, B.S. Juan Vicente Gomez and the Oil Companies (Oxford 1981) p. 309-311.
33. On the 21st April 1922, an agreement between BCO and Jersey Standard was signed, by which the latter company acquired the right to develop the Eastern Division of the Buchibacoa Concession. The US company had to pay 12% of its output as royalty either in cash or in crude The Times 8th May 1922, p. 23 and 2nd January 1923, p. 17.
34. Henri Deterding's cyphered telegram to A. Agnew 20th July 1925. F.O. 371 Piece 10,653 No. 3477.
35. Betancourt, Rómulo Política y Petróleo (Mexico City 1956) p. 42-43.
36. Previously, in 1914 and 1915, Jersey-Standard had done preliminary researches with the same results. Marcano, Eduardo

Los Comienzos de la Industria Petrolera en Venezuela y la Legacion de Estados Unidos en Venezuela (Article "Revista IUPC" Caracas 1976) p. 66.

37. H. Beaumont's despatch OTA No. 3 to Lord Curzon 15th July 1921. F.O. 371 Piece 5721 No. 5977 and H. Beaumont's despatch No. 47 to Lord Balfour 15th June 1922 F.O. 371 Piece 7325 No. 4286.
38. C. Dormer's despatch No. 58 to Lord Curzon 25th June 1920. F.O. 371 Piece 4622 No. 5152.
39. C. Morris's despatch No. 4 to R. McDonald (Annual Report for 1923) 26th January 1924. F.O. 371 Piece 9638 No. 1579.
40. Crude Oil Production in Venezuela (Memorandum) British Consulate at Caracas 27th July 1927. Enclosure in despatch OTB from Caracas 27th July 1927 F.O. 371 Piece 12062 No. 4952.
41. United State Daily, 1st October 1929. Enclosure in Sir E. Howard's despatch (British Ambassador at USA) to Sir A. Chamberlain 10th October 1929 FO. 371 Piece 13558 No. 7003.
42. Wall Street Journal 11th December 1925. Enclosure on 29th December 1925 F.O. 371 Piece 10653 No. 6600.
43. The Times 5th November 1925 p. 19.
44. The Times 9th November 1926 p. 21.
45. W. O'Reilly's despatch No. 13 to Sir A. Chamberlain, 27th February 1928. F.O. 371 Piece 12843 No. 1824.
46. W. O'Reilly's despatch No. 18 to Sir A. Chamberlain 14th April 1928 F.O. 371 Piece 12843 No. 2915.
47. W. O'Reilly's despatch No. 16 to Sir A. Chamberlain (Annual Report for 1928) 1st May 1929. F.O. 371 Piece 13558 No. 3447.
48. Report from V. Blasini (British Consular Agent at Carupano) to R. Kirwin (British Consul at Caracas) 29th August 1929. Enclosure in P. Brand's despatch No. 40 to A. Henderson, 4th September 1929 FO 371 Piece 13557 No. 6507.
49. The information received from Paris was sent by the Venezuelan Minister at London, Escalante, to the Foreign Office on 8th March 1929. The document mentioned another Memorandum, personally handled to the Foreign Office by Escalante on 27th February 1929. FO 371 Piece 13557 No. 1720.
50. P. Brand's despatch No. 38 to A. Henderson. 20th August 1929 (This despatch was especially devoted to the Falke expedition, then in progress which also mentioned the attempt to invade Tachira and the failed invasion against Falcon. Concerning the Tachira affair it is referred to W. O'Reilly's despatch No. 62 of 14th December 1928 and with regards to the Urbina's expedition to P. Brand's despatch No. 100 of 2nd July 1929) F.O. 371 Piece 13557 No. 608.
51. Rangel, Domingo Alberto Gómez el Amo del Poder (Valencia 1975) p. 345.

52. H. Beaumont's annual report for 1922 to Lord Curzon 18th January 1923. F.O. 371 Piece 8530 No. 726.
53. H.A. Hobson's annual report for 1926 to Sir N. Chamberlain 2nd March 1927. F.O. 371 Piece 12063 No. 1750.
54. UN-ECLA Economic Survey of Latin America (Santiago Chile 1978) p. 493.

CHAPTER XII

Conclusions

Conditions in which the Venezuelan oil industry emerged -

Although some mining enterprises existed in Venezuela even before independence (especially important were the gold mines in Guayana), during the nineteenth century, mining was considered by the Venezuelan ruling classes, and consequently by the Venezuelan government, as a rather abnormal activity which should be carried out by other people in order to balance the budget without affecting the pocket of these private landowners.

Therefore all kinds of schemes were drawn up (even a state-owned mining enterprise was planned), yet the diversion of public resources for subsidising such enterprises, even for a short period, was never envisaged.

Until 1904, no Venezuelan government paid any attention to their visible oil resources. The failure of Mexican, British and US entrepreneurs in Mexico seems to have deterred them from venturing into this field. Petrólio del Táchira and the Asphalt industry were two exceptions, but until 1917 Venezuela had to import almost all the oil products it needed.

1881 is a turning point in Venezuelan economic history. The increased needs of the world market caused the main Powers to re-discover Venezuela, while Venezuela began to feel the need of a stronger central power to face the increasingly strong pressure made by the World Powers upon the nation and to provide the political and material sub-structure needed by their fast developing

international trade.

During the second half of the nineteenth century, foreign investments were welcomed in Venezuela, especially when such investments were ploughed into railways and other sub-structures necessary to the swelling international trade. Nevertheless, the Venezuelan government did not give "carte blanche" to the foreign companies, and was very zealous in demanding the fulfilment of all the duties undertaken by them.

The Venezuelan policy towards this increased foreign investments and other signs of interest from the Great Powers towards Venezuela gave rise to a number of diplomatic crises, the main ones being the frontier dispute with British Gyana (early 1880's), the blockade of the Venezuelan coast imposed by Great Britain, Germany and Italy (1902-1903) and finally the unfriendly actions of the Dutch which ended in the overthrow of President Castro (1908).

After 1870, Venezuelan investors initiated a number of enterprises. These investments were initially devoted to railways and international trade. The 30% surcharge upon goods imported from European colonies in the Caribbean area, established by President Guzman Blanco, was clearly directed against trade between Trinidad and Venezuela; until then the main Trinidadian trading houses had been able to control the entire Venezuelan wholesale market from Port of Spain. This surcharge had been established in 1882, and in spite of permanent pressures exercised by the British government to abolish it, the surcharge was maintained during the whole period covered by this research.^{1/}

After 1890 Venezuelan investments increased in scope. They now spilled over into mining, public services and manufacturing

industries. However, after 1900 Venezuelan investors were forced to withdraw from many of these activities.

The failure of the Venezuelan investors had several causes; some political, others economic. First of all, Venezuela was unable to fight against any of the Great Powers; it could only exploit the disturbances existing between them. Therefore, the Venezuelan government had to yield concessions to the Powers; so German trading companies entered Venezuela during the early 1900's.

The continual increases of taxation which were the only source of revenue, damaged Venezuelan companies which, due to the lack of capital, were no longer able to compete with the foreign companies. But, the main problem was the fact that the Venezuelan companies were dealing with a foreign market and the competing foreign companies had control over it.

Therefore Castro's overthrow was the consequence of a process which had been initiated during his own government. Although the development of the Venezuelan oil industry was initiated only in 1912, the rise, rule and fall of Cipriano Castro (1899-1908) saw the erection of the framework in which it was subsequently to operate.

Gómez and the early development of the Venezuelan oil industry - Thus Gómez's success was the consequence of Castro's failure and ensuing temporary surrender of Venezuela to the Great Powers and Foreign companies. Nevertheless he tried, at least to a certain extent, to continue the economic policies followed by Castro - namely to welcome foreign investment in Venezuela, provided they would give enough revenues to the state and occasional wages to some Venezuelan citizens enjoying official support. The difference

between Castro and Gómez is that the latter understood that he had limited bargaining power and he never attempted to go beyond those limits.

The book "Gomez, the tyrant of the Andes" by Thomas Rourke has been frequently quoted in this research. It could be argued, and argued correctly, that this material is not a reliable source. However, in spite of the lack of accuracy and depth of this book, it certainly proves that the transnational companies, on whose behalf the book was written, did not like Gómez. For instance, according to Rourke it was Gómez and not the transnational oil combines who was robbing Venezuela. Moreover, he argues that Gómez was robbing both the oil consortia and the Venezuelan nation.^{2/}

Oil did not play any role in Castro's overthrow. Although the presence of wide oil resources in Venezuela was known to be almost certain, no one had shown any interest in Venezuelan oil concessions. World needs were still small enough to be supplied by the oilfields being exploited at that time, and Castro's Venezuela tried to obtain too much revenue from this activity for it to become convenient for the oil companies.

The replacement of Castro by Gómez did not mean any change as far as oil policy was concerned. Moreover Gómez tried to increase the margin of revenues to be obtained from oil ventures eventually to be developed in the country. When he changed policy in 1912 it was due to the fact that the international oil corporations had successfully boycotted Venezuelan oil.

Betancourt tries to present Gómez as a subservient puppet of the USA. For instance, in Betancourt's view, the "Colon" conflict (1919-1921) was a dispute between the USA and Great Britain in which

Gómez changed his position according to the instructions given to
him by the State Department of the USA.^{3/} The oil policy followed
by Gómez until 1929 certainly shows that that was not the case. When
"Mene Grande" oilfields were opened (1914), Venezuela tried once
again to go back to the old policy of seeking more and more
revenue from the oil activities, culminating with the "Colon"
conflict and the Hydrocarbon Law of 1920. However from
1921 Gómez was forced to go back to a policy more convenient to
the oil companies. Something similar happened between 1924 and
1925 and between 1928 and 1929.

Until 1929 the subservient puppet of the Great Powers was
not Gómez, but Gómez's opposition. If Gómez lacked a strong
popular support, it did not mean that the opposition enjoyed it;
while over 95% of the Venezuelan people was not involved in any
political activity, the opposition had even less popular support
than Gómez himself.

Therefore, the only chance for the opposition was through
conspiracies hatched abroad in which armed invasions against
Venezuela were organised. They needed the support of the foreign
countries from which they were operating to turn a blind eye to
their actions; and sometimes the plotters tried to obtain foreign
financial support, to be paid after the "Venezuelan Liberation"
with wide oil concessions.

Terms like political "leftwing" and "rightwing" are very vague.
If to define "leftwing" as being against the status quo and "rightwing",
in favour of it is accepted, it could be said that until 1928
Gómez was to the left of his opposition. In theory the core of
the Venezuelan political struggle was the organisation of a strong

central power (badly needed by the nation) against the traditional weak one which would guarantee the Venezuelan "liberty", in other words, status quo. Gómez represented the first position while his opponents fought for the other.

But in the new world conditions a weak central power was no longer convenient for any body; it is difficult to imagine any real change in Venezuela after a victorious revolution, apart from names in the government. It seems that the opponents of Gómez were using the old and already meaningless banners, and some new ones like the illdefined antipersonalismo to enjoy, once victorious, the economic advantages of controlling the government.

This lack of social maturity was a source of both strength and weakness to Gómez's rule. In internal terms it increased his power, because at the end of the day, the struggle was exclusively concentrated with the quest for personal power. It made difficult an alliance among his enemies, while people not very interested in politics were dismayed at the prospect of a struggle which could put the nation's economic activities in jeopardy and being no real change even if eventually successful. Describing the political reality inside Venezuela the British Minister at Caracas H.B. Beaumont wrote:

"It cannot be denied that his (Gómez's) rule has been characterised by prudence and energy. Foreigners, businessmen and the great majority of the nation who keep clear of politics have nothing to complain of, and will see the removal of his strong hand with regret." 4/

To understand such emphatic support from the British minister, it ought to be taken into account that it was written in 1922, just after his change of oil policy. However, there is enough

evidence to accept this opinion as a truth.

But in international terms, this situation meant weakness. The Great Powers and the transnational companies became able to exploit internal disturbances to their own advantage. In any country, civil war is not convenient for foreign investments, as their premises and machinery can be destroyed by the warfare. But apart from that, when the conflict is a real social struggle which involves a large majority, if not all the national population, the situation could become even more dangerous to the foreign investments. This had been the main lesson the foreign investors, particularly oil entrepreneurs, had learned in México.

It did not happen in Venezuela. Civil war was a last resort which was never used. However the foreign opposition was used on a number of occasions, to be exposed once Gómez, facing such blackmail, gave up in his attempt to change the Venezuelan oil policy.

It does not mean that the caudillos were agents of the oil companies to act when they were needed. They did what they thought they ought to do, but the characteristics of the Venezuelan situation allowed the companies to use them to their own advantage. In 1929, when events like the Second Urbina invasion proved that this situation was changing and a real social struggle could begin, the companies no longer used the caudillos and this character disappeared from Venezuelan politics.

Venezuela and the "oil surplus" - As Aristotle defined Egypt as the "Nile's Gift", so Modern Venezuela can be described as an "Oil's Gift". This agricultural country, in spite of its abundant natural resources, was one of the less developed countries within South America. It had a density of population below 0.1 persons per

square kilometer and a railway network whose extent averaged less than 0.5 meters per square kilometer; this Venezuelan network was ten times smaller than the Chilean one, although Venezuela was 30% larger than Chile. As has been said, although Venezuelan export value exceeded by between 30% and 50% import value, the Trinidadian foreign trade was over 9 times as active ^{5/} as the Venezuelan one. Today Venezuela is in general terms, one of the most developed countries in the area having the highest National Income per head as well as the highest level of wages in the region.

In fact, Venezuela had been re-discovered by Europe, particularly by Great Britain since the early 1880's - not at first as a potential oil supplier, but rather as a supplier of coffee, iron and other resources. It also had control of the huge waterway network to be developed in the Orinoco river system which included not only Venezuelan territories, but also Colombian and Brazilian ones. And finally it was the possessor of extensive grasslands where cattle breeding could be advantageously developed. (This last activity had been practised to a certain extent since before Venezuela became independent). Therefore it can be assumed that even without oil, Venezuela's time had arrived; however, oil provided the revenues and other resources needed to make Venezuela's development an easier task and to do it in a better form.

In 1981, Mr Bryan S. McBeth published a thesis to obtain a Ph.D. entitled "Juan Vicente Gomez and the Oil Companies (Oxford 1981). In the summary published by him in the SLAS Supplement No. 9 ^{6/} (April 1981) of the seminary on this topic to be developed at the SLAS Conference to be held in Birmingham, he pointed out that,

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in 1922, after Venezuela had provided for the companies conditions good enough to be acceptable to them, these companies had made Venezuela a wealthy country and it had become the second country in the world oil producers' ranking. The basic differences between this research and Dr McBeth's has been already explained, but there is a further point Dr McBeth points out that Venezuela, as other oil producing countries, had the weaker hand in the bargaining with the "foreign companies" and consequently obtained less from the deal than the companies themselves. Nevertheless, at the end of the day what he is trying to show is what Venezuela received from these companies. By contrast, in the tenth and in part of the eleventh chapters of this research, trying to be as unbiased as Dr McBeth, the other side of this coin is shown, namely what the transnational companies themselves received from Venezuela.

What has been defined in this research as the "oil surplus" was greatly enlarged during the 1920's due to the growth in uses of oil products which increased demand and the development of new techniques of production which brought about reduction in prices. However the oil companies suffered high reductions in their profits, because they had to meet new challengers in the struggle to obtain their share of this "oil surplus". The two main competitors of the Oil combines in this struggle were (i) other industries like car manufacturing and transport, and (ii) the oil producing countries.

As previously said, the contest in which Venezuela was particularly useful to the big consortia was the struggle between the latter and the oil producing nations. The oil policies followed by Obregón and Calles in Mexico and by the Bolshevik government in Soviet Russia, encouraged the oil producing countries

to try to obtain a better share from their oil wealth. Venezuela, this potentially important oil producer, was the one who broke the solid line presented by the other oil producing countries and this allowed the big oil companies to succeed in their struggle against them. Without the Venezuelan help, the oil consortia would have been in a more difficult, if not hopeless situation during the 1920's. During the 1930's when the companies were no longer able to use Venezuela in this way, they obtained this kind of ally from the Middle East. After the war they obtained the alliance of the Shah of Iran, the King of Saudi Arabia and Venezuela's dictator Marcos Pérez Jiménes, but only to a certain extent. When the seven partners of the oil cartel accepted the fifty fifty agreement, according to which 50% of their profits had to be given to the oil producing companies, they were surrendering a part of the "oil surplus" to them.

It is true, that Venezuela also obtained some advantages from this alliance, the principal being the fact that Venezuelan oil potential became a reality. It is profitless to argue what would have happened if Venezuela had not accepted the alliance with the main oil companies. But there is enough evidence to assume that Venezuela did not accept this partnership of its own will and made every effort to break this alliance. In 1912 and 1929 it was forced to accept the situation by the "natural conditions prevailing in the market" and between 1921 and 1928 Venezuela was forced to do so by political pressures, when Powers and Companies were able to exploit internal disturbances.

Today the "oil surplus" has been increased once again by the great development of the Petrochemical industry from the years of

the Second World War onwards, and the fighting between different group to obtain the larger part of this surplus had become a deeply embittered struggle.

Today the great oil companies pay dividend rates between 8% and 12% which is not much higher than the standard rates paid by other industrial activities. Consequently they are surrendering almost all the "oil surplus". In fact, at the present time, the big oil combines control many other activities (for instance, during the 1970's the copper consortia were absorbed by the oil combines).

The main contestants in the struggle for controlling the largest part of the "oil surplus" nowadays are the oil producing and the oil consuming countries. Oil, although it has a very low cost of production, is sold at a rather high price. The reason why no company involved in oil production obtains high profits, despite the large difference between costs and price, is because over 50% of this price represents different kinds of taxes. The Venezuelan oil is sold at over US\$35 per barrel although it costs only just US\$3 per barrel to produce. This price is increased 3 times before the oil is sold either as polyethyl petrol, diesel oil or any other subproduct, over 2/5 of these new costs being new taxes to be paid in the centres of consumption. For instance, in Great Britain, considering the petrol prices of thirteen oil companies the average price was, at the end of 1981, 31.27 pence per litre. There the special Tax on petrol amounting to 13.82 pence is included. Therefore of this average price 44.2% is British tax, without taking ^{7/} 15% VAT into account. Venezuela has become today one of the leading ^{8/} countries in this struggle. In September 1960, Venezuela joined with Iran, Iraq, Saudi-Arabia and Kuwait in the "Organisation of

Petroleum Exporting Countries" (OPEC). In the following years, other countries like Ecuador, Algeria, Nigeria, Indonesia and Lybia joined this organisation. Although this move was an initial attempt to create a common front among the oil exporting countries, it did not produce any major changes over the next ten years; in 1970 crude oil prices oscillated between US\$1.68 per barrel (Kuwait) and US\$2.25 per barrel (Lybia). Venezuelan prices were US\$1.85 per barrel.^{9/}

^{10/}

But after 1972 a different policy was introduced by the oil producing countries leading to vastly increased prices. Libya increased its price to US\$10.80 per barrel (January 1971) and Indonesia fixed it at US\$15.77 per barrel (January 1974).^{9/}

Therefore, the so-called "oil crisis of December 1973" was the start of a war between oil consuming and oil producing countries. This war has been a long one; Table No. 13 and Graph No. 5 show the development of this struggle. It seems that the war is only now coming to an end, or at least the first battle is ending. In this battle there has been an important psychological factor. The oil consuming countries accused the OPEC partners of following a selfish policy which would bring hunger and misery to those less developed countries which had no oil. The OPEC countries have reacted by setting cheap oil to these poor nations and by helping them in other ways.

However the most important side in this struggle has been the economic one. The USA had two powerful weapons to fight OPEC. First of all the USA tried to prevent the entrance of new partners into the latter organisation by pressurising them in different ways. These measures have had very little effect; new countries have

joined OPEC despite US retaliatory measures. The other weapon was the devaluation of the US\$. In this way, while the OPEC countries were seeking more US\$ per barrel, the US government ensured that this amount of US\$ meant less than before.

Table No. 13

Prices of crude oil from 1st January 1972 onwards

Date	Barrel price (US\$)
1st January 1972	1.90
1st " 1973	2.41
1st " 1974	10.95
1st " 1975	10.46
1st " 1976	11.51
1st " 1977	12.09
1st " 1978	12.70
1st " 1979	13.54
1st April 1979	14.55
1st Sept. 1979	18.00
1st January 1980	26.73
1st April 1980	34.40
1st January 1981	39.25
1st July 1981	34.10

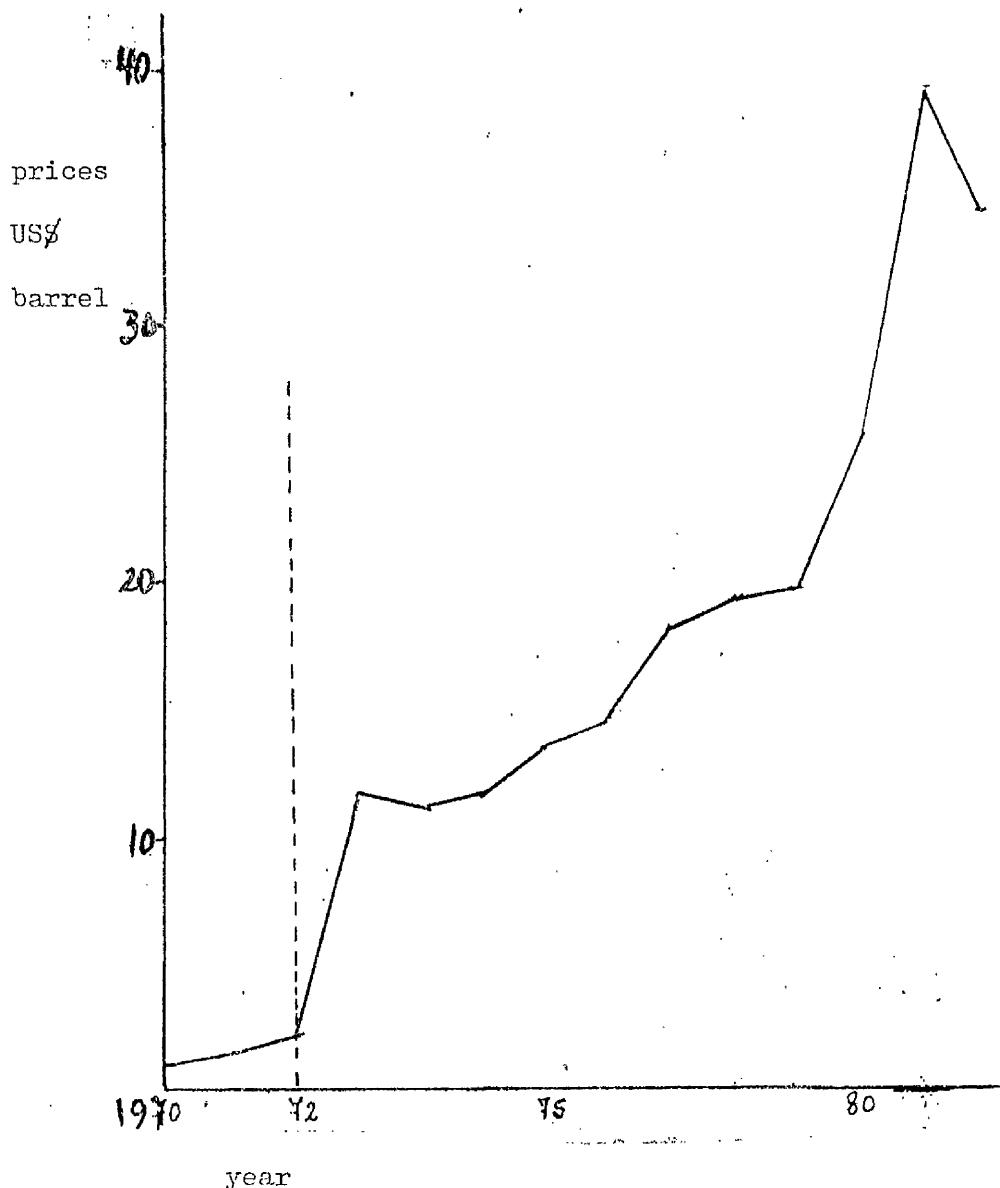
Source: Different articles and reports in the British and US press. 11/

After 8 years the battle seems to be lost by the OPEC countries as they are no longer able to raise oil prices of their own will and need. In fact up until July 1980, the "stand by" oil prices were normally higher than the OPEC ones, but since then the

stand by prices have fallen below OPEC prices and the North Sea oil was being sold at that time at US\$33.75 per barrel while some OPEC countries were charging US\$40 and US\$41 per barrel for their ^{13/} oil.

Graph No. 5

Price of crude oil since 1970



Source: Fortune Vol. 102 No. 3 (Chicago August 1980) and The Times 14th August 1981. ^{12/}

This defeat can be explained in the following ways. Firstly, there was some lack of agreement among the OPEC partners. Some of them, the so called "hard liners" tried to bring the USA and the other oil consuming countries to their knees; others like Saudi-Arabia took a "soft line" trying to come to terms with their consumers. The reason why this should happen was that the Saudi-Arabian rulers had big investments in the USA and Europe and consequently their interests would have been seriously damaged by a major economic crisis in these areas. Thus Saudi Arabia broke the policy followed by the "hard liners" by keeping rather low prices and by increasing its own production up to 10 million barrels a day. Saudi Arabia also rejected the plan to replace the US\$ by other currencies as the one in which oil prices are fixed.

Oil prices were also affected by a well organised campaign trying to create a general scare regarding the exhaustion of world wide oil resources. This campaign, linked with some measures, like increased taxation which discouraged oil consumption by making oil products dearer, succeeded in reducing oil consumption. It dropped by 6% between 1979 and 1981 within the non communist countries. Among the nations included in the International Energy Agency, this reduction was by 7.5% and the consumption of some of the oil products diminished in Europe by nearly 20% during this period. Finally, the countries not affiliated to OPEC increased their oil output and consequently OPEC presence in the world oil market decreased from 58% in 1979 to 47% in 1981.^{14/} As in 1912 and 1929 Venezuela and its OPEC partners have been defeated for economic reasons.

The Venezuelan attitude in OPEC ought to be studied at the end of a research centred on the Venezuelan oil policy during the 1920's

because the new Venezuelan oil policy is just the opposite of the one followed during that period. Without having been the strongest OPEC hard liner, like Algeria and Lybia, Venezuela has presented a coherent, not strong, but firm position. In January 1981, when the highest OPEC price (the Lybian) was US\$41 per barrel and the lowest (the Saudi-Arab) was US\$32, Venezuela kept a rather low price of US\$35 (about 9% over Saudi Arabia and 15% below Lybia) and a price ^{15/} higher than only three of nine OPEC nations. However, on the 17th August 1981, when the OPEC oil ministers gathered in Geneva, Venezuela emerged as the strongest opponent to any reduction in oil ^{16/} prices.

Finally it ought to be said that Mexico is playing to a certain extent, the role played by Venezuela during the 1920's. In fact the USA are able to press Mexico by economic means. The US and Mexican economies are strongly entangled and consequently the USA can retaliate in other areas. Especially important is the large number of Mexican temporary residents in the USA who go there to work. So the USA retaliates against Mexico by preventing these Mexican citizens entering the country and even by expelling them when Mexico follows a foreign policy which the USA does not like. In these ways the Mexican membership of OPEC was prevented. However, Mexico can be forced only to a certain extent. During the last year the USA, even using all its strategies for retaliation, could not obtain an increase in Mexican oil output nor force them to fix a lower price on their crude nor to persuade them to accept an economic alliance with Canada and the USA which the White House was trying to impose on both of its neighbours. Mexico was also able to resist American pressure in other fields not connected with oil.

USA, Great Britain and Venezuela - Betancourt and other writers try to stress the dependence of Gómez on the USA and they assume that Gómez's support for the US companies forced British capital to give way to US investors.

The events, as they occurred, suggest that was not the case. The only occasion in which a US Ambassador took an active role against a British company was when he reminded President Gómez that the North Venezuelan Co. was owned by Anglo-Persian and that was against the Venezuelan law. But in fact many British businessmen agreed with the US ambassador and if North Venezuelan was not allowed to exploit the concession it would be able to sell it to any other concern. The concession eventually came under US control simply because no British concern was interested in it.

Moreover, on 24th June 1926, the Venezuelan government published in the British press part of the annual speech of J.V. Gómez to the Congress. In this part of the speech Gómez expressed his government's desire to attract foreign capital and the means by which he would do it. Even if a similar publication had been made in the USA this event certainly proves that at that time British capital was still welcomed in Venezuela.
^{17/}

Moreover, the replacement of British companies by US ones, was carried on all over Latin America. These events originated far away from the Latin American shores and neither Venezuela nor other Latin American states took part in them.

The main occurrence which took Britain out of this area was the First World War. Although both Great Britain and the USA went to the Versailles Conference as victorious Powers, Great Britain had been strongly beaten by the war. Great Britain and France tried to

obtain compensation from Germany but, the general strike in the Ruhr area, after it was invaded by the French (even though the French could have crushed the strike with the help of the German capitalists) proved that the excess burden on the German shoulders could have promoted a soviet-style revolution in that country. Therefore, France and Great Britain surrendered in Locarno a great part of the advantages they had obtained at Versailles. Due to this treaty and other similar agreements subsequently signed,
18/ Great Britain did not receive the badly needed compensation.

On the other hand, being far away from the theatre of war and being involved in the war for less than a year, the USA enjoyed all the advantages of being victorious but none of the inconveniences of having taken part in such a war. After 1918 the USA emerged as a main power in world wide terms.

There is a further problem. British capital was not so concentrated as the US capital. The large enterprises can produce much more cheaply due to economies of scale and can control the market instead of being controlled by it. But there was a united number of such British transcontinental consortia, like Shell and Unilever, in a world whose economy was being increasingly controlled by such corporations.

In this situation, the alleged dispute between Great Britain and the USA was only a bargaining, although sometimes an angry one, for the redistribution of the areas of influence within the world. Even the possibility of war between both Powers was reported by
19/ the mass media.

However the danger of war was not a real problem. Previously, the USA has been a minor partner of Great Britain. Because of

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that, both economies were strongly entangled and it made a war between them highly unlikely. Moreover, not only in the oil industry but in other areas, the big corporations were seeking agreement, and the alleged struggle between Britain and the USA was a way of hiding the fact that both British and US governments were supporting the big corporations against the smaller ones.

What the British authorities were afraid of, was an economic war, in this field the British Advisers at the Foreign Office showed a rather desperate attitude:

"In view of the power of the dollar, British oil interests in Venezuela will do well to compromise with their American cofreeres and to admit certain American participation in their undertakings."

wrote one of them, called R.L. Gragie about H.A. Hobson's despatch No. 32 of 17th April 1925 (in which the Minister reported the VOC trial, still in progress).^{20/} In spite of some occasional exceptions, the USA fairly supported the "Open Door" policy. They knew that in a fair fight between pound and dollar, the dollar would be victorious; and the British authorities also knew it.

But an economic war between Great Britain and the USA would promote negative attitudes within the other countries. In fact they could try to obtain advantages for themselves from this contest and subsequently neither Great Britain nor the USA would be truely victorious.

Therefore both Powers needed to reach agreement. It was established during the 1920's through a number of treaties, a number of agreements locally established by British and US private companies and by a kind of modus vivendi, established by the

framework of the mentioned treaties and agreements.

For instance no treaty or agreement decided that Britain had to withdraw from Latin America but many British companies were sold to US companies and Great Britain gradually left in US hands the leading position it had once had in the area.

This process of transference was not suggested by the Foreign Office and no local government took any part in favour of any of the contesting Powers; moreover some historians suggest that certain countries supported the British companies. The process was slow, and involved contradictory events.

Some companies remained under British control. US corporations were not interested in railways. A few railways, like FCAB (Autofagasta-Chile to Oruro-Bolivia) are still under British ownership, the large majority were sold to the local states. In the case of Venezuela, railways were nationalised by Eleasar Lopez Contreras and eventually abandoned. Other companies, like Unilever are still run by British entrepreneurs. There are also cases of companies, initially sold by British investors and subsequently retaken by them. Nevertheless, British influence was replaced by the US all over the area.

It is difficult to establish a precise date for the British withdrawal from Latin America. In the case of the Peruvian oilfields it was rather early. Even before the First World War. In Chile and Argentina British influence was still strong just after the Second World War. British presence in Argentina disappeared in 1949 when railways were nationalised. The process in Venezuela occurred during the 1920's especially between 1926 and 1929. Therefore the whole process took place between 1920 and 1950 although

it was particularly intensive during the late 1920's.

Now in the particular case of oil, as previously said, the small oil company was no longer profitable after 1910, unless it was working within the U.S. boundaries; their main problem was the lack of a marketing system. The British small enterprise, which had developed the Peruvian and Mexican oil industries between 1900 and 1910 failed when they tried to do the same in Venezuela and they had to give way to Shell. Now, linked with the "angry bargaining" previously described in this chapter, Shell also withdrew from South America and gave free way to the American companies.

Shell had only a small share of the South American oil. They kept, for instance, an important part of Venezuelan oil; this part even increased in absolute terms though it decreased in the % of the whole Venezuelan output. When the Venezuelan oil was nationalised in 1975 the part of the Venezuelan output produced by Shell had fallen below one third of the whole. Shell also kept an important part of the Mexican oil industry, until it was nationalised in 1938. In Mexico the Shell share was hugely increased; in 1920 the part of the Mexican output produced by Shell was 20% ^{21/} while in 1938 the combine produced over 60% of the Mexican output. ^{22/}

NOTES

1. The problem of the 30% surtax is frequently mentioned in the British papers. A complete record of it appears in : C.Morris' despatch No. 4 to R.MacDonald (Annual Report for 1923) 26th January 1924. F.O.371 Piece 9638 No. 1579.
2. Rourke, Thomas Gomez, The Tyrant of the Andes (2nd Edition New York 1962) pp 173-174.
3. Betancourt, Romulo Política y Petróleo (Mexico City 1956) pp.57-61.
4. H.D.Baumont's despatch to Lord Curzon (Annual Report for 1921) 11th January 1922. F.O.371. Piece 7325 No.757.
5. Sir Vincent Corbett's despatch No.19 to Sir Edward Grey (Annual Report for 1908) 12th February 1909 F.O.371 Piece 793 No.9482.

6. Society for Latin American Studies. Bulletein of the S.L.A.S. Supplement No.9 Summaries of the Papers presented in S.L.A.S. Conference of Birmingham (April 1981) p.7.
7. Petroleum Times Vol.1 No.16 (London 15th November 1981) Price Report pp.4-5.
8. Solberg, Carl. Oil Power (New York 1976) p.202.
9. Vallenilla, Luis. Oil:The Making of A New Economic Order (New York 1975) p.171.
10. Vallenilla, Luis. Oil:The Making of A New Economic Order (New York 1975) p.175.
11. To establish a price per crude oil barrel is rather difficult. Although O.P.E.C. suggest one at every meeting of the cartel, some of its members do not follow it and consequently there are a large variety of prices among the O.P.E.C. countries. Moreover, there are important oil exporters like Mexico and the North Sea exporting countries who are not O.P.E.C. members. Table No.13 gives prices from the following sources: Between 1st January 1973 and 1st April 1979; average price calculated by Time, taken from "O.P.E.C.'s "dangerous game." Time Vol. 113 No.15 New York 9th April 1979. The prices of 1st January 1972 and 1st September 1979 are the prices established by Saudi Arabia, taken from Financial Times 21st November 1979. Prices of 1st January and 1st April 1980 are the average between seven different countries; calculated from information given by The Times 4th January 1980 and Financial Times 16th April 1980, 1st January 1981 and 1st July 1981 are average prices given by the respective newspapers. Financial Times 10th January 1981 and The Times 14th August 1981. Apart from the New York Times, the others are cutting papers photocopied and delivered by McCarthy Information Ltd.
12. The graph No.5 is taken from "Oil Greases the Skids for World Economy" Fortune Vol.102 No.3 Chicago 11th August 1980. Put up to date with information from The Times 14th August 1981.
13. Sunday Times 27th July 1980 (photocopy of McCarthy Information Ltd.).
14. The Economist 31st January 1981 (photocopy of McCarthy Information Ltd.).
15. Financial Times 10th January 1981 (photocopy of McCarthy Information Ltd.).
16. The Times 14th August 1981 (photocopy of McCarthy Information Ltd.).
17. The Times 24th June 1926 p.21.

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18. The policy which "Locarno" established was continued during the following years. Particularly important for us was de "Dewes Plan" according to which Germany had to pay what it was able to (1924). The plan receives its name after Charles G. Dewes (1865-1951) chairman of the board of financial experts who studied the problem. Dewes was eventually awarded the 1925 Nobel Peace Prize jointly with Sir Austin Chamberlain and became US vice-president 1925-1929.
 19. Both books of Ludwell Denny, We Fight for Oil (London 1928) America conquers Britain (London 1930) are a summary of all what the mass media reported about the alleged danger of war.
 20. F.O. 371 Piece 10653 No. 2612.
 21. Despatch to HM's Ambassador at Washington enclosing a Memorandum on the Petroleum Situation Cmd. 1351 (London 1921) p. 4.
 22. Mexican Government El Petróleo de Mexico (2nd Edition Mexico City 1963). The Mexican private oil companies were nationalised in March 1938. In 1937 the oil produced in Mexico was obtained by the following concerns.

Shell Group	60.4%
Standard Oil (New Jersey)	14
Continental Oil Co.	7.1
Cities Services	5
Seabord	2.8
South River Oil Co.	1.4
Consolidated Oil Co.	0.5
Standard Oil (New York)	0.3
South Pennsylvania Oil Co.	0.2
*Petromex and other companies	8.3

* (Petromex was a State Owned company controlled by the Mexican government. Had been founded by President Ortez Rubio 1930-1932. The other companies produced less than 0.1% of the Mexican output each. Among them there were powerful corporations like Standard Oil (California), Texaco and Gulf).

Note 90 in page 84.

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