

6931A
X 6

ABSTRACT

PETROLEUM, VENEZUELA, AND THE UNITED STATES:
1920-1941

By

David Lawrence Taylor Knudson

This dissertation is an economic history of Venezuelan and United States national petroleum policies and of commercial diplomacy conducted between the two countries from 1920 to 1941.

Initially, the study examines the Venezuelan political economy during the twilight years of the 1908-1935 dictatorship of General Juan Vicente Gómez. It was during this period that petroleum exports became the dominant force in the Venezuelan economy. At the death of Gómez, the Venezuelan national treasury was full, but the Venezuelan people were numbed by repression and destitution. In a brilliant series of political maneuvers, the Minister of War, General Eleazar López Contreras, securely established himself as President. In miraculous contrast to past regimes, the new government instituted progressive, nationalistic policies. Because normal means to increase taxes were prohibited under old petroleum concession contracts, the Venezuelan government appreciated the bolívar to squeeze additional foreign exchange out of the prosperous petroleum companies. This policy enabled the Venezuelan government to purchase more foreign imports with its petroleum revenues, but also created an economy in

David Lawrence Taylor Knudson

which local industry had to be subsidized by government grants and protective tariffs.

Because Venezuelan petroleum production was dependent on foreign demand, the López Contreras administration carefully watched developments which would adversely affect its royalty interests. Consequently, the high probability of increased U.S. petroleum import taxes led the Venezuelan government to request bilateral trade negotiations in 1936. Due to political conditions in the U.S., the Department of State delayed initiating negotiations until 1937. Then without consulting either the U.S. Congress or the domestic petroleum industry, the Department of State decided unilaterally that a petroleum import tax reduction had to be made. This action seriously disrupted the prorationing system which oil states and domestic petroleum producers had established to promote conservation and to stabilize oil prices.

When the petroleum tariff concession granted in the 1939 Venezuelan Reciprocal Trade Agreement was announced in the United States, a storm of protest erupted. At first the Department argued that the petroleum tariff concession was inconsequential. A surge of imports soon disproved this argument. After 1940 the new official policy justification, which had been supplied by Standard Oil Company of New Jersey, was that foreign heavy crude oils were supplementary to U.S. crudes and that foreign fuel oil saved U.S. petroleum reserves for better future use. This excuse was used because, by this time, the Department of State was struggling

David Lawrence Taylor Knudson

to justify expanded petroleum imports from Latin American countries. During World War II, Mexican and Venezuelan friendship was bought with U.S. petroleum tariff concessions. These Department of State decisions illustrate what U.S. national petroleum policy had always been: an unsystematic, stop-gap effort to solve impending crises. Despite warnings from domestic industry spokesmen, the Department failed to recognize the long-term consequences of its precipitous petroleum tariff action.

Basic research data was gathered from appropriate archival sources in the United States and Venezuela. In Washington, D.C., the National Archives and the libraries of numerous departments and institutions were used. In Caracas, Venezuela, various ministry and institutional libraries were used in addition to the National Library. In both countries, personal interviews were granted by key personnel involved in the subject of this study.

PETROLEUM, VENEZUELA, AND THE UNITED STATES:

1920-1941

By

David Lawrence Taylor Knudson

A DISSERTATION

Submitted to
Michigan State University
in partial fulfillment of the requirements
for the degree of

DOCTOR OF PHILOSOPHY

Department of History

1975

© Copyright by

David Lawrence Taylor Knudson

1975

To Kris with love,
To Venezuelans with respect

PREFACE

The purpose of this economic history is to explain the national petroleum policies instituted by the governments of the United States and Venezuela and to discuss the implications of trade diplomacy conducted between the two countries from 1920 to 1941.

I would like to thank a number of people who aided me in this study. I will always be indebted to the late Charles C. Cumberland who introduced me to Latin American history. For his understanding help and professional guidance, my deepest thanks are extended to my mentor Leslie B. Rout, Jr. The other members of my guidance committee, James H. Soltow, Madison Kuhn, and Donald Lammers, also contributed to the production of this work and to my understanding of history and historians.

During the research stages of this investigation, I received help and cooperation from many people. I would like to especially thank the staff of the National Archives of the United States. For helpful discussions and aid during my stay in Washington, D.C., I thank Robert Wales. Dr. Luis B. Mata G. aided me immensely by introducing me to a number of influential Venezuelans. In Caracas, Venezuela, special thanks go to Dr. Eduardo Jiménez Mujica, Señora Elvia Josefina Acero Galavis de Jiménez Mujica, Dr. Alfredo Jiménez Acero, Don Armando Emmanuelli A., Señora Yolanda de Emmanuelli, and

Dr. Juan Carlos Emmanuelli A. who were gracious hosts and instrumental in arranging valuable interviews. During my stay in Caracas, I also appreciated the hospitality of Señora Carmen Baute, Señorita Alexia Baute, and Capitán Pedro L. Rivas.

During the long preparation of this work, my wife endured countless hardships, struggled with me, and gave constant encouragement. To her I give most special thanks.

TABLE OF CONTENTS

CHAPTER	Page
LIST OF TABLES	vii
LIST OF FIGURES.	ix
1. THE TWILIGHT OF DICTATORSHIP: VENEZUELA DURING THE LAST YEARS OF GENERAL JUAN VICENTE GÓMEZ, 1918-1935.	1
The Venezuelan Political System	1
Coffee, Cacao, and the Traditional Agricultural Economy	7
Petroleum: The Twentieth Century Rediscovered Venezuela	13
National Income and the Budget.	20
Venezuelan Monetary Policy.	23
The Dictator Who Left Money in the Bank	29
2. A POVERTY OF OVERABUNDANCE: THE U.S. PETROLEUM INDUSTRY, 1920-1935.	31
Supplying the Growing U.S. Petroleum Market	31
Federal Government Attempts at Petroleum Conservation and Price Stabilization.	42
State Government Attempts at Petroleum Conservation and Price Stabilization.	51
The Effects of Government Regulation in Retrospect.	56
3. VENEZUELA IN TRANSITION: THE EARLY ADMINISTRATION OF PRESIDENT ELEAZAR LÓPEZ CONTRERAS, 1935-1937	61
A Political Tour de Force	61
Economic Measures to Insure Domestic Tranquility.	77
Conservative Pragmatism versus Political Populism	84
Assessment of the Political Administration of López Contreras.	92
4. THE BATTLE FOR THE <u>BOLÍVAR</u> : THE NATIONAL ECONOMIC DEVELOPMENT PROGRAM OF LÓPEZ CONTRERAS, 1935-1937.	95
The Campaign for Economic Recovery.	95
Maneuvers for Government Advantage.	101
A Second Front Against the Companies.	113
Consolidating the Venezuelan Import Trade Position.	116
Triumph in the Battle of the <u>Bolívar</u>	127
Monetary Policy in Review	134

CHAPTER	Page
5. PETROLEUM WITHOUT A COUNTRY: CONFLICTS ANTECEDENT TO THE FORMAL ANNOUNCEMENT OF RECIPROCAL TRADE NEGOTIATIONS, 1936-1938.	136
Protecting a U.S. Export Market	136
Greasing the Gears of Diplomacy	141
The Defeat of the Petroleum Protectionists.	146
A Green Light for Negotiations.	153
The Work of a Master Diplomat	159
The Fruits of Persistence	166
6. THE GATHERING STORM AND TRADE DIPLOMACY: FORMAL NEGOTIATION OF THE VENEZUELAN RECIPROCAL TRADE AGREEMENT, 1938-1939. . .	168
U.S. Public Reaction to Formal Negotiations	168
Continued Negotiations in Caracas	175
Trade Diplomacy in a Changing World	179
A Breakthrough.	184
Serious Bargaining at Last.	190
Tying the Final Knots	196
Assessing the U.S.-Venezuelan Reciprocal Trade Negotiations	201
7. SAVING TOMORROW'S OIL: THE EFFECT OF THE VENEZUELAN RECIPROCAL TRADE AGREEMENT ON THE U.S. PETROLEUM INDUSTRY, 1939-1941.	205
An Investigation of Monopoly.	205
A Storm of Protest.	212
A Flood Tide of Petroleum Imports	220
The Problem of Mexican Oil.	228
A Mortgage with Balloon Payments.	234
8. SUMMARY AND CONCLUSIONS.	237
APPENDIX: PROCLAMATION BY THE PRESIDENT OF THE RECIPROCAL TRADE AGREEMENT BETWEEN THE UNITED STATES OF AMERICA AND THE UNITED STATES OF VENEZUELA, SIGNED AT CARACAS, NOVEMBER 6, 1939	243
BIBLIOGRAPHICAL ESSAY.	259
United States Archival Sources.	259
United States Government Publications	260
Venezuelan Government Publications.	261
Secondary Sources	262
Periodical and Newspaper Sources.	269
Personal Interviews	269

LIST OF TABLES

Table	Page
1. Production, Price, and Value Indices of Coffee and Cacao, 1918-1935	8
2. Venezuelan Agricultural Exports, 1918-1935	10
3. International Trade of Venezuela, 1918-1935	18
4. Venezuelan Government Petroleum Income and Estimated Petroleum Gross Export Value, 1922-1935	19
5. Actual and Projected Income and Expenditures of the Venezuelan National Government with Treasury Balance	22
6. U.S. Demand for Gas and Fuel Oil, and Gasoline, 1926-1935	33
7. U.S. Domestic Production of Petroleum, Total and by Major States, 1920-1935	34
8. Annual Changes in U.S. Petroleum Demand, Supply, and Crude Oil Prices, 1920-1935	40
9. U.S. Imports of Venezuelan Crude Oil, Netherlands West Indies Crude Oil, and Netherlands West Indies Refined Petroleum Products, 1928-1935	58
10. Dollar to <u>Bolívar</u> Conversions by Petroleum Companies During 1935	98
11. U.S. Exports to Venezuela	136
12. U.S. Tariff Commission Report on 1936 U.S. Petroleum Situation	151
13. Effect of <u>Bolívar</u> Appreciation on the Venezuelan Tariff	157
14. Costs of Major Food Items as a Percentage of Venezuelan Market Prices	203
15. Percentage Ownership or Control by Major Companies	206

Table	Page
16. A Comparison of Venezuelan Crude Oils from Major Fields . . .	215
17. Venezuelan Petroleum Production and Export Trade in 1939 . .	221
18. Mexican Petroleum Exports	230
19. Potential Customs Quota Shares by Country	232

LIST OF FIGURES

Figure	Page
1. Caracas Bank Rates of <u>Bolivar</u> /Dollar Exchange Values, 1914-1936	27

CHAPTER 1

THE TWILIGHT OF DICTATORSHIP: VENEZUELA DURING THE LAST YEARS OF GENERAL JUAN VICENTE GÓMEZ, 1918-1935

The Venezuelan Political System

Unstable political conditions characterized the chaotic history of nineteenth and early twentieth century Venezuela. Bitter regional and personal rivalries resulted in numerous rebellions and revolutions which divided the country. The nineteenth century Venezuelan state did not exist as a well-defined geographic entity governed by a centralized government.¹ Only the emergence of a personalistic strongman, or caudillo, brought Venezuela transitory order and stability. This phenomenon occurred only twice during the 1800s and each time only after Venezuela had depleted almost all of its political, military, and economic energies. The first occurrence took place after Venezuela's exhausting sacrifices in the struggle for South American independence. José Antonio Páez brought relative peace between 1830 and 1846.² The second period of tranquility came after the bloody federal civil

¹The same general comment might describe territorial disorder which took place in the United States during its expansion across the North American continent and during the 1861-1865 Civil War. This relative degree of American disorder, however, is not comparable to the continuity of Venezuelan political instability.

²Robert L. Gilmore, Caudillism and Militarism in Venezuela, 1810-1910 (Athens: Ohio University Press, 1964), pp. 14-15.

war (1859-1864) when Antonio Guzmán Blanco established himself as the national caudillo from 1870 to 1888.³ Only after these strongmen grew too old to carry out effective personalismo leadership did "trusted" subordinates assert themselves against their chiefs and plunge Venezuela back into the chaos of conflicting political ambitions.

The rise to power of General Juan Vicente Gómez typified this pattern of caudillism and opportunism in Venezuelan politics. As a trusted lieutenant in the Revolution of 1899, Gómez followed General Cipriano Castro from the high Andean region in western Venezuela to the national capital in the central part of Venezuela. Previously, the caraqueño elites who held power in Caracas had little regard for the uncultured andinos. The transfer of power to the men from the mountains was a fact which forced recognition that population growth and economic prosperity in the western cattle and coffee region had outstripped the growth of old central Venezuela.⁴ A different geographical region represented by General Cipriano Castro and General Juan Vicente Gómez now controlled Venezuela.

Unfortunately after the andino victory, the new leadership found that preceding administrations had followed the traditional practice of borrowing and commandeering funds in order to finance national government expenses. In addition to a large domestic debt, foreign investors and Venezuelan political leaders had worked together to

³George S. Wise, Caudillo: A Portrait of Antonio Guzmán Blanco (New York: Columbia University Press, 1951), pp. 77-110.

⁴Domingo Alberto Rangel, El Proceso de Capitalismo Contemporáneo en Venezuela (Caracas: Universidad Central de Venezuela, 1968) pp.69-72.

saddle the nation with a large outstanding foreign debt. A single English loan is illustrative of the kinds of obligations for which the Venezuelan government was responsible. In return for a bonded debt liability of £1,500,000, the Venezuelan government received £300,000. Antonio Guzmán Blanco, who arranged the loan, received between £75,000 and £175,000.⁵ The inability of the disorganized nation to service these onerous debts, coupled with President Cipriano Castro's defiant attitude toward major European creditors, resulted in debt non-payment. This precipitated the famous Venezuelan debt controversy of 1902-1903. A diplomatic settlement formalized in the 1903 Washington Protocols and the 1905 Diplomatic Debt solved the crisis by scaling down the debt and refinancing interest payments with hypothecated funds from the customs houses. These actions only continued to carry the nearly bankrupt national government on the books of her creditors. As of January 1, 1909, the Venezuelan government owed Bs210,000,000 (\$40,000,000). Foreign lenders held 75% of this debt. Scarcely Bs1,000,000 (\$200,000) was in the Treasury. Annual national government income amounted to Bs50,000,000 (\$10,000,000).⁶ Obviously the Venezuelan government was in very poor financial condition.

When ill health forced President Castro to leave Venezuela in

⁵ Harry Bernstein, Venezuela and Colombia (Englewood Cliffs: Prentice-Hall, Inc., 1964), p. 46 and George S. Wise record approximately the same transaction, Caudillo, pp. 154-155. Guzmán Blanco did not keep exact records of how much he took as his share of the national loan.

⁶ Venezuela, Ministerio de Fomento, Dirección General de Estadística, Anuario Estadística de Venezuela, 1938 (Caracas, 1939), pp. 422-423. This reference will hereafter be referred to as AE de V with appropriate year and page. Ministerio de Hacienda, Historical Sketch of the Fiscal Life of Venezuela (Caracas, 1924), pp. 48-51.

November, 1908, to seek medical attention in Europe, his trusted subordinate General Gómez was more than ready to take his place. Only three weeks after Castro's ship had steamed over the horizon, Gómez seized power. Immediately the Venezuelan politician sought to stabilize his shaky government by requesting foreign assistance. To get it, he cleverly sent proposals, which announced his willingness to settle outstanding international questions, to all foreign legations in Caracas. To strengthen his position against the still dangerous local supporters of deposed President Castro, the new leader even requested that an American warship be sent to La Guaira "in prevision of events."⁷ After experiencing the anti-foreign pyrotechnics of the nationalistic Castro, foreign creditors breathed a sigh of relief with the appearance of a new Venezuelan leader. They hoped that he would prove to be more amenable to their interests. Thus, when Castro attempted a return to power in Venezuela, he found himself blocked by the concerted efforts of the major world powers and the new Venezuelan government.⁸ Cautious hopes for political and financial peace under Gómez were largely fulfilled during the next twenty-seven years of Venezuelan history.

The new dictator "El Benemérito", the Worthy One, applied practical political experience he had learned during his apprenticeship under General Castro. There were to be no trusted lieutenants under Gómez; no one was above suspicion. While Gómez did place his sons, relatives,

⁷ J. Fred Rippy and Clyde E. Hewitt, "Cipriano Castro, 'Man without a Country,'" American Historical Review, LXV (October, 1949), 39.

⁸ Ibid., 52.

and closest andino associates in positions of power, his need to trust them was largely offset by assigning their personal rivals to nearby posts.⁹ With all the privileged individuals constantly informing on each other and with their only claim of authority based on direct linkage to the dictator, there was little chance that an effective golpe de estado or coup could be organized to overthrow Gómez. In addition, gomecista officials were rotated on an irregular basis to different posts in order to limit their ability to conspire effectively. After the bloody 1923 assassination of Juancho Gómez, Vice President and brother of Juan Vicente, and the exile of the instigator of the killing, José Vicente Gómez, Inspector General of the Army and son of the dictator, members of the family realized the prohibitively high cost of conspiracy and concentrated on more lucrative, safe activities.¹⁰ Thus, members of the power elite found good health and fortune tied directly and only to Gómez.

The general public acceded to the dictatorial regime because of the strength of the andino-dominated army and secret police. The constitutional requirement that no president succeed himself was subverted in the traditional Venezuelan manner. Twice the public title of "President" was surrendered by the dictator with great fanfare. He stepped down to become the General in command of the army. Thus, when the Gómez-controlled national Congress appointed Presidents Victorino Márquez

⁹William D. Marsland and Amy L. Marsland, Venezuela Through its History (New York: Thomas Y. Crowell, 1954), pp. 69-70; Personal interview with Dr. Arturo Uslar-Pietri, Caracas, August 24, 1971; and José Pareja y Paz Soldán, Juan Vicente Gómez, Un Fenómeno Telúrico (Caracas: Avila Gráfico, 1951), pp. 69-70.

¹⁰Thomas Rourke, Gómez, Tyrant of the Andes (New York: William Morrow & Co., Inc., 1936), pp. 200-203

Bustillos (1914-1922) and Juan Bautista Pérez (1929-1931), the two men held power in title only.¹¹ The legal sleight-of-hand with the Constitution gave General Gómez full control over the Venezuelan Army while his "superior," the President, served as a rubber stamp.¹² Anyone who protested the political gimmicks was subject to secret police arrest as a subversive.

With the Church and Congress impotent and the Army loyal to its commander, the only opposition to Gómez was composed of ambitious exiles and a small group of young intellectuals. While attempts of exiled leaders to overthrow Gómez proved to be pathetically inept, a rebellion in Caracas in 1928 organized by university students and military cadets came surprisingly close to controlling the capital and perhaps even deposing the dictator.¹³ But this uprising also failed and the instigators were either imprisoned or exiled. Even General Eleazar López Contreras, who had proved his loyalty by personally snuffing out the rebellion, was sent to a frontier outpost under close surveillance. In putting down the rebellion, he had been forced to jail his own son

¹¹ Ibid., p. 253 and p. 255; Arellano Moreno, Mirador de la Historia Política de Venezuela (Madrid: Editorial Mediterráneo, 1968), pp. 29-30 and pp. 45-57; and Edwin Lieuwen, Venezuela (Buenos Aires: Editorial Sudamericana, 1964), p. 62.

¹² Rourke, Gómez, p. 253; Moreno, Historia Política de Venezuela, pp. 47-49; and Lieuwen, Venezuela, p. 62.

¹³ Rourke, Gómez, p. 228; Rómulo Betancourt, Venezuela, Política y Petróleo, 3rd ed. (Bogotá: Editorial Senderos, 1969), p. 89; María de Laurdes Acedo de Sucre and Carmen Margarita Nones Mendoza, La Generación Venezolana de 1928 (Caracas: Ediciones Ariel, 1967), pp. 85-94; John D. Martz, "Venezuela's Generation of '28': The Genesis of Political Democracy," Journal of Inter-American Studies, IV (January, 1964), 19.

who was a conspirator in the plot.¹⁴ The university was closed; the military school was moved to the town of Maracay near Gómez's country estate; and for all practical purposes the national seat of the government from early 1928 to late 1935 was transferred to Maracay.¹⁵ The 1928 rebellion was the last and only real threat to the rule of Gómez. Admittedly, the gomecista dictatorship was cruel and corrupt, but Juan Vicente Gómez's Machiavellian manipulation of his political system was little short of brilliant. He knew Venezuela, what to expect from his countrymen, and how to rule with an iron fist.

Coffee, Cacao, and the Traditional Agricultural Economy

The Venezuela which was so subservient to the will of Juan Vicente Gómez was an underdeveloped tropical agricultural society. Coffee, cacao, and animal skin exports earned the foreign exchange necessary to pay for imported foodstuffs and manufactured goods. During Gómez's long rule, however, his administrative activities were aimed at increasing his personal wealth rather than developing the nation's economic potential.¹⁶ President Gómez's personal monopolies, as well as those of his family and associates, extended throughout the agrarian economy to collect tribute.¹⁷ Since taxes (predominantly customs revenues) were largely committed to servicing the huge national debt,

¹⁴ Eleazar López Contreras, Proceso Político Social, 1928-1936 (Caracas: Editorial Ancora, 1955), p. 4.

¹⁵ Rourke, Gómez, pp. 201-203.

¹⁶ Ibid., p. 283.

¹⁷ Ibid., pp. 209-210.

the Treasury could not adequately support the Venezuelan civil service system. Graft was inevitable. Under the dual effects of the gomecista monopoly system and universal graft, Venezuela's economic development was seriously retarded.

Because the dictatorship lasted from 1908 to 1935, the Venezuelan agricultural economy underwent great change in spite of the rule of Gómez. This was especially true during the last years of the regime between 1918 and 1935. Table 1 shows the severe fluctuations which took place in price, quantity, and crop value of coffee and cacao.

TABLE 1
PRODUCTION, PRICE AND VALUE INDICES OF COFFEE AND CACAO,
1918-1935
(Base Year 1913=100)

Year	Coffee Production	Coffee Price	Coffee Crop Value	Cacao Production	Cacao Price	Cacao Crop Value
1913	100	100	100	100	100	100
1918	62	75	46	110	71	79
1919	127	142	180	111	140	155
1920	52	147	78	98	140	138
1921	86	89	76	122	67	82
1922	81	103	83	117	84	98
1923	72	114	82	125	76	95
1924	85	142	120	97	75	73
1925	83	180	150	128	91	117
1926	67	177	118	84	89	75
1927	79	156	123	95	113	108
1928	59	168	100	112	95	106
1929	100	160	160	118	82	96
1930	73	111	81	90	76	68
1931	87	90	77	90	66	60
1932	76	91	69	89	53	48
1933	53	76	40	98	38	37
1934	71	55	40	78	32	25
1935	83	45	37	84	32	27

Source: AE de V, 1938, pp. 182-183.

Comparison of coffee crop figures between 1913 and 1918 illustrates how wartime market disruptions and transportation shortages adversely affected the value of Venezuelan agricultural exports. While favorable price recovery did occur in 1919 and 1920, prices fell off in the post-war 1921-1922 recession. Coffee production stabilized in the years between 1923 and 1929 at quantities generally lower than before the war, but higher prices for the Venezuelan mild coffee yielded favorable crop values.¹⁸ Cacao production and prices were more erratic and less favorable during the 1923-1929 period. In the world market, competition in coffee (caused by vast Brazilian production) and cacao (due to a demand change from high grade Venezuelan cacao to cheaper, low grade cacao) markets threatened the value of future Venezuelan crop exports.¹⁹ With the onset of the Great Depression Table 1 shows that the demand for these luxury crop exports fell off considerably. A 50%-60% drop in bolívar prices occurred between 1929 and 1934. Considering that the bolívar's foreign exchange value dropped 40% in this same period, it can be understood that the agricultural industry which employed the vast majority of Venezuelan laborers had collapsed completely.²⁰

The importance of agriculture to Venezuela is revealed in the 1918-1935 export figures shown in Table 2. During the early years of

¹⁸ AE de V, 1938, p. 182.

¹⁹ Vernon D. Wickizer, Coffee, Tea and Cacao (Stanford: Food Research Institute, 1951), pp. 27-32 and p. 270; and Kvar Erneholm, Cacao Production of South America (Göteborg: C.R. Holmqvists Boktryckeri, 1948), p. 114.

²⁰ AE de V, 1938, p. 419.

TABLE 2

VENEZUELAN AGRICULTURAL EXPORTS, 1918-1935
 (Percentage of Total Exports
 Calculated in Bolívares)

Year	Coffee	Cacao	Animal Skins
1918	38	19	5
1919	59	15	10
1920	39	21	7
1921	48	15	3
1922	51	18	3
1923	44	15	3
1924	47	9	2
1925	38	9	2
1926	25	5	2
1927	23	6	2
1928	14	4	2
1929	17	3	1
1930	9	2	1
1931	10	2	0
1932	9	2	0
1933	5	1	0
1934	5	1	0
1935	4	1	0

Source: AE de V, 1938, pp. 182-183 and p. 165.

the gomecista rule, the coffee and cacao crops comprised two-thirds to three-fourths of the total value of Venezuelan exports. Very quickly this export dependency on agricultural products changed drastically. Until 1925, the total value of Venezuelan exports closely mirrored the level of coffee-cacao prices and production even though from 1923 onward the percentage share of agricultural exports dropped relative to total exports.²¹ From 1918, coffee's share of total exports fell

²¹ Ramón A. Tovar, Venezuela, País Subdesarrollado (Caracas: Universidad Central de Venezuela, 1963), pp. 44-46.

in eight years from 38% to 25%. Simultaneously, the cacao export share fell from 19% to 5%. From this point on the decline was even sharper as seen between 1926 and 1935 when coffee's share tumbled from 25% to 4% and cacao exports almost disappeared by dropping from 5% to 1% of total exports. Clearly the agrarian share of the Venezuelan export economy had changed from one of dominance to one of minor participation.

All the while agricultural activity declined, the laissez-faire Gómez regime made only limited efforts to aid growers and crop exporters.²² In 1928 a mortgage bank was created to offer land holders financial help, but after 1929 the measure was inconsequential.²³ Devaluation of the pound sterling in 1931 and of the dollar in 1934, in conjunction with the resurgence of foreign investment in Venezuela during 1934, brought additional problems to agriculture.²⁴ The dollar exchange value of the bolívar had fallen 32% below official par between the years 1930 and 1932.²⁵ While coffee and cacao exporters of Brazil and Ecuador were aided by 50% and 53% devaluations in their respective currencies, the bolívar actually appreciated from a low of 13.1¢ in August, 1932, to a high of 31.2¢ in June, 1934.²⁶ Combined with the

²²Personal interview with Dr. Manuel Egafía, Caracas, August 30, 1971.

²³Rodolfo Luzardo, Notas Histórico-Económicas, 1928-1963 (Caracas: Editorial Sucre, 1963), p. 33; and Venezuela, Ministerio de Hacienda, Dictámenes de la Consultoría Jurídica, Vol. III (Caracas, 1941), p. 171.

²⁴AE de V, 1938, p. 420.

²⁵Ibid.

²⁶Ibid. and Erneholm, Cacao Production, p. 118.

low world market prices for coffee and cacao, the appreciated bolívar made coffee and cacao production extremely unprofitable in Venezuela.

To offset the debilitating effect of the currency appreciation, the influential Minister of Interior Dr. Pedro Tinoco hurriedly negotiated an emergency agreement with the banks and petroleum companies in August, 1934. The terms of the "Tinoco Convention" required the oil companies to support the commercial and financial demand of the banks for dollars by converting \$100,000 to bolívares each working day at an exchange rate of Bs3.91 instead of the existing free market rate of Bs3.06.²⁷ Any foreign exchange which oil companies supplied in excess of Venezuelan commercial needs, which would act to raise the value of the bolívar, had to be sold to the government at the gold import point (Bs3.06=\$1.00). Thus, a 27% export subsidy was given to both the petroleum companies and Venezuelan agriculturalists.

Late in December, 1934, the Gómez government offered additional aid to coffee producers who continued to suffer in spite of the exchange agreement. The plan was to supply a direct cash subsidy to

²⁷ D. F. Maza Zavala, Venezuela, Una Economía Dependiente (Caracas: Universidad Central de Venezuela, 1964), pp. 231-234. Maza Zavala considers the Convention to be a privileged concession to the petroleum companies to the direct detriment of the national economy. Actually the agreement was an emergency measure between the banks, petroleum companies, and the government. With no central banking institution available, Tinoco tried a rudimentary stop gap attempt at exchange control. Unfortunately for the Venezuelan economy, the devaluation of the pound sterling in 1931 and the dollar in 1934 was not offset by a devaluation of the Venezuelan bolívar. If the Venezuelans had made such a move, it would have lowered petroleum company foreign exchange costs needed to satisfy payment of bolívar royalties. The Venezuelan government followed a policy of maintaining a high bolívar exchange value to gain as much foreign exchange from the petroleum industry as it could. As a result domestic production costs rose dramatically.

coffee producers.²⁸ To spread the effects of the program to the smaller producers, the amount of aid offered was made inversely proportional to the amount of coffee produced. Grants were scaled down progressively as the size of the individual producer's crop rose. A total government allotment of Bs10,000,000 was budgeted for 1934 and an equal sum was allotted in 1935. Low world market prices and high Venezuelan production costs, however, rendered the crop support system completely inadequate. If the traditional source of employment and trade in Venezuela was to be saved, still greater aid was needed. Fortunately, non-agricultural activity developed between 1918 and 1935 which could finance a recovery program.

Petroleum: The Twentieth Century Rediscovered Venezuela

When the politically astute Gómez took power from Castro in 1908, he had a clear understanding of the importance of maintaining good relations with foreign interests. The stability of his regime against local Castro insurgents depended in part upon favorable opinions of himself held by governments of major world powers, the foreign creditors of the Venezuelan government, and potential developers of hydrocarbon deposits. This dependent relationship did not exist because foreign interests manipulated Venezuelan politics, but because Venezuela was a small nation in a world dominated by markets in and decisions by larger nations. Gómez, therefore, reacted to the realities of his world quite pragmatically. To gain foreign favors, one of the first

²⁸United States, National Archives, RG 151, Special Report No. 6, Commercial Attaché Frederick D. Grab (Caracas) to Department of Commerce, Bureau of Foreign and Domestic Commerce, January 25, 1936.

acts of his government in 1909 was to return hydrocarbon properties, which had been nationalized by General Castro, to the foreign-owned General Asphalt Company.²⁹ Compared to the anti-foreign discrimination Cipriano Castro had shown, Juan Vicente Gómez's attitude toward foreign investors was vastly more hospitable.

The new outlook was not completely detrimental to Venezuelan national interests. The reason Gómez was so benevolent toward foreign capitalists was because of the national government's direct participation in income generated from petroleum development. Because Venezuelan mining statutes were based on Hispanic law, all mineral rights over subsoil mineral and hydrocarbon deposits were owned by the nation, and not by the surface owner as under Anglo-Saxon law.³⁰ Mineral exploitation was authorized by the government through contract concessions to developers who supplied operating expertise and capital. Sale of concession contracts to the highest bidder (or briber) meant that registration fees, exploration and exploitation taxes, and production royalties could be funneled into the depleted national Treasury (or into the hands of the favored). This infusion of much-needed revenues to the national government of the impoverished country was the factor which broke the nineteenth century pattern of chronic economic and political instability which extended into early twentieth century Venezuela.

²⁹ Edwin Lieuwen, Petroleum in Venezuela (New York: Russell & Russell, 1967), p. 12.

³⁰ Daniel Bendahan, La Legislación Venezolana sobre Hidrocarburos (Caracas: Bolsa de Comercio de Caracas, 1969), pp. 9-11.

The difficult question was how much financial enticement had to be given foreign entrepreneurs in order to have them develop unknown geological formations underlying the oil seeps and asphalt beds. The Castro government, which issued the first extensive leases over the large, unforeseen, Maracaibo oil pools in 1907, had been principally concerned with issuing concessions and collecting fees on exploitation of asphalt. Not knowing the extent of underground petroleum deposits and lacking an enviable financial and political history, the Castro government had been in no real position to bargain for favorable terms for the nation. Accordingly, the initial concession policies were set on a very favorable basis for foreign companies.

Extensive acreages obtained between 1900 and 1920 formed the basis for the first 40 years of exploration and production of Venezuelan petroleum reserves. Concessionaires paid extremely low royalty rates which varied from Bs2.00 per ton to percentage rates of 7.5% to 10% royalty in cash, or in kind. By comparison, contemporary petroleum developers in the United States paid an average royalty of 12.5%. Exploration and exploitation taxes of Bs1.00-2.00 per hectare (2.5 acres) were very low. No customs duties were assessed on materials used to develop the concessions. No taxes were levied on exports. Conservation controls to insure the efficient production of oil and natural gas were non-existent. The capital intensive refining phase of the industry was allowed to be established in the nearby islands of Aruba and Curaçao. Finally, the entire concession system was established by legal contracts for periods of thirty, forty, and fifty years. It was evident by the end of the first decade of the Gómez

regime that much oil and great profits were to be found in Venezuela.³¹

This was evident to more than the British-Dutch (Royal Dutch Shell) and American petroleum companies (Standard Oil of Indiana, Standard Oil of New Jersey, and Gulf Oil) which developed Venezuelan reserves. From the very beginning Venezuelans, acting for themselves and for the government, fought with the petroleum companies for a larger share of potential profits. According to law, concessions were supposed to be sold after competitive bidding had squeezed the highest offer out of prospective concessionaires. In practice, Venezuelan government officials did not always accept the best offer to the nation. Many of the concessions were sold to special friends of the regime. For example, a son-in-law of President Gómez named Julio Méndez made millions of bolívaes from illegally obtained concessions. The national petroleum company Compañía Venezolana de Petróleo operated as a dummy corporation set up to divert oil concession payments to favored gomecistas.³² Disposing of the mineral rights for concession areas was more profitable and less strenuous than raising and marketing cattle, coffee, or cacao.

To stimulate American and British interest in concessions, the wily President, who was knowledgeable of international major power rivalries, was not above employing ruses such as pretending to offer oil concessions to German economic interests.³³ Representatives of American and British

³¹Lieuwen, Petroleum in Venezuela, pp. 12-13, 24-25, 28-29, and 47-48. While the terms granted to petroleum developers were much more generous in Venezuela than in the United States, political and financial risk associated with operating in Venezuela was much higher than in the United States.

³²Ibid., pp. 36-37.

³³Ibid., pp. 35-36.

companies found themselves bidding on concessions while knowing that the legal statutes were being violated. No interested buyer could afford to find out that fraudulently marketed oil concessions would be later found to be "legally" sold. Under the dictatorship, legality was relative for both domestic political and foreign economic interests.³⁴ Those, who knew what the petroleum companies wanted and what Gómez wanted and who could act with "officially approved illegality," profited the most.

Because of the rich deposits, the industry expanded quickly. By 1928 the petroleum sector's development was easily seen in Venezuelan international trade figures. The country's total exports climbed 500% above the 1918 level. As illustrated by Table 3, the real phenomenon of Venezuelan foreign trade was the tremendous growth of petroleum exports. In 1918 petroleum products were only 3% of the total exports. Crude petroleum made up 42% by 1925 and by 1933 they were over 90%.

Seemingly by 1928 the value of Venezuelan total gross exports, Bs609.6 million, minus the value of imports, Bs416.6 million, should have given the nation a very favorable balance of trade. The nation's international economic position, however, had not benefited as greatly as the gross statistics for trade seemed to indicate. Foreigners held exclusive control over the petroleum industry. Actually, the

³⁴Rómulo Betancourt, who quotes Lieuwen extensively to describe how the international corporations came to possess Venezuelan oil, fails to clarify who instigated the fraud practiced under the dictatorship--Gómez or the companies? See Betancourt, Venezuela, Política y Petróleo, p. 70. It was politically popular to blame both parties in the agreements. See also Wayne C. Taylor and John Lindeman, The Creole Petroleum Corporation in Venezuela (New York: National Planning Association, 1955), pp. 25-26.

TABLE 3

INTERNATIONAL TRADE OF VENEZUELA, 1918-1935
(In Millions of Bolívares)

Year	Gross Exports	Non-petroleum Exports	Petroleum Exports	Gross Imports
1918	102.7	100.0	2.7	80.0
1919	258.7	256.1	2.6	186.0
1920	170.6	167.4	3.3	315.2
1921	133.6	121.8	11.8	95.5
1922	137.8	122.1	15.7	100.8
1923	156.7	128.0	28.7	152.7
1924	213.5	148.0	65.5	216.0
1925	330.0	192.5	137.5	303.7
1926	395.4	148.8	246.6	412.4
1927	444.1	163.3	280.8	363.6
1928	609.6	142.6	466.9	416.6
1929	778.6	185.5	593.6	452.9
1930	762.5	128.4	634.0	363.9
1931	651.6	103.8	547.8	210.8
1932	628.2	96.6	531.6	153.5
1933	617.5	64.3	553.2	143.6
1934	671.9	63.4	608.5	159.7
1935	711.7	62.4	649.3	225.2

Source: AE de V, 1938, p. 165.

net amount that the prodigiously favorable petroleum balance of trade yielded Venezuela in balance of payments was the sum of: (1) petroleum concession income, (2) petroleum exploration and exploitation surface taxes, (3) production royalties, and (4) local capital, labor, and business expenses. The total amount from these four sources was much less than gross petroleum export figures because of the inclusion of large company profits in gross export figures. In an attempt to make the national share of profits appear even smaller, the Venezuelan government created an additional distortion in petroleum import and

export figures. This was done by over-valuing petroleum exports during the Great Depression and including duty free petroleum company capital imports to swell import figures. Arguments based on this distortion were later used by the government to pressure petroleum companies for a larger share of the profits and for the right to tax capital imports. Table 4 presents data to give a clearer idea of the relative income participation obtained by the Venezuelan nation from petroleum exports. (Recognize that no figures exist to correct the inflated gross petroleum export value estimates made by the Venezuelan government.)

TABLE 4

VENEZUELAN GOVERNMENT PETROLEUM INCOME AND ESTIMATED
PETROLEUM GROSS EXPORT VALUE, 1922-1935
(In Millions of Bolívares)

Year	Petroleum Income	Gross Petroleum Export Value
1922	20	16
1923	25	29
1924	48	66
1925	75	138
1926	88	247
1927	108	281
1928	144	467
1929	154	594
1930	152	634
1931	99	548
1932	81	532
1933	92	553
1934	105	609
1935	138	639

Source: AE de V, 1938, p. 165; and Domingo Alberto Rangel, Capital y Desarrollo, Vol. II: El Rey Petróleo (Caracas: Instituto de Investigaciones Económicas y Sociales, 1969-1970, 1970), p. 137.

As shown in Table 4, government oil income rose substantially until 1929, but the gross value of petroleum exports continued to climb until 1930. Part of the divergence between government income and petroleum exports was caused by a curtailment of annual petroleum investment which had reached Bs208 million in 1929. The amount of investment in 1930 dropped to only Bs117 million and a year later fell to Bs50 million.³⁵ Lower petroleum investment meant a rapid decline in government petroleum concession sales. However, the rate and value of exported petroleum did not fall off so precipitously.

National Income and the Budget

As petroleum production and international trade increased, Venezuelan government revenues rose because of larger petroleum tax payments and rising customs receipts. The expanding customs tax collections were partly due to the national government's spending program. Government oil revenues could be spent to pay off foreign debts, to increase government gold stocks, or to expand existing government operations. Since Venezuela had little industry, almost all necessities had to be imported. With the rise in government payrolls and projects, Venezuelans could and did import these goods. This meant still higher government revenues from customs.

The new problem plaguing Venezuelan officials was how to plan budgets when the government unexpectedly received higher petroleum revenues each year. Responsible officials of the Ministry of Development (Ministerio de Fomento) and Ministry of Finance (Ministerio de Hacienda)

³⁵Rangel, El Rey Petróleo, p. 163.

had to estimate how much larger the next year's revenue would be and to plan how to spend it. During the petroleum industry's explosive expansion in the late 1920s and early 1930s, no group of economists could have projected accurate estimates as to what the whims of nature, the luck of the drill, and the world petroleum market would yield the national government in the form of tax revenues. To balance expenditures with revenues, budgets were expanded with supplemental authorizations as rapidly as new income surpassed initial forecasts. The resulting haphazard extraordinary budget supplements encouraged inefficient financial planning and graft.

As long as the oil industry continued to expand at an accelerated rate, Venezuelan officials had larger and larger margins for error in attempting to balance expenditures with income. Table 5 describes Venezuelan fiscal operations between 1917 and 1935. A comparison of income and expenditure projections with actual revenues and expenditures, shows that the government received and spent approximately 25% over its projected budget in 1917-18. By 1924-25 Venezuelan officials were spending and receiving income at a rate roughly 100% over the original projections. At this level of overspending, the original budget was practically meaningless. Fantastically, while government expenditures tripled between 1918 and 1928, the treasury balance grew from Bs34 million to Bs114 million. In spite of high spending and poor financial planning, oil revenues were filling the Venezuelan Treasury.

A tremendous crisis occurred when the optimistic government projections for income and expenditures continued into 1929. For the

TABLE 5

ACTUAL AND PROJECTED INCOME AND EXPENDITURES OF THE VENEZUELAN
NATIONAL GOVERNMENT WITH TREASURY BALANCE
(In Millions of Bolívares)

Fiscal Year	Projected Income	Projected Expenditures	Projected Balance	Actual Income	Actual Expenditures	Actual Balance	Treasury Balance
1917-18	44	44	0	53	53	0	34
1918-19	45	45	0	57	58	- 1	33
1919-20	49	49	0	101	68	+32	66
1920-21	60	59	+1	82	103	-21	45
1921-22	63	63	0	71	81	-10	35
1922-23	62	62	0	88	72	+15	51
1923-24	63	63	0	102	87	+15	66
1924-25	66	63	+3	120	115	+ 5	71
1925-26	69	66	+3	172	163	+ 9	80
1926-27	95	93	+2	182	179	+ 3	83
1927-28	112	111	+1	187	156	+31	114
1928-29	195	195	0	230	245	-14	100
1929-30	193	192	+1	255	264	- 8	92
1930-31	203	202	+1	210	261	-51	41
1931-32	150	145	+5	185	166	+19	60
1932-33	150	143	+7	172	162	+10	70
1933-34	150	142	+8	172	154	+17	87
1934-35	149	142	+7	203	179	+24	111

Source: AE de V, 1942, p. 412.

first time in seven years, the national government ran a deficit in 1928-29 and had to draw on the national Treasury. As income faded still more rapidly due to a decline in petroleum company investments and production during fiscal year 1930-31, the budget ran Bs51,000,000 in the red. The large deficit meant that the gold stockpile in the national Treasury shrank by more than 50%. Immediately, Gómez cashiered his official stand-in, President Pérez, and reassumed the

Venezuelan Presidency. To end the drain on the Treasury reserve, Gómez slashed government expenditures. Falling government payrolls and spending caused domestic commerce linked to the government to shrink drastically. In turn, this caused import demand and customs revenues to drop. Through the multiplier effect, the government austerity program threw the country into a deflationary economic spiral which severely depressed the Venezuelan economy.

As the economy collapsed, Gómez squeezed the country for revenues to refill the national Treasury. Incredibly, the government ran a surplus during the fiscal years 1931-32, 1932-33, 1933-34, and 1934-35. In addition, Gómez paid off a significant portion of the foreign debt.³⁶

Venezuelan Monetary Policy

To compound the economic difficulties created by the depression, Venezuela possessed no national central bank to stabilize the money supply or value of the bolívar. While the national government did issue gold and silver coinage, it did not circulate its own paper currency. The national money stock could be regulated only indirectly by the government since six private Venezuelan banks issued all bank-notes.³⁷ Although the Banco de Venezuela acted as fiscal agent for the government, the Treasury gold stockpile could not be used to back

³⁶ Rourke, Gómez, p. 257.

³⁷ Tomás Enrique Carillo Batalla, Moneda, Crédito y Banca en Venezuela, Vol. I, (Caracas: Banco Central de Venezuela, 1964), pp. 12-13; and Rafael J. Crazut, El Banco Central de Venezuela: Notas sobre la Historia y Evolución del Instituto, 1940-1970 (Caracas: Banco Central de Venezuela, 1970), pp. 30-31.

private banknote issues.³⁸ Gold coin from foreign countries circulated freely before 1933 and contributed to real money supply in an unknown amount.³⁹ To further complicate the money supply question, the government only controlled the maximum number of banknotes the private banks were authorized to print, and not the amount they actually chose to circulate.⁴⁰ In practice Venezuelan banks held almost 100% gold backing behind each bolívar banknote they issued. Counting government gold stocks with those controlled by private banks, circulating bolívar banknotes were supported by gold stocks in Venezuela worth 120% to 160% of the face value of the paper note.⁴¹ In a world where fractional gold backing or no gold backing was the rule among central bankers, the privately issued bolívar banknote was probably one of the strongest gold backed currencies in the world.

Having a strong currency, however, was not the same as maintaining adequate money supplies to stimulate domestic Venezuelan commerce. Unsupervised private commercial and financial transactions proved to

³⁸ Indicated by study of Banco de Venezuela, Banco de Venezuela Informes Semestrales between 1925 and 1940. See financial balance summary pages in these semi-annual reports of the private banking company.

³⁹ Interview with Dr. Ramón Tello, Caracas, August 26, 1971; and Rangel, El Rey Petróleo, p. 135. The latter work estimates gold in the hands of the people fell from about Bs50 million in 1927-29 period to zero in 1933 due to gold arbitrage.

⁴⁰ Banco de Venezuela, Informes Semestrales and AE de V, 1938, p. 301.

⁴¹ U.S., Department of Treasury, Division of Monetary Research, "Venezuela," (unpublished report, Washington, 1939), n.p. Actually, this interpretation of the gold stock available for banknote reserves was a misunderstanding on the part of U.S. Treasury experts. National and private bank gold stocks were not used for the same purpose in Venezuela. Bank gold could generate currency; Treasury gold could not.

be a serious drain on the money stock. Either gold or foreign exchange had to be used to cover foreign liabilities arising from purchases of imported goods and services. Private gold stocks in Venezuelan banks of emission were lowered when gold transferred to foreigners. As private gold reserves declined in Venezuelan banks of emission, these same banks curtailed liabilities to pay out their limited gold reserves by reducing banknote circulation and retrenching credit. If the national government did not spend petroleum revenues in Venezuela to offset the commercial gold losses (by transferring gold from the national Treasury account to the accounts of local depositors), the money supply would dwindle. And if the government spent its gold and the recipients placed this gold in foreign branch banks (which could not issue banknotes), this also diminished the available Venezuelan money supply. Thus, gold leaked from the Venezuelan monetary system if it was used for: (1) national Treasury gold reserves, (2) private gold hoards, (3) arbitrage transactions to European financial markets through Curaçao, and (4) foreign branch bank deposits.⁴²

As long as the gold leakage was offset by government gold expenditures and private foreign currency earnings, as during the 1920s petroleum boom, the Venezuelan monetary system could expand to service domestic needs. In 1918, for example, Bs21,000,000 were in circulation. By 1928, Bs87,000,000 in banknotes were in the hands of the public and commerce flourished as prices and imports rose. Unfortunately, when foreign exchange earnings and petroleum company gold expenditures

⁴²Interview with Dr. Ramón Tello, Caracas, August 26, 1971.

were reduced between 1929 and 1933, the Venezuelan banking system lost gold and was forced to contract money supply and credit. Coupled with the tremendous simultaneous reduction in government expenditures, the deflationary monetary policy crippled the Venezuelan economy; prices and imports fell. Throughout the 1918-1935 boom and bust period, Venezuela suffered from the absence of a central bank to ameliorate the swings in money supply.⁴³

The lack of a central bank also hurt the Venezuelan economy in the international exchange market. All foreign exchange operations were transacted by private banks, which were not effectively supervised by the government. The bank rate for the bolívar in international payment was determined by private bank supplies of foreign currency or the willingness to export gold to cover commercial accounts. The foreign banks, such as the First National City Bank and the United Holland Bank, which both worked closely with American and British-Dutch petroleum companies, conducted a very profitable business selling foreign exchange and directing gold arbitrage.⁴⁴

Figure 1 reveals how dramatically the bolívar/dollar exchange rate fluctuated between 1914 and 1936. The official parity between 1918 and 1933 was Bs5.20/\$1.00, but changed to Bs3.06/\$1.00 after January, 1933.⁴⁵

⁴³AE de V, 1938, pp. 275-285, and 298.

⁴⁴Interview with Dr. Ramón Tello, Caracas, August 26, 1971.

⁴⁵Carlos Miguel Lollett C., El Dólar Petróleo: un ensayo documental (Caracas: Bolsa de Comercio, 1962), pp. 42-43; and Milton Friedman and Anna Jacobson Schwartz, A Monetary History of the United States, 1867-1960 (Princeton: Princeton University Press, 1963), pp. 462-471.

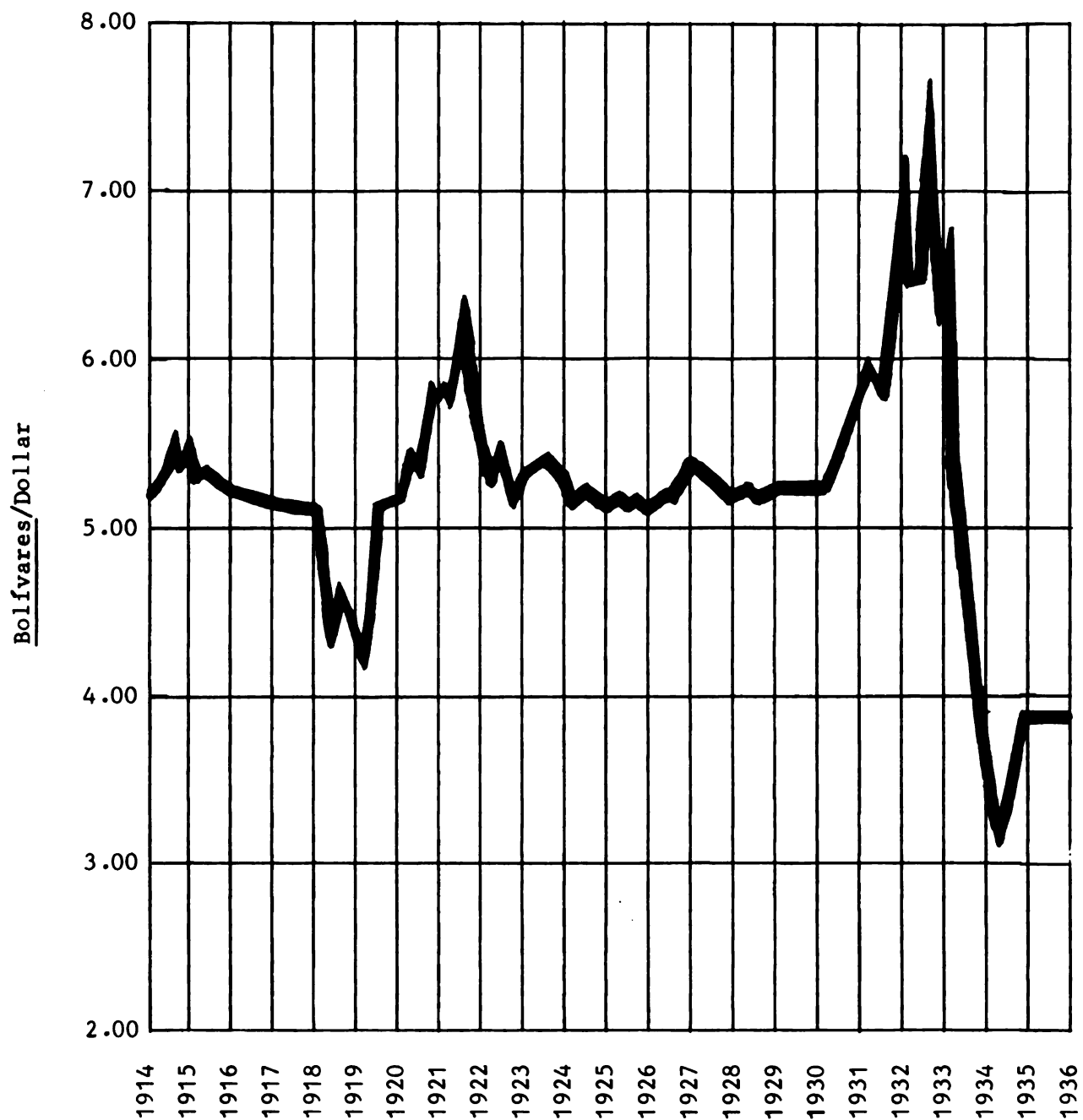


FIGURE 1

CARACAS BANK RATES OF BOLÍVAR/DOLLAR EXCHANGE VALUES,
1914-1936

Source: AE de V, 1938, pp. 419-420.

Value fluctuations in excess of official par (below Bs5.20/\$1.00) meant that Venezuelan demand for imports and financial services was less than the amount of gold or foreign exchange which the Venezuelan economy earned by exportation of goods and services or gained from foreign investment. Comparisons of the years in which the bolívar traded over par (1918, 1919, and 1934) all show significant petroleum investment expenditures.

During the years in which the bolívar fell below the official par value (above Bs5.20/\$1.00), the Venezuelan economy imported more than its exports and foreign investment could offset. The years 1920, 1921, 1931, and 1932 show a drop in the amount of petroleum company investments, export earnings, and the value of the bolívar. Before 1918 when the value of the bolívar was low, this indicated that the export value of coffee and cacao had been low. Once petroleum became the major Venezuelan export in the mid-1920s, the value of the bolívar no longer depended on the export value of agricultural crops. In 1934 and 1935 the crop values were low due to glutted world markets, but the bolívar's value was high. Petroleum company operations had driven the value of the bolívar up. Venezuela's agricultural competitors in the world market could produce tropical products and export them to traditional Venezuelan customers at much cheaper prices.⁵³ The situation deteriorated to the point where Venezuelan food production was endangered by the appreciated bolívar. It was cheaper to import food than to grow it in Venezuela. This crisis culminated in the Tinoco

⁵³ Erneholm, Cacao Production, p. 118.

Convention of 1934. Without a central bank or good bargaining position, this was the most effective measure which could have been taken to ameliorate the ruinous effects of the high exchange value.

The Dictator Who Left Money in the Bank

Any political assessment of the Gómez dictatorship is controversial. It was a regime that Laureano Vallenilla Lanz saw as necessary in Venezuelan development, and a cruel regime that Rómulo Betancourt rejected completely.⁵⁴ Criticism of the government's undemocratic nature, however, should be viewed carefully. Democracy was never practical in a country where 80% of the citizens were illiterate. The weak commitment that Juan Vicente Gómez made to educate and to develop the country, however, would never allow an observer to describe his dictatorship as enlightened.

Economically, Gómez' government continued international policies based on a nineteenth century free trade liberalism: unregulated international trade and the gold standard. Domestic economic policies were directed toward enriching Gómez, his family, and friends. The later assessments of the Gómez petroleum concession policy were overly critical considering the basis from which "El Benemérito" operated his government. No one effectively represented the "people" or the interests of the Venezuelan state during Gómez' rule, but in the history of Venezuela no president had ever represented this constituency. Opponents of his spoils system have always pointed out the corruption

⁵⁴ Betancourt, Venezuela, Política y Petróleo, pp. 25-97; Laureano Vallenilla Lanz, Cesarismo Democrático, 4th ed., (Caracas: Tipografía Garrido, 1961), p. 155; and Ernesto Wolf, Tratado de Derecho Constitucional Venezolano, Vol. I, (Caracas, 1945), pp. 289-295.

which robbed the nation, enriched foreign corporations, and favored gomecistas. Edwin Lieuwen, whose study Petroleum in Venezuela stands as the best economic history of the industry, clearly details the complaints of this group.⁵⁵ But those who make these undeniable criticisms should not ignore the fact that in the bargaining, buying, selling, bribing, and legalistic double-dealing, everyone involved in the Venezuelan oil industry got as much as they could get as cheaply as possible. To blame corporations for securing lucrative concessions or Juan Vicente Gómez for not obtaining more for the Venezuelan "nation," is to disregard the conditions under which the contracts were negotiated.

Venezuela was left a questionable legacy when the long-lived dictator died.⁵⁶ The national Treasury was full and the bolívar was sound. The petroleum industry, in which Venezuela and Venezuelans had perhaps a 20% profit participation, was expanding. Yet political questions had not been openly discussed for years and agriculture was in a state of decay. The army was the only organized institution. Who would rule Venezuela after "El Benemérito" died was undecided. Some cynics believed it was to be the petroleum companies.⁵⁷

⁵⁵ Lieuwen, Petroleum in Venezuela, p. 29. His discussion on p. 55 balances the contributions and shortcomings of the industry more objectively than all other accounts of the history of petroleum in Venezuela.

⁵⁶ New York Times, Editorial, December 19, 1935.

⁵⁷ Betancourt, Venezuela, Política y Petróleo, p. 97; and Lieuwen, Petroleum in Venezuela, p. 71.

CHAPTER 2

A POVERTY OF OVERABUNDANCE:

THE U.S. PETROLEUM INDUSTRY, 1920-1935

Supplying the Growing U.S. Petroleum Market

The great expansion of the Venezuelan petroleum industry between 1918 and 1935 was directly related to the simultaneous expansion of the oil market in the United States. This was the largest market for petroleum in the world.¹ Since almost all Venezuelan petroleum was exported, Venezuela needed access to external markets in order to expand production. The managers of international petroleum companies, which developed Venezuelan resources, worked to maximize profits by using low cost Venezuelan crude oil to supply the American market. With the onset of the Depression in 1929, this economic relationship came under heavy attack. United States domestic independent oil producers were more than able to supply the petroleum needs of the depressed American economy. The only chance for cooperation between the higher cost domestic oil production interests and the lower cost foreign oil production interests required both stable U.S. petroleum prices and maintenance of domestic producer dominance in supplying an expanding American market. These prerequisites for cooperation did not take place.

The growing demand in America for petroleum products which

¹ American Petroleum Institute, Petroleum Facts and Figures, 1937, 5th ed., (New York: American Petroleum Institute, 1937), p. 8 and pp. 56-60. Henceforth this source will be referred to as PFF, 1937 with the appropriate page citation.

occurred between 1920 and 1935 stemmed from the energy consumption of basic industries. After World War I a transitional period took place during which energy demand changed from solid hydrocarbon fuels (coal) to cheaper, more efficient liquid hydrocarbon fuels (gasoline, diesel and fuel oils).² Domestic demand for all petroleum products (exclusive of exports and bunker fuels for ocean shipping) grew from 429,000,000 barrels/year in 1920 to 614,000,000 barrels/year in 1923. By 1929 total requirements were 888,000,000 barrels/year.³ Much of this tremendous growth was associated with the rise of the gasoline-powered automobile as the personal transport vehicle of the prosperous American consumer. In 1920, 9.2 million motor vehicles were registered.⁴ Nine years later this total reached 26.7 million and each unit consumed much more gasoline than in 1920.⁵ Table 6 illustrates how demand for gasoline, gas and fuel oils rose between 1926 and 1929, declined between 1930 and 1933, and then began to recover in 1934.

A major problem confronting the managers of the petroleum industry was how to balance supplies of crude oil and refined products with the then current and future energy demands. Immediately after W.W.I. and continuing into the early 1920s, influential political and industrial leaders believed that there was going to be shortage of petroleum in

²Harold F. Williamson, The American Petroleum Industry, Vol. II: The Age of Energy, 1899-1959 (Evanston: Northwestern University Press, 1963), pp. 444-455.

³PFF, 1937, p. 205 and see column (6) for indicated domestic consumption.

⁴Ibid., p. 20.

⁵Ibid., and American Petroleum Institute, American Petroleum Industry (New York: American Petroleum Institute, 1935), p. 28.

TABLE 6
U.S. DEMAND FOR GAS AND FUEL OIL, AND GASOLINE,
1926-1935
(Millions of Barrels)

Year	Gas and Fuel Oil	Gasoline
1926	373	267
1927	382	305
1928	398	339
1929	411	383
1930	404	398
1931	358	408
1932	322	378
1933	329	380
1934	359	410
1935	395	435

Source: PFF, 1937, pp. 11 and 29.

the United States.⁶ Accordingly, they promoted an aggressive program of domestic exploration and production in the United States and in foreign countries in order to guarantee access to petroleum supplies for the future energy needs of the American Republic. It was realized by 1928-1929, however, that the oil shortage scare and the resulting scramble after profits had worked to: (1) encourage extensive exploration, (2) uncover rich new oil pools, and (3) swamp the U.S. petroleum market with excess production. This over-production existed even before the Great Depression contracted demand.⁷

⁶John Ise, The United States Oil Policy (New Haven: Yale University Press, 1926), pp. 406-418; Leonard M. Logan, Stabilization of the Petroleum Industry (Norman: University of Oklahoma Press, 1930), pp. 131 and 133; Gerald P. Nash, United States Oil Policy, 1890-1964 (Pittsburgh: University of Pittsburgh Press, 1968), pp. 43-47; and Williamson, The Age of Energy, p. 300.

⁷PFF, 1937, p. 79 illustrates the large increase in the number of wells and their increased rate of productivity between 1916 and 1929;

The source of this prolific petroleum expansion concentrated in three states: Texas, Oklahoma, and California. Table 7 shows that these three states produced 70% of the domestic production in 1920, 83% in 1929, and 79% in 1935. In absolute terms the total number of

TABLE 7

U.S. DOMESTIC PRODUCTION OF PETROLEUM,
TOTAL AND BY MAJOR STATES, 1920-1935
(Millions of Barrels)

Year	U.S. Total	Texas	% of Total	Oklahoma	% of Total	California	% of Total
1920	443	97	22	106	24	103	23
1921	472	106	22	115	24	113	24
1922	558	119	21	150	27	139	25
1923	732	131	18	161	22	263	36
1924	714	135	19	174	24	229	32
1925	764	145	19	177	23	233	30
1926	771	167	22	179	23	225	29
1927	901	217	24	278	31	231	26
1928	901	257	29	250	28	232	26
1929	1,007	297	29	255	25	293	29
1930	898	290	32	217	24	227	25
1931	851	332	39	181	21	189	22
1932	785	312	40	153	20	178	23
1933	906	403	44	182	20	172	19
1934	908	382	42	180	20	174	19
1935	997	393	39	185	19	208	21

Source: PFF, 1937, pp. 62-63.

G.R. Hopkins and A.B. Coons, "Petroleum," in U.S. Bureau of Mines, Mineral Resources of the United States, 1930, Part II, Non-metals (Washington: U.S. Government Printing Office, 1933), p. 777 reveals the great impact of production from rich oil field discoveries between 1925 and 1930; Myron W. Watkins, Oil: Stabilization or Conservation (New York: Harper and Brothers, 1937), pp. 40-45; and American Petroleum Institute, Petroleum Industry Hearings before the Temporary National Economic Committee (New York: American Petroleum Institute, 1942), pp. 300-305.

barrels produced rose for all three states between 1920 and 1929. After the Great Depression began, however, only Texas production continued to expand. By 1935 production in Oklahoma and California had dropped roughly 25%-30% below levels achieved in 1929.

Part of the reason for the Oklahoma-California downward trend resulted from the competitive advantage Texas Gulf crude had in production costs, but transportation costs also played a significant role. California oil had to be shipped by tanker through the Panama Canal to reach the major East Coast fuel oil and gasoline markets. Since the distance from the Texas Gulf Coast area to the New England markets was less than half the California haul, Texas crude was much more competitive than California crude oil and gasoline.⁸ After 1928 crude oil from Venezuela possessed similar transportation and production cost advantages over California petroleum.⁹ With strong Texas-Venezuelan competition, California producers lost East Coast markets and were forced to stockpile crude and fuel oil production at depressed prices.¹⁰ Oklahoma also suffered transportation cost and production cost disadvantages when compared to Texas and Venezuelan competition. Pipeline

⁸G.R. Hopkins and A.B. Coons, "Petroleum," in U.S. Bureau of Mines, Mineral Resources of the United States, 1929, Part II, Non-metals (Washington, D.C.: Government Printing Office, 1932), p. 476; and G.R. Hopkins and A.B. Coons, "Crude Petroleum and Petroleum Products," in U.S. Bureau of Mines, Mineral Resources of the United States, 1931, Part II, Non-metals (Washington, D.C.: Government Printing Office, 1933), p. 666.

⁹U.S., Congress, House, Report of an Investigation made by the United States Tariff Commission Relative to the Cost of Production of Crude Petroleum, Fuel Oil, Gasoline and Lubricating Oils, Produced in the United States and in Specified Foreign Countries, House Document 195, 72nd Cong., 1st sess., 1932, p. 1.

¹⁰PFF, 1937, pp. 123 and 127.

transportation costs for Oklahoma crude were higher than the tanker rates charged to move Texas and Venezuela products to the East Coast markets. Thus, Texas production came to dominate the domestic production by 1935.

Table 7 also illustrates the characteristic production growth by boomlets in California during 1923 and 1929, in Oklahoma during 1927, and in Texas during 1927, 1928, 1929, 1931, and 1933. These irregular and unforeseen floods of new crude oil gushed forth as rich oil fields were opened at flush production rates. These unanticipated surpluses depressed the price of petroleum and upset orderly development plans in the industry.

The price of crude petroleum was usually based on the available supply in relationship with the final market value of the refined finished products. Factors relating to the type of base, viscosity, and sulfur content also figured into computation of value. Generally the American Petroleum Institute (A.P.I.) gravity standard indicated the relative yield of heavy and light distillate products which were refined from a specific grade of crude oil.¹¹ Heavy grade API 17°-25° California and Venezuelan crude oils yielded high volumes of low value residual fuel oil and low volumes of high value gasoline. Lighter grade crude oils, API 30°-40° from the Oklahoma mid-continental field and the Texas Gulf Coast field, yielded higher volumes of gasoline

¹¹The API gravity system is the American Petroleum Institute's modification of the Baumé specific gravity system. Water equals 10° while gasoline equals 90°. Harold F. Williamson and Arnold R. Dawn, The American Petroleum Industry, Vol. I: The Age of Illumination, 1859-1899 (Evanston: Northwestern University Press, 1959), p. 206.

while producing low volumes of fuel oil.¹² Of all the possible distillate cuts, gasoline was by far the most profitable.

To take advantage of this, refiners tried to maximize gasoline output per barrel of crude oil. Product yield factors for the different distilled fractions from crude oil changed markedly as technological advances during the 1920s enabled the refining industry to greatly increase the production of high value products. Refiners employed thermal and catalytic pressure processes to crack longer chained hydrocarbons into shorter chains in order to increase the yield of lighter, more valuable products.¹³ In 1920 the U.S. average refinery yield by volume from an average barrel of crude oil was: gasoline, 26%; fuel and gas oil, 49%; kerosene, 13%; and lubricating oil, 6%.¹⁴ After widespread adoption of the technology of cracking, the U.S. national average refinery gasoline volume yield per barrel of crude reached 44% by 1931. This higher gasoline yield resulted from a 25% volume reduction in fuel oil and 50% reductions in the quantity of kerosene and lubricating oils.¹⁵ As a result of raising the gasoline yield, the cracking process reduced the amount of crude oil needed to satisfy total gasoline demands. In 1920 the quantity of crude oil conserved by the new refining process was 66 million barrels; by 1929 it reached 425 million barrels of oil "saved." Estimates in 1935 placed the crude oil demand reduction due to

¹²PFF, 1937, p. 117.

¹³Williamson, The Age of Energy, pp. 435-437; and Ronald B. Shuman, The Petroleum Industry (Norman: University of Oklahoma Press, 1940), pp. 70-71.

¹⁴PFF, 1937, p. 116.

¹⁵Ibid.

cracking at 100% of actual crude oil runs in refineries, or 946 million barrels.¹⁶

The effect of the cracking process was to virtually revolutionize the petroleum refining industry and to further upset the balance of crude oil supply to demand. This worked to the advantage of the large integrated corporation vis-a-vis the small, independent petroleum producing company. Large numbers of small independent producers and refiners had established themselves in the fabulous boom fields which were discovered in the late 1920s and early 1930s.¹⁷ Since the majority of these newly established, small-scale operators did not have a widespread marketing network, they sold their production to the larger integrated corporations which had extensive marketing facilities. Thus, unorganized small oil producers sold their crude in the oil field to the major petroleum companies which controlled the only pipelines out of the production area. Similarly, refined products (mostly gasoline) were sold by small refiners to those major corporations which supplied the only local transportation or marketing outlets. The numerous independents sold oil in a market in free competition with each other, while large corporations purchased oil in regionally controlled oligopsonistic markets. To maximize their advantage, large corporate managers rendered independent company production excessive to demand by: (1) altering refinery gasoline product yields to stockpile gasoline, (2) trading gasoline stocks with other major corporations, (3) importing cheap

¹⁶Ibid., p. 118.

¹⁷Ibid., pp. 79 and 113.

crude oil to displace higher cost domestic production, and (4) establishing large modern refineries in the Caribbean regions near foreign oil fields to export refined petroleum products to former U.S. foreign markets in Europe. When real overcapacity in oil production existed (as in the U.S. market during 1929-1933), intelligent corporate managers, who had control over cheap, foreign oil imports, large pipelines and tankers, modern refineries, and U.S. marketing facilities, could manipulate prices and profits to any of the integrated stages of the petroleum industrial process or to any area of operations. In the 1930s this worked to drive out of the industry many of the smaller independent producers and refiners who had entered in the oligopolistic industry during the boom period.

The cumulative effect of large corporate import-export activities, advances in refining techniques, and great expansion of independent production created conditions of overproduction, physical waste, and depressed prices. On the one hand, independent producers and small refiners blamed the monopolistic market practices of large corporate managers for their "lost" profits. On the other hand, the large corporate spokesmen cited uncontrolled productive expansion by independents as the chief cause of the price decline. The combination of supply and demand imbalance and the resultant drop in crude oil value are illustrated in Table 8.

The causes of the major crude oil price decline shown in Table 8 varied.¹⁸ One of the reasons that the price dropped so drastically

¹⁸ Note that crude oil prices are based on artificial national averages. Specific oil field price averages computed on a daily basis are too complex to be discussed briefly.

TABLE 8

ANNUAL CHANGES IN U.S. PETROLEUM DEMAND,
SUPPLY, AND CRUDE OIL PRICES, 1920-1935

Year	% Increase in Demand	% Increase in Supply	Price of Crude Oil (per barrel)
1920	NA	NA	\$3.07
1921	- 2	+ 6	1.73
1922	+14	+18	1.61
1923	+21	+31	1.34
1924	+ 4	- 3	1.43
1925	+ 4	+ 7	1.68
1926	+ 7	+ 1	1.88
1927	+ 1	+17	1.30
1928	+ 6	0	1.17
1929	+ 8	+12	1.27
1930	- 3	-11	1.19
1931	- 3	- 5	.65
1932	- 8	- 8	.87
1933	+ 3	+15	.67
1934	+ 5	0	1.00
1935	+ 6	+10	.97

The figure for demand is computed from comparison of the yearly changes in U.S. per capita consumption of petroleum. The percent increase in supply is computed from yearly changes in U.S. domestic petroleum production. The value of crude oil is the national average value/barrel at the well head. Note that the national average value for the period 1915-1926 was \$1.84/barrel.

Source: Data derived from PFF, 1937, pp. 7 and 63.

during the 1921-1922 recession was that major companies imported oil from Mexico into the U.S. market at a rate 20% above the 1920 rate.¹⁹ Since crude oil needs of these importing companies were reduced, production from independent U.S. producers became excessive. The price of

¹⁹ G.B. Richardson, "Petroleum," in U.S. Bureau of Mines, Mineral Resources of the United States, 1921, Part II, Non-metals (Washington: Government Printing Office, 1924), p. 253.

crude oil dropped almost 50%. In 1923 California oil glutted the market. Between 1923 and 1926 trouble with the reform-minded Mexican government caused imports from Mexico to drop over 60% (total U.S. imports dropped 39%).²⁰ While major petroleum companies transferred their production operations out of Mexico and into Venezuela (1923-1926), the price of crude oil rose in the American market.²¹ In 1927 Oklahoma oil flooded the market and crude oil prices collapsed from \$1.88/barrel to \$1.30/barrel. New production and imports from Venezuela began to have an impact in the American market in 1928. Consequently, the U.S. national average crude oil price dropped 10% in spite of a 6% increase in per capita demand with no associated domestic supply increase. In 1930 and 1931 a 20% increase in total petroleum imports (35% in refined oil products) resulted in still lower prices in the contracting market.²² Because of tremendous East Texas production in 1931 and rising imports, the national average price of crude oil crashed to \$.65/barrel. After a slight recovery in 1932, still higher production from East Texas

²⁰PFF, 1937, p. 108 shows the import decline. Discussion of the company problems with the Mexican government are found in: Wendell C. Gordon, The Expropriation of Foreign-Owned Property in Mexico (Washington: American Council on Public Affairs, 1941), pp. 49-54; Harold S. Person, Mexican Oil (New York: Harper & Bros., 1942), pp. 22-23 and pp. 39-43; Standard Oil Company (N.J.), Present Status of the Mexican Oil Expropriation, 1940 (New York: Standard Oil Company of New Jersey, 1940), pp. 5-17; Antonio J. Bermudez, The Mexican National Petroleum Industry (Stanford: Stanford University Press, 1963), pp. 7-9.

²¹PFF, 1937, p. 63. J. Richard Powell, The Mexican Petroleum Industry, 1938-1950 (Berkeley: University of California Press, 1956), pp. 14-16 points out that company drilling activity in Mexico did not fall off as rapidly as production. The attention of the major companies, however, had already turned to Venezuela by 1927. Edwin Lieuwen, Petroleum in Venezuela (New York: Russell & Russell, 1967), p. 39.

²²PFF, 1937, p. 157.

lowered the crude oil price back to \$.67/barrel.

At this level of depressed prices, most independent petroleum producers were being ruined. The vast majority of U.S. wells were "stripper" wells which pumped under two barrels per day.²³ When crude oil prices dipped too low, these marginal high-cost wells were abandoned.²⁴ Only those fortunate producers who had East Texas wells gushing hundreds and thousands of barrels per day could produce oil at \$.65/barrel and profit. In some cases, oil from these prolific wells was sold at \$.25/barrel and \$.10/barrel.²⁵ It was clear that a program had to be designed to save the industry from financial chaos resulting from cutthroat price competition.

Federal Government Attempts at Petroleum Conservation and Price Stabilization

As early as 1924 industry members sought to induce some form of governmental regulation of the petroleum industry to protect their investments. None of the private interest groups, however, wanted close supervisory control. Each group pressed for a particular regulatory policy which would benefit its own special interest. Industrial spokesmen, such as Henry L. Doherty (Cities Service Oil Company),

²³ Shuman, Petroleum Industry, pp. 49-50 and p. 271; PFF, 1937, p. 81 shows that the average production per well in the oil states varied considerably. East Texas averaged 169.2 barrels per day, while the national average per well was only 7.2 barrels per day.

²⁴ American Petroleum Institute, Petroleum Industry Hearings, p. 219 indicates the cost basis of the low production stripper wells; Watkins, Oil, pp. 49-50.

²⁵ PFF, 1937, p. 97; and Shuman, Petroleum Industry, p. 63. Also see American Petroleum Institute, Petroleum Industry Hearings, pp. 62-63 for information that high flowing wells would ruin stripper wells if not checked.

argued repeatedly that some government force had to bring sensible production practices to the industry in order to prevent a reckless waste of non-renewable natural resources.²⁶ As could be expected between 1924 and 1932, the contradictory interests of major companies, independent producers, and the federal government meant that no orderly plan for economic development of the petroleum industry was enacted.

The measures sponsored by the Calvin Coolidge administration (1923-1929) were unsuccessful for one basic reason. No one in the federal government really understood the complexities of the petroleum industry or the sources of its economic difficulties. To fill this information void, the Federal Oil Conservation Board (FOCB) was created on December 18, 1924.²⁷ The Secretaries of the Departments of War, Navy, Commerce, and Interior were to formulate a plan of government action to prevent a strategic shortage of petroleum in the United States.²⁸ Grossly lacking expertise in petroleum affairs, the FOCB soon became dependent on major corporate representatives for current data and future projections. In 1926 the Board estimated that only six years' supply of petroleum existed as proven reserves in the United

²⁶Stephen L. McDonald, Petroleum Conservation in the United States: An Economic Interpretation (Baltimore: Johns Hopkins University Press, 1971), pp. 35-36; and Wallace E. Lovejoy and Paul T. Homan, Economic Aspects of Oil Conservation Regulation (Baltimore: Johns Hopkins University Press, 1967), p. 63.

²⁷Nash, United States Oil Policy, pp. 84-85; Watkins, Oil, p. 42; and the New York Times, January 8, 1925, p. 9 and January 12, 1925, p. 27.

²⁸Nash, United States Oil Policy, p. 84.

States and that a dangerous shortage was near.²⁹ To promote domestic production expansion in 1926, federal income tax laws were consolidated to provide oil producing companies with a generous 27.5% gross income deduction as a depletion allowance.³⁰ Scarcely a year had passed when the same FOCB suggested to the American Petroleum Institute in 1927 that the new problem of overproduction ought to be examined. The FOCB now proposed that a program be organized to limit production to available market demand.³¹

Responding to this plan in April, 1929, an A.P.I. committee presented the FOCB with a proposal which recommended that the 1890 Sherman Anti-Trust Act be revised to permit industrial cooperative measures to end the overproduction problem. This was to be accomplished by restricting world production, dividing world markets, and curtailing U.S. domestic production to pre-arranged quotas.³² Independent producers opposed the plan because they feared complete major corporate control over the industry. The independents reasoned that state regulatory boards would be more understanding to their local interests than federal or big-business dominated conservation boards. Major corporations, on the other hand, generally favored federal controls

²⁹ Sebastian Raciti, The United States Oil Import Problem (New York: Fordham University Press, 1958), p. 15.

³⁰ John H. Lichtblau and Dillard P. Spriggs, The Oil Depletion Issue (New York: Petroleum Industry's Research Foundation, 1959), pp. 36-43. Previous to 1926 a more complicated system of tax write-offs existed for the benefit of petroleum producers; see pp. 26-35.

³¹ Nash, United States Oil Policy, pp. 93-95; and the New York Times, November 14, 1927, p. 33.

³² Watkins, Oil, p. 45.

which would further remove the regulatory system from the influences of petty, local bureaucrats. Under the ineffective leadership of President Coolidge, an aimless federal petroleum program vacillated from aggressive promotion of production to the opposite extreme of considering a monopolistic curtailment policy.

Herbert Hoover, who unluckily became the new President in 1929, inherited all of the petroleum industry problems generated during the Harding and Coolidge administrations. Soon after Hoover's inauguration, Attorney General William Mitchell indicated that it would be illegal for the FOCB to approve cooperative business efforts to manage the oil market.³³ Philosophically a conservative and strong advocate of laissez-faire policies, Hoover did not think that the federal government had the responsibility to intervene to stimulate the economy in spite of 1929 petroleum market disequilibrium. He had no desire to dismantle the existing anti-trust legal system. The legal opinion of the Attorney General re-enforced the President's belief that state governments had primacy over the federal government concerning intervention to regulate the economy. Accordingly, petroleum proposals espoused by the Hoover administration were very limited. Hoover advocated that oil producers and state governments should: (1) practice sound conservation methods to maximize efficiency, and (2) cooperate on a voluntary basis to reduce overproduction.³⁴

³³ Ibid., A.E. Mockler, "Compact is Believed Unconstitutional," Oil and Gas Journal, Vol. 28, part 1, (May 23, 1929), p. 37. This journal will hereafter be abbreviated OGJ; Williamson, The Age of Energy, pp. 529-532; and Logan, Stabilization of the Petroleum Industry, pp. 197-198.

³⁴ Nash, United States Oil Policy, pp. 100-101.

The trouble with Hoover's reasoning was that in the short run producers were simply too efficient. No producers were ready to step forward voluntarily to sacrifice their visible, short-term interest; in exchange for potential participation in some "right around the corner" prosperity. Hoover's idealistic plan was based hopelessly on cooperation and rationality. Neither concept prevailed in the cutthroat competition which characterized the oil business in the boom fields.

The constant increase of production from new oil fields forced the President to modify his plan calling for voluntary limitations, which he had formulated while serving on the FOCB. No new permits authorizing drilling on federally-owned lands were to be allowed. This March 12, 1929 measure was hoped to be an effective signal to the entire industry that productive expansion had to stop.³⁵ Because only 10% of U.S. domestic production flowed from wells on federal lands, however, the effect of the ban was almost nil in reducing new floods of crude oil.³⁶ Private lands and already issued drilling permits on federal lands were unaffected. The only real result of the ban was to end developmental activities in oil fields on federal lands of western states. No new drilling meant a decline in business activity, loss of jobs, and lower oil tax revenues in these states. In March, 1929, governors, state and federal legislators, and oil producers from these economically hard-pressed states were furious with President Hoover for

³⁵ Ibid., and Erich W. Zimmerman, Conservation in the Production of Petroleum (New Haven: Yale University Press, 1957), p. 187.

³⁶ Nash, United States Oil Policy, pp. 104-105; the New York Times, March 13, 1929, p. 1; April 3, 1929, p. 1; and June 11, 1929, p. 2.

promoting the faulty scheme at their expense.³⁷ Three months later at a June 10, 1929 conference of oil state representatives, tempers had still not cooled. Further hostility was stirred up when Hoover's representative to the conference, Mark L. Requa, boldly announced that if the states did not agree to solve the industry's problems quickly, the federal government would act unilaterally.³⁸ During the ensuing series of clamorous debates, nothing was accomplished because of the explosive atmosphere Requa had created. Moreover, the delegates had not been authorized sweeping dictatorial powers to commit their state oil regulatory agencies or governors to any joint program of action.³⁹ Hoover's opportunity to provide constructive leadership dissolved in acrimonious dissention.

Because the Hoover administration had proved to be ineffective, oil state interests turned to the U.S. Congress for economic aid. Domestic suppliers of petroleum were not the only sources which could be cut back to relieve the problem of overproduction. Measures to keep foreign oil out of the U.S. market were more universally popular with the domestic producers than any other program. A protectionist

³⁷ Nash, United States Oil Policy, pp. 101 and 104-105; the New York Times, March 24, 1929, p. 5 and June 14, 1929, p. 24; and Andrew M. Rowley, "Mountain States Oppose Permit Policy," OGJ, Vol. 28, part 1, (June 13, 1929), p. 40.

³⁸ Andrew M. Rowley, "Rigid Regulation Requa's Alternative," OGJ, Vol. 28, part 1, (June 13, 1929), p. 29; and the New York Times, June 11, 1929, p. 2.

³⁹ Watkins, Oil, p. 47; Logan, Stabilization of the Petroleum Industry, p. 153; New York Times, June 12, 1929, p. 1; and Charles E. Lein, "Views at the Conference Differ Widely," OGJ, Vol. 28, part 1, (June 13, 1929), p. 38.

measure to create a \$1.00 per barrel tariff in 1930 failed by one vote and then narrowly failed again in 1931.⁴⁰ In these attempts to establish a prohibitive tariff, petroleum state representatives, protectionists, and coal state representatives united to vote against representatives who favored motor fuel consumer interests (American Automobile Association), home fuel consumer interests on the Eastern Seaboard, and the large importing corporations (Gulf Oil and Standard Oil of Indiana).⁴¹ The U.S. Department of State also opposed the higher tariff by reasoning that higher tariffs would reduce exports to other countries and encourage tariff retaliation.⁴² In order not to be continually stymied by pseudo-sophisticated arguments, in late 1931 the twice-beaten pro-tariff proponents were able to order the U.S. Tariff Commission to study the question of the cost of production for foreign petroleum in order that a proper tariff policy could be implemented by Congress.

The 1930-31 clamor for action against oil imports had a noticeable impact on the major beneficiaries of the lucrative international petroleum trade. In addition to a tariff barrier, oil state officials threatened to bar oil-importing corporations from operating within

⁴⁰Nash, United States Oil Policy, pp. 106-107.

⁴¹Charles E. Kern, "Arguments Presented Against the Tariff," OGJ, Vol. 30, part 5 (February 11, 1932), p. 14; Charles E. Kern, "Tax on Import Argued at Washington," OGJ, Vol. 30, part 5 (February 4, 1932), p. 12; Charles E. Kern, "Wilbur Conditionally for Tariff," OGJ, Vol. 30, part 5 (February 11, 1932), p. 14; and Nash, United States Oil Policy, p. 108.

⁴²United States, National Archives, RG 59, Decimal File 611.006 Petroleum/34, Francis White to Henry L. Stimson, February 14, 1931.

their state jurisdiction. Faced with such irrational opposition, it was time for the major oil importers to try to curb imports voluntarily. In April of 1931 the Hoover administration was able to announce that the major importers (Gulf Oil and Standard Oil of Indiana) had agreed to establish a voluntary program to reduce imports from 300,000 barrels per day to 200,000 barrels per day. By June of the same year, however, violations by all parties to the agreement broke up the voluntary program.⁴³

Any voluntary program for limitation of oil imports would have been short-lived anyway, even if greed could have been controlled. After the U.S. Tariff Commission report reached Congress in early 1932, the pressure for restriction of petroleum imports was unstoppable. The report revealed that the average barrel of foreign crude oil enjoyed a \$.19 advantage against U.S. domestic production. To counteract this, a \$.21 per barrel excise tax was placed on all imports of crude and fuel oils for domestic consumption.⁴⁴ This roughly 25% ad valorem excise tax on crude oil was to become effective June 20, 1932.⁴⁵

Seeking to gain as much advantage as possible by utilizing the cheaper foreign crude oil, the international oil companies imported at full capacity between March and June 20, 1932. Venezuelan crude oil

⁴³Nash, United States Oil Policy, pp. 105-106 and 109-110.

⁴⁴Lieuwen, Petroleum in Venezuela, p. 59.

⁴⁵The actual percentage rate depends directly on the cost of the crude oil which was imported. The value of Venezuelan crude was set at \$.87 per barrel. The tax of \$.21 per barrel equals approximately 25%. Some sources estimated that the excise tax was as high as 39% ad valorem.

entered the U.S. at a rate 80% above the 1931 yearly rate and refined products from the Netherlands West Indies (N.W.I.) were imported at a rate 14% above the 1931 yearly rate.⁴⁶ After the excise tax became effective, the rate of importation of crude oil from Venezuela fell 61% below the accelerated rate of early 1932.⁴⁷ Despite the three month import surge, the excise tax worked to bring about a minor recovery in the depressed industry in late 1932.

When Franklin D. Roosevelt took office in March of 1933, the petroleum industry was in a chaotic state. The general extent of the Depression was critical enough to cause his administration to disregard constitutional arguments which had kept the Hoover administration from intervening economically. In the summer of 1933, the A.P.I. (largely representative of major oil companies) under authority of the National Industrial Recovery Act undertook to write the first national petroleum code of fair competition.⁴⁸ Considering the impossibility of the task, the A.P.I. program was as reasonable a consensus as was possible in the unruly industry.

The National Recovery Act Code operated much like the World War I

⁴⁶U.S., Department of Commerce, Bureau of Foreign and Domestic Commerce, Foreign Commerce and Navigation of the United States, 1932 (Washington: Government Printing Office, 1933), p. 266; A.E. Mockler, "Oil Tariff Situation Enlivens East Coast Market...", OGJ, Vol. 31, part 1, (June 23, 1932), p. 23; and "Venezuela Reduces Output as Oil Tariff Looms Here," OGJ, Vol. 30, part 6, (March 17, 1932), p. 85.

⁴⁷U.S., Dept. of Commerce, Bureau of Foreign and Domestic Commerce, Foreign Commerce and Navigation, p. 266.

⁴⁸Watkins, Oil, pp. 54 and 59-60.

program used by the Oil Division of the United States Fuel Administration.⁴⁹ The Secretary of the Interior held supreme jurisdiction over the industry as the chief administrator.⁵⁰ Recommended state production quotas, based on Bureau of Mines demand forecasts, were allocated to separate oil fields by the controlling state regulatory bodies.⁵¹ Section 9(c) of the Code, dealing with so-called "hot oil," prohibited the interstate transportation of petroleum produced in violation of state production restrictions.⁵² Imports of petroleum and petroleum products were limited to the average amount imported during the last six months of 1932 or 4.5% of domestic production.⁵³ The new program resembled the production curtailment system that Hoover and his attorney general had rejected in 1929 as dangerous and illegal. Later when the constitutionality of the NRA stabilization and recovery program came under attack in late 1934, a substitute system of conservation-stabilization measures was already being formulated by concerned oil state officials.

State Government Attempts at Petroleum Conservation and Price Stabilization

While federal programs were first initiated in 1932 and 1933, state government activities to regulate the petroleum industry on the local

⁴⁹ Nash, United States Oil Policy, p. 140.

⁵⁰ Ibid., and Watkins, Oil, pp. 72-73.

⁵¹ Watkins, Oil, pp. 73 and 75.

⁵² Ibid., p. 57.

⁵³ Edward H. Shaffer, The Oil Import Program of the United States (New York: F.A. Praeger, 1968), p. 7.

level began much earlier. The Oklahoma Corporation Commission had exercised regulatory power over all phases of the industry since 1915 to insure that sound conservation practices were being followed.⁵⁴

In Texas the responsibility to regulate the petroleum industry was vested in the Texas Railroad Commission.⁵⁵ While neither of these two bodies had been formed to stabilize prices or to restrict production, their function was changed so that they were able to issue production allowances which accomplished these results. Conservation began slowly to encompass prevention of economic waste in addition to physical waste.⁵⁶

Since the first conservation-stabilization efforts in a market glutted by oil boom overproduction did not occur until the late 1920s, the production control activities of the state regulatory boards were not legally tested or willingly accepted by producers. Major legal questions over contending economic points of view had to be decided in courts of law. Those economic interests already established in the industry wanted regulatory bodies to set production restrictions so that existing economic investments would be protected. Those who desired to open new potential petroleum boom areas (to get rich quick) had no desire for controls which would retard rapid growth opportunities

⁵⁴Zimmerman, Conservation in the Production of Petroleum, p. 138 and Nash, United States Oil Policy, p. 121.

⁵⁵Zimmerman, Conservation in the Production of Petroleum, p. 145.

⁵⁶Ibid., pp. 138-139. The term "economic waste" refers to pecuniary losses caused by unduly depressed prices while "physical waste" refers to reasonably avoidable losses through seepage, evaporation, fire, and gas pressure losses. Oklahoma prohibited both kinds of waste as early as 1928, while Texas didn't clarify its statutes to prevent both kinds of waste until 1932.

to the advantage of those already established in other areas. After the discovery and development of one of the world's richest oil fields in East Texas in 1930-31, the issue of production controls became critical.⁵⁷ State and federal courts had to become the final arbiters of the economic battle to stop independent East Texas producers from completely destroying the U.S. petroleum industry with \$.10 per barrel crude oil.

Due to complexities of the economic and legal arguments and the lack of a firm judicial precedent, state and federal district courts in Oklahoma and Texas created a deadlocked situation which magnified the economic disaster. In Texas, part of the legal problem was caused by the state legislature's failure to clearly define the purpose of the state conservation law. At first the law was amended to require the Railroad Commission to interpret conservation as action to prevent waste, then in 1931 as action against physical waste, and finally in 1932 as action to prevent physical and economic waste.⁵⁸ In a dazzling display of legal entanglement, state courts issued rulings which supported the attempts of the regulatory bodies to prevent both kinds of waste.⁵⁹ Federal district courts in both states reasoned differently and granted injunctions to independent producers which allowed both the

⁵⁷ Watkins, Oil, pp. 49-50; Nash, United States Oil Policy, pp. 105-106 and 115; L.E. Bredberg, "Greed versus Proration in East Texas," OGJ, Vol. 30, part 2 (July 2, 1931), p. 14; and "Buyers Prepare for Cheap Stored Oil," OGJ, Vol. 30, part 2 (July 2, 1931), p. 13.

⁵⁸ Zimmerman, Conservation in the Production of Petroleum, p. 145.

⁵⁹ McDonald, Petroleum Conservation in the United States, p. 37.

independents and major oil companies to ignore the state-established petroleum quotas. Only the brash action by the governors of Texas and Oklahoma prevented the late 1931-early 1932 legal impasse from becoming an economic free-for-all in the oil fields. Martial law was declared in the riotous oil field areas.⁶⁰ In direct defiance of federal court injunctions, mobilized state militia forced producers to comply to restrictive production allotments. For months this questionable use of military force brought economic order and a modest rise in prices. Finally the debacle ended when the U.S. Supreme Court upheld the state courts and the powers of state regulatory agencies in March, 1932.⁶¹ The Court ruled that state government regulations for conservation could be used to justify production controls limiting supply to available market demand.

To coordinate individual state oil production allocations, state officials urged U.S. congressional representatives to enact legislation which would allow coordinated prorationing among the oil states. The Thomas-McKeon bill, which was introduced in March, 1932, proposed interstate regulatory cooperation by creating: (1) an interstate oil compact among the states, (2) a program of uniform state conservation laws, and (3) a system of federally recommended production quotas.⁶² This was a

⁶⁰ Nash, United States Oil Policy, p. 117; Andrew M. Rowley, "Governor Shuts Down Oklahoma Wells," OGJ, Vol. 30, part 2 (August 6, 1931), p. 13; L.E. Bredberg, "East Texas Meeting Asks Martial Law," OGJ, Vol. 30, part 2 (August 20, 1931), p. 27; and "Troops Shut Down East Texas Fields," OGJ, Vol. 30, part 2 (August 20, 1931), p. 15.

⁶¹ Nash, United States Oil Policy, pp. 118-119 and 123-125.

⁶² Ibid., p. 126; "Interstate Compact Bill is Introduced in Congress," OGJ, Vol. 30, part 6 (March 31, 1932), p. 28; "Interstate Compact Measure is Before Senate Committee," OGJ, Vol. 30, part 6 (May 19, 1932), p. 13.

federal form of the mid-continental oil field plan for a strong interstate organization to restrict excessive production (meaning East Texas production). An early showdown between contending state interest groups was avoided when the rivaling state interests turned their attention to federal legislation which all domestic producers could support: the 1932 import excise tax. Quick implementation of the NRA program shelved the Thomas-McKeon plan until December, 1934. When it became apparent that the NRA system was going to be declared unconstitutional, oil state interests again moved to organize under the old Thomas-McKeon plan.

On December 3, 1934, the governors of Texas, Kansas, and Oklahoma met to draft an agreement to coordinate the regulatory actions of all three states' oil conservation boards.⁶³ In the discussions which followed, it soon became evident that state plans for an interstate organization to replace the NRA system varied according to the relative power of each oil state to affect the national market. Representing the mid-continental oil field, the governors of Oklahoma and Kansas sponsored formation of a strong interstate organization which would maintain existing shares of the national petroleum market for each oil producing state.⁶⁴ The Texas plan envisioned a loose compact system which would allow the interstate system only the power to recommend voluntary quota shares of the market (meaning: the Texas

⁶³ Zimmerman, Conservation in the Production of Petroleum, p. 206; and Andrew M. Rowley, "Governors' Conference Against Federal Control," OGJ, Vol. 33, part 4 (December 6, 1934), pp. 8-9.

⁶⁴ Zimmerman, Conservation in the Production of Petroleum, p. 207.

share would be able to get larger). Since low cost Texas crude oil dominated the production of all other states, the final agreement reflected the voluntary system sponsored by the Texas interests. The Interstate Compact to Conserve Oil and Gas, which was formed by six oil states on July 10, 1935, was approved by the U.S. Congress and signed by President Roosevelt on August 27, 1935.⁶⁵ Together with the 1935 Connolly "Hot Oil Bill," which replaced section 9(c) of the defunct NRA Code, the Interstate Compact to Conserve Oil and Gas served to continue national stabilization of the petroleum industry.⁶⁶ After years of uncoordinated effort, state and federal measures finally seemed to combine harmoniously and legally to ameliorate the depressed economic conditions of the petroleum industry.

The Effects of Government Regulation in Retrospect

The petroleum stabilization, conservation, and import control program, which developed between 1932 and 1935, was designed to limit supply and raise prices. Evidence supports the assertion that the system worked to raise market prices. From a low point of \$.65 per barrel in 1931, the national average value for a barrel of crude oil rose to \$.97 per barrel in 1935 and stabilized at that point. This 50% increase was greatly surpassed by the change in Oklahoma crude oil values from \$.18 per barrel in July, 1931, to \$1.00 per barrel in 1935. Figures for individual oil field regions in the same 1931-1935 period show similar rises: mid-continental crude oil up from \$.56 per barrel

⁶⁵ Ibid.

⁶⁶ Nash, United States Oil Policy, p. 146.

to \$.95 per barrel, Gulf Coast crude oil up from \$.66 per barrel to \$1.00 per barrel, but West Coast crude oil rose from \$.66 per barrel to only \$.82 per barrel. Yet in spite of the 50% rise in petroleum prices under the recovery program, prices were still below pre-Depression levels.⁶⁷

The lack of complete price recovery could be explained by continuing U.S. excess production capacity, But, in part, the reason for depressed U.S. crude oil prices was due to continuing importation of cheap foreign crude oil and refined products. A tax loophole existed in the 1932 import excise tax system which allowed a complete tax rebate in two significant special cases.⁶⁸ Crude oil imported under bond for manufacture and re-export was tax-exempt. Imports of heavy residual fuel oil for use as ship bunker fuel in international trade was tax-exempt. These two duty-free products comprised important segments of the Eastern Seaboard markets of Gulf Oil and the Standard Oil group. Table 9 indicates the effect that import excise tax system had on imports and how the special exemptions grew.

Over the entire 1928 to 1935 period illustrated by Table 9, a trend developed in which crude oil shipments came directly from Venezuela (mainly Gulf Oil operations) and refined oil product shipments were imported into the United States from the Netherlands West Indies (operations of Standard Oil of Indiana and later Standard Oil of New

⁶⁷PFF, 1937, pp. 92, 97-99, and 164.

⁶⁸Charles E. Kern, "Treasury Issues Regulations Enforcing New Tax on Gasoline, Lube Oil, and Pipelines," OGJ, Vol. 31, part 1, (June 23, 1932), pp. 8-9.

U.S. IMPORTS OF VENEZUELAN CRUDE OIL, NETHERLANDS WEST INDIES
CRUDE OIL, AND NETHERLANDS WEST INDIES REFINED
PETROLEUM PRODUCTS, 1928-1935
(Millions of Barrels)

Year	Venezuelan Crude free of tax	Venezuelan Crude with tax	NWI Crude free of tax	Total Crude Imported	NWI Refined Oil free of tax	NWI Refined Oil with tax	Total NWI Refined Oil
1928	22	0	25	47	5	0	5
1929	34	0	16	50	25	0	25
1930	25	0	10	35	39	0	39
1931	21	0	4	25	35	0	35
1932	18	8	0	26	19	6	25
1933	0	17	0	17	0	12	12
1934	3	22	0	25	9	5	14
1935	3	21	0	24	13	8	21

Source: U.S., Department of Commerce, Bureau of Foreign and Domestic Commerce, Foreign Commerce and Navigation of the United States, 1928-1935 (Washington, D.C.: Government Printing Office, 1929-1936). For further analysis, turn to the 1928 to 1935 tables for General Imports - Group 5-Nonmetallic Minerals.

Jersey on Aruba and Royal Dutch Shell on Curaçao). With declining U.S. market demand from 1930 to 1931 and with large quantities of low cost U.S. crude oil available for their domestic refineries, the major petroleum companies lowered their crude oil imports. After European petroleum market demand contracted in 1930 and 1931, Standard Oil and Royal Dutch Shell reduced production and redirected a portion of their Netherlands West Indies refinery output to the United States. This was no small marketing change since the refineries in the West Indies in 1931 were among the largest and most modern in the world. Domestic

petroleum producer-refiner hostility toward this product dumping resulted in the passage of the 1932 excise tax barrier.⁶⁹

Examination of the excise tax barrier shows that the 1932 system was not as effective as its congressional advocates had planned. When the U.S. Tariff Commission reported in 1931 that all foreign crudes combined had an average cost advantage of \$.19 per barrel, the Congress responded with a \$.21 per barrel import excise tax. Venezuelan crude oil, however, had an average cost advantage of \$.46 per barrel over domestic crude oil.⁷⁰ Even after paying the full excise tax, an extra profit of \$.25 per barrel could be made. The only limitations on this trade were: (1) the physical capacity of Venezuelan wells and company tankers, (2) the availability of cheaper domestic crude oil, and (3) the very real threat of higher congressional excise taxes on petroleum imports. Corporate managers in Gulf, Standard, and Shell Oil Companies had to be careful not to take too much of the domestic U.S. market with imports and force another congressional change in oil import policies.

By 1935 the shortcomings of the 1932 excise tax were well-known.

⁶⁹"Venezuela Reduces Output as Oil Tariff Looms Here" OGJ, Vol. 30, part 6 (March 17, 1932), p. 85; "Jersey Substantially Broadens South American Operations...", OGJ, Vol. 31, part 2 (December 29, 1932), p. 38; "Foreign Production of Natural Gasoline Increasing Factor in World Market," OGJ, Vol. 31, part 1 (June 23, 1932), p. 29; and A.E. Mockler, "Jersey Integrates Foreign Operations," OGJ, Vol. 30, part 6 (April 28, 1932), p. 18; and Leonard M. Fanning, Foreign Oil in the Free World, (New York: McGraw-Hill, 1954), p. 65.

⁷⁰U.S., Congress, House, Report of an Investigation made by the United States Tariff Commission, p. 4.

Congressional activity to erect a more effective oil import barrier was renewed by domestic producers. The effect of new potential restrictions also was noticed by the Venezuelan government, the government of the Netherlands, major importing companies, and the Department of State. Complaints had been made about the congressional tariff proposals by the ministers of Venezuela and the Netherlands.⁷¹ Lawyers representing the Standard Oil group pointed out how a 1928 convention prohibiting import restrictions made the pending tariff legislation incompatible with existing diplomatic commitments.⁷² Since Great Britain, the Netherlands, and other European powers had signed the convention, the international trade policies being formulated by the Congress had major diplomatic impact. The Department of State also feared that the spirit of Pan Americanism would be jeopardized by import restrictions which would affect major Latin American trading partners.⁷³ The oil import issue was far from being solved.

⁷¹U.S., Archives, RG 59, Decimal File 611.006 Petroleum/24, Henry Stimson memorandum of conversation with the Venezuelan Minister Dr. Pedro Manuel Arcaya, February 26, 1931; Decimal File 611.006 Petroleum/29, William R. Manning memorandum, January 30, 1931; Decimal File 611.003 Petroleum/20, Memorandum of Pierrepont Moffat to Cordell Hull, June 13, 1935; and Decimal File 611.3131/35, William R. Manning memorandum, January 28, 1935.

⁷²U.S., Archives, RG 59, Decimal File 611.006 Petroleum/9, E. Wayfield to Francis White, February 18, 1931.

⁷³U.S., Archives, RG 59, Decimal File 611.006 Petroleum/28, Memorandum of William R. Manning to Walter C. Thurston, January 29, 1931; Decimal File 611.006 Petroleum/28, Walter Thurston to Francis White, February 14, 1931; and Decimal File 611.006 Petroleum/34, Francis White to Henry Stimson, February 14, 1931.

CHAPTER 3

VENEZUELA IN TRANSITION: THE EARLY ADMINISTRATION OF PRESIDENT ELEAZAR LÓPEZ CONTRERAS

A Political Tour de Force

Several months prior to the death of Juan Vicente Gómez, his deteriorating health raised interest in predicting who his successor would be. Informed observers thought three of the most likely candidates were General Vincenio Pérez Soto, General Eustoquio Gómez, and General Eleazar López Contreras.¹ The political strength of General Pérez Soto emanated from his position as Governor of the state of Zulia which possessed the nation's oil reserves and generated most of the nation's foreign exchange. General Eustoquio Gómez, a cousin of the dictator, derived extensive power from family ties and from the wealth he had acquired from forced labor projects, public works frauds, and cattle dealing while he was Governor of the border state of Táchira. At the time of Juan Vicente's death, Eustoquio was Governor of the state of Lara. General López Contreras, as Minister of War and Navy, had command of the Venezuelan Army. Unfortunately, Pérez Soto had been reported as suffering from severe throat cancer, Eustoquio

¹United States, National Archives, RG 59, Decimal File 831.00/1532, Meredith Nicholson (Caracas) to Department of State, October 2, 1935; Winfield J. Burggraft, The Venezuelan Armed Forces in Politics, 1935-1959 (Columbia: University of Missouri Press, 1972), pp. 29-30; and New York Times, December 19, 1935.

Gómez was thoroughly hated by most Venezuelans because of his cruelty, and López Contreras was described as a frail man suffering from either tuberculosis or a serious stomach ailment.² It seemed that instead of a strong, effective national leader to succeed Juan Vicente Gómez, Venezuela was destined to undergo the usual transitional political chaos all too familiar to other Latin American countries.

Considering Venezuelan political history, such fear was well grounded. Serious political infighting broke out during the week preceeding the death of Juan Vicente Gómez. At the Gómez presidential estate near the town of Maracay on December 12, 1935, Minister of War General López Contreras learned that General Eustoquio Gómez planned to install himself as the next president of Venezuela by force. In an attempt to avoid bloodshed and open disunity during the dangerous period which would follow the death of Juan Vicente Gómez, López Contreras appealed to Eustoquio to accept either the decision of the dying President or the Venezuelan Cabinet.³ Since the dictator favored López Contreras and the Cabinet was sure to make the same choice, Eustoquio declined the offer and continued to conspire for power. Relations between the two rivals continued to deteriorate until on December 16 the Minister of War ordered the arrest of approximately fifty of Eustoquio's supporters. Enraged by this pre-emptive action, Eustoquio immediately confronted López Contreras and demanded an

²U.S., Archives, RG 59, Decimal File 831.00/1532, Nicholson (Caracas) to Dept. of State, October 2, 1935.

³Eleazar López Contreras, Proceso Político Social, 2nd ed., (Caracas: Editorial Anhora, 1955), p. 26.

explanation for the arrests. The Minister of War calmly replied that he intended to insure that the Constitution and military order were maintained.⁴

Although Eustoquio had been clearly implicated in the plot to overthrow the existing government, López Contreras realized that the Governor of Lara was too important to arrest without presidential authority. If General Eustoquio Gómez had been arrested, other state governors and gomecista officials would have been alerted that their own positions were potentially endangered by an aggressive Minister of War. López Contreras needed complete gomecista cooperation. So as to minimize the seriousness of the coup attempt, the Minister of War allowed Eustoquio to leave the presidential estate as a free man on December 16.

The next day, December 17, 1935, General Juan Vicente Gómez finally died. Immediately his Cabinet met in a midnight session to formally appoint López Contreras as the Provisional President until the National Congress could convene.⁵ The speed with which the decision was made was intended to show continuity and an effort to forestall further infighting among the gomecista political elite. The decision also seemed very sage. The gomecista Cabinet had selected for President a man who: (1) had been a non-political professional army officer his entire life, (2) had complete authority over the Venezuelan armed forces,

⁴Ibid. and Eleazar López Contreras, Páginas para la historia militar de Venezuela (Caracas: Tipografía Americana, 1944), pp. 236-240.
240

⁵López Contreras, Proceso Político Social, p. 27; and U.S., Archives, RG 59, Decimal File 831.00/1534, Nicholson (Caracas) to Dept. of State, December 18, 1935.

(3) had put down the last serious anti-gomecista rebellion personally in 1928, and (4) was a veteran of the original Cipriano Castro rebellion in 1899.⁶ Article 27 of the Venezuelan Constitution had been duly observed, but no one really knew what kind of leader General Eleazar López Contreras would be or how long he would last.

Serious civil disorders in Caracas quickly offered the new President a clear opportunity to demonstrate his leadership abilities. A major crisis occurred on December 19, 1935, when a jeering crowd formed around the palace of the Federal District Governor, General F. D. Rafael Velasco, who was blamed for many unpopular acts during the dictator's rule. Inside the governor's palace, gomecista officials, who were long accustomed to subservient, tranquil masses, were unnerved by the large, unauthorized crowds in the street. Then someone threw water down from a balcony and enraged the people below. Quickly the demonstration turned into an angry confrontation. In a panic shots were fired into the crowd. When told about the incident and the manner in which the crisis had been handled, López Contreras cashiered General Velasco the same day. General Félix Galavis was appointed to be the new governor of the Federal District which included the city of Caracas and its environs. Other gomecista police officials in Caracas were also rapidly removed and replaced by military men who were both capable and loyal to the new administration.⁷

⁶Rodolfo Luzardo, Notas Histórico-Económicas, 1928-1963 (Caracas: Editorial Sucre, 1963), p. 37; and U.S., Archives, RG 59, Decimal File 831.00/1532, Nicholson (Caracas) to Dept. of State, October 2, 1935.

⁷U.S., Archives, RG 59, Decimal File 831.00/1547, Nicholson (Caracas) to Dept. of State, December 21, 1935.

In order to calm the tense situation and to establish himself politically, the Provisional President addressed the nation from Maracay on the evening of December 19, 1935. In a country largely populated by illiterate citizens, the radio address was an unusually effective way to reach a majority of the Venezuelan people personally.⁸ López Contreras began by stating how he had assumed the Presidency through Constitutional means. He spoke about his long service record on behalf of the nation as a professional military officer. Promising to be faithful to the people and the nation, López Contreras asked for the patient cooperation of the people. While it was intended to be a calming speech, several of his remarks were startling. He announced that Caracas would be restored as the actual national Capital (instead of Maracay), political prisoners would be released, exiles would be welcomed home, and a free press would be restored. In addition, he called for a special session of the National Congress to meet December 26 to choose a President to serve out the remaining unexpired term of office until April 19, 1936. These were extremely encouraging words. Even the newly organized Venezuelan Students Federation, which represented members who had fought the Gómez government in the 1928 rebellion, called for cooperation with López Contreras and his plans to liberalize Venezuela.⁹

⁸ Ibid. and Avelino Sanchez, Venezuela Republicana, Regime Político-Social, 1936-1940 (Caracas: Impresores Unidos, 1940), pp. 17-18.

⁹ U.S., Archives, RG 59, Decimal File 831.00/1547, Nicholson (Caracas) to Dept. of State, December 21, 1935. On December 31, 1935, the Venezuelan Congress officially made López Contreras President.

The manner in which the people of Caracas welcomed the arrival of the new President revealed how quickly and successfully López Contreras had separated himself from the hated favorites of the dead dictator. When the new leader entered the capital on December 21, businesses were closed and the public was highly apprehensive. To dispel the crisis atmosphere, López Contreras brilliantly executed a sincere and symbolic gesture. He went to the memorial tomb of Venezuela's greatest hero, Simón Bolívar, and quietly pledged himself to the complete service of his country. Returning to the presidential residence, the Casa Amarillo (Yellow House), he stood out on the balcony and waved to the thunderous applause of a happy crowd.¹⁰ The combined effect of the radio message, removal of Velasco, and the symbolic gesture at the tomb served to firmly strengthen López Contreras' position and to encourage exuberant mob action against the most despised members of the dictator's clique.

All across the country, people no longer feared official retribution as they sought revenge for twenty-seven years under the dictator. Everywhere mobs seemed well-disciplined as they carefully selected as targets for destruction only those properties whose owners had enjoyed close connection and prosperity with Juan Vicente Gómez. Looting, burning, and general despoliation began in earnest on December 20, 1935. Unable to quell angry mobs in the city of Valencia, Governor Santos

¹⁰ Ibid. Throughout his entire administration, López Contreras attempted to create a national spirit and Venezuelan ideology capable of preserving Venezuela from foreign agitators for fascism or communism. Eduardo Picón Lares, Ideología Bolivariana (Caracas: Editorial Crisol, 1944) and Eleazar López Contreras, El Pensamiento de Bolívar Libertador (Caracas: Editorial Artes, 1963), p. 13.

Matute Gómez was removed from authority on the 20th.¹¹ In Caracas the gomecista newspaper El Nuevo Diario and many fine houses were sacked.¹² By the evening of the 21st, estimates of damage after two nights of looting and burning in the city of Maracaibo reached \$5,000,000.¹³ When civil disorder continued in Maracaibo, López Contreras ordered Governor Pérez Soto to step down as soon as his replacement could relieve him. On the 23rd of December, General León Jurado arrived in Maracaibo with enough troops to control the situation.¹⁴

In the midst of the anti-gomecista sacking, General Eustoquio Gómez made a last desperate gamble. On the morning of December 21, Eustoquio and ten to fifteen armed supporters drove through the narrow streets of Caracas and entered the headquarters of the Federal District Governor. (He was either very bravely trying to stop the looting against his family or foolishly attempting to rally hardline gomecista supporters against López Contreras. In any case, his arrival did not go unnoticed.¹⁵) Soon a crowd of 4,000-5,000 people gathered around the building. Inside the palace, Eustoquio did not find sympathetic

¹¹U.S., Archives, RG 59, Decimal File 831.00/1547, Nicholson (Caracas) to Dept. of State, December 21, 1935.

¹²U.S., Archives, RG 59, Decimal File 831.00/1538, Nicholson (Caracas) to Dept. of State, December 21, 1935.

¹³U.S., Archives, RG 59, Decimal File 831.00/1542, George Phelan (Maracaibo) to Dept. of State, December 22, 1935.

¹⁴U.S., Archives, RG 59, Decimal File 831.00/1541, Nicholson (Caracas) to Dept. of State, December 23, 1935.

¹⁵New York Times, December 23, 1935; and Juan Bautista Fuenmayer, 1928-1948, Veinte Años de Política (Madrid: Editorial Mediterráneo, 1968), p. 122.

support, but instead he encountered newly appointed officials loyal to the new President. In a confusing series of accounts originating from inside the building, the crowd first received word that General Eustoquio Gómez had been wounded; a later report was that he had been arrested. Finally, it was revealed that General Eustoquio Gómez was dead.¹⁶

The death of Eustoquio indicated clearly to the Gómez family and close associates that neither their lives nor properties would be defended by the new government. Bank account balances were quickly transferred to banks outside Venezuela; by Christmas Eve all of the Gómez clan had fled the country.¹⁷ Given the lenient attitude of the Federal Government toward the looters, it was very likely that the new President used their actions to serve his own purposes.¹⁸ When the mobs destroyed gomecista properties, the gomecista officials were removed for failing to keep public order. New officials, who supported López Contreras, had the backing of the Venezuelan Army and restored order quickly.

The new government continued to generate support among all classes of people. After being muzzled for years, the press discussed political and economic conditions.¹⁹ Gomecista commercial monopolies were broken

¹⁶ New York Times, December 23, 1935.

¹⁷ U.S., Archives, RG 59, Decimal File 831.00/1557, Nicholson (Caracas) to Dept. of State, December 30, 1935.

¹⁸ U.S., Archives, RG 59, Decimal File 831.6363/845, Letter from Harold Walker of Standard Oil Company of New Jersey to Dr. William R. Manning in Dept. of State, Latin American Affairs, February 25, 1936.

¹⁹ U.S., Archives, RG 59, Decimal File 831.00/1557, Nicholson (Caracas) to Dept. of State, December 30, 1935.

up.²⁰ Control of the lottery was taken from Gonzalo Gómez and given to the Venezuelan Red Cross and hospitals. The fish market monopoly was modified to wring out the monopoly profit from fish sales in Caracas. Immediately, the price of fish dropped 50%. On January 1, 1936, the President decreed that La Rotunda, which was the most infamous symbol of political repression in Venezuela, was to be razed.²¹ At the site of the old prison, a plaza was to be constructed as a symbol of national unity, Plaza de la Concordia.

Given the new political and civil freedoms, the Venezuelan people began to form political organizations. Ideas for reform and petitions circulated widely for the first time in Venezuela for nearly three decades. It was a heady experience for young participants and a nervous one for police who only weeks before had been loyal to the dictatorship. On January 3, 1936, the uneasy peace ended when mounted police misunderstood an order and charged into an orderly street rally.²² The recently appointed Federal District Governor, General Félix Galavis, was immediately blamed for the action. Crowds formed the next day and demanded the voluntary resignation of General Galavis. Failing this, López Contreras was to fire him.²³ It was a moment of crisis similar to the toppling of General Velasco, the previous governor,

²⁰Ibid.

²¹U.S., Archives, RG 59, Decimal File 831.00/1562, Nicholson (Caracas) to Dept. of State, January 2, 1936. A modern jail was built to replace the old facility.

²²U.S., Archives, RG 59, Decimal File 831.00/1552, Nicholson (Caracas) to Dept. of State, January 6, 1936.

²³Ibid.

only two weeks earlier. Young leftists, who wanted greater national control over the petroleum industry and wider "democracy," did their best to whip up the crowds.

For López Contreras the trouble could not have come at a worse time. The new President was exhausted. In his first two weeks as President, he had been forced to do everything himself: address the people, solve economic crises, appoint governors, command troops, and hold official meetings with diplomats, petroleum company representatives, prominent businessmen, and petitioners of all kinds.²⁴ The bureaucratic apparatus of the government was a shambles only held together by military officers who were interspersed among the less notorious personnel of the previous regime. For days López Contreras had been trying to set up a government based on fitness, while people in the street were now clamoring for a government based on popularity.²⁵ To stabilize the situation, the President called a press conference on the evening of January 4, 1936, the same day that the large anti-Galavis demonstration took place.²⁶ At that meeting López Contreras pointed out that it was necessary to retain some of the capable men of the former administration so that the existing government would not dissolve into chaos, but could proceed orderly. He appealed to the press to be more disciplined. The former General found it particularly disconcerting that the press referred to his government as "revolutionary" and that

²⁴U.S., Archives, RG 59, Decimal File 831.00/1565, Nicholson (Caracas) to Dept. of State, January 7, 1936.

²⁵Ibid.

²⁶Ibid. and Decimal File 831.00/1552, Nicholson (Caracas) to Dept. of State, January 6, 1936.

writers had proclaimed it a political union between the army and the people. He pointed out that his government was evolutionary and that the duty of the army was to remain apolitical. It was only toward the end of his press conference that López Contreras' fatigue overcame his judgement. He stated that he would leave office and abandon the country if public opinion did not support him.

The next day when the demonstrations continued, López Contreras took more responsible action than what he had expressed a day earlier. Under provisions of Article 36 of the Venezuelan Constitution, the President suspended constitutional liberties.²⁷ All army and reserve officers were called up. Volunteers were enlisted for one year of military service.²⁸ In concert with the Presidential order, Federal District Governor Galavis issued a proclamation which prohibited: (1) dissemination of communist propaganda, (2) mass meetings, (3) unapproved publications, (4) parades, and (5) strikes.²⁹ Since the press and the public had become disorderly, the new government suspended civil liberties until order could be assured. Dissidents attempted to launch a general strike in opposition to the decree, but the poorly organized movement had little mass support and collapsed quickly. By January 11, 1936, the political situation had calmed enough to allow restoration of most of the suspended constitutional rights.

²⁷ Ibid.

²⁸ U.S., Archives, RG 59, Decimal File 831.00/1565, Nicholson (Caracas) to Dept. of State, January 7, 1936; and Decimal File 831.00/1561, Nicholson (Caracas) to Dept. of State, January 11, 1936.

²⁹ Ibid.

As business and political conditions improved, the new government allowed the press more freedom in reporting the news. But the new peace didn't last beyond January 27, 1936. A news story broke about an embargo which had been placed on the bank account of the late General Eustoquio Gómez, his mistress Celia Villamirzar, and two other men.³⁰ The balance at the time the accounts were frozen was Bs9,158,725.³¹ The press quickly speculated that the estate of Juan Vicente Gómez amounted to Bs100,000,000 which was believed to be in foreign banks.³² On January 28, the two most important Caracas newspapers El Herald and El Universal called for confiscation of all the Gómez properties.³³ Editorials fanned anti-gomecista public feeling for another two weeks. Finally to control the potentially explosive issue and to prevent despoliation of gomecista wealth, a government censorship board was established on February 12 to muzzle the press.³⁴ Two days later a protest of 30,000 people at the Plaza Bolívar ended in eight deaths when outnumbered soldiers panicked. In subsequent years, the incident became institutionalized in leftist literature as

³⁰ U.S., Archives, RG 59, Decimal File 831.00/1574, Nicholson (Caracas) to Dept. of State, February 4, 1936.

³¹ Ibid. Funds in the name of Eustoquio Gómez's mistress were Bs6,897,960.

³² Ibid. and the New York Times, December 19, 1935.

³³ U.S., Archives, RG 59, Decimal File 831.00/1572, Nicholson (Caracas) to Dept. of State, January 28, 1936.

³⁴ U.S., Archives, RG 59, Decimal File 831.00/1571, Nicholson (Caracas) to Dept. of State, January 28, 1936; and Decimal File 831.00/1591 and 831.00/1592, Nicholson (Caracas) to Dept. of State, February 17, 1936. See also Burggraaf, The Venezuelan Armed Forces in Politics, p. 37.

the infamous Tragedy of February 14.³⁵

The administration tried to avoid additional disorder by speedily compromising with young reformers in the Federación de Estudiantes de Venezuela or FEV (Venezuelan Student Federation). López Contreras appointed a more liberal cabinet. In Caracas he also removed many of the remaining old line gomecista officials who were still in his government.³⁶ This action was not enough to stop rioting in Caracas even though students patrolled the streets with police. Looters again conducted selected attacks against properties owned by alleged gomecista officials. In the confusion radicals declared a general strike against the López Contreras government on February 14, 1936. The President countered by decreeing strict censorship of the press and establishing limited martial law. General Félix Galavis, the Governor of the Federal District, was relieved of command and placed in prison pending trial over the question of his culpability in the February 14 shooting incident.³⁷ After only one day the strike and looting ended in Caracas. To appease the Caracas demonstrators, a number of gomecista generals and governors, who might have once had the collective strength to depose López Contreras, were removed.³⁸ By compromising with reform-minded agitators in December and February, López Contreras had neatly finessed

³⁵ Ibid.; New York Times, February 15, 1936; and Juan Uslar-Pietri, Historia Política de Venezuela (Madrid: Editorial Mediterráneo, 1970), pp. 199-200.

³⁶ Ibid.

³⁷ Burggraft, The Venezuelan Armed Forces in Politics, p. 37. After a long trial in 1937, General Galavis was exonerated.

³⁸ U.S., Archives, RG 59, Decimal File 831.00/1592, Nicholson (Caracas) to Dept. of State, February 17, 1936.

all of his potential rivals out of power in less than two months. While the old political order had been ushered out gracefully, López Contreras began to experience problems with an emerging new order; political populism.

Since the government was not democratic and did not espouse revolutionary change, impatient Venezuelans organized more radical political organizations in March, 1936. One such group was the Organización Venezolana or ORVE (Venezuelan Organization). While ORVE agreed with much of the political and economic pronouncements of the government, its leaders were outspoken in opposition to the foreign petroleum companies and the lack of democratic government.³⁹ They wanted a faster change from the old gomecista system to open democracy. The Partido Republicano Progresista or PRP (Progressive Republican Party) was communist dominated and more radical than ORVE.⁴⁰ Only the Unión Nacional Republicana (Republican National Union) movement seemed to be as conservative as the López Contreras government.⁴¹

As the April 19 election approached, differences between the leftist parties and the administration became more pronounced. To oppose the President and the existing gomecista National Congress, the PRP, ORVE, and several other small labor and splinter groups formed a political front group, Bloque de April (April Block). At issue was

³⁹ U.S., Archives, RG 59, Decimal File 831.00/1613, Nicholson (Caracas) to Dept. of State, April 7, 1936; and Decimal File 831.00/1605, Nicholson (Caracas) to Dept. of State, March 14, 1936.

⁴⁰ Ibid.

⁴¹ Ibid.

the legality of the April 19, 1936 Venezuelan Congress which was to choose the next Venezuelan President.⁴² Leftists pointed out that the Congress had not been selected according to the Constitution. Moreover, they declared that the illegally appointed Congress had already served a term longer than the Constitution allowed. Their solution was to dissolve the Congress and to hold immediate elections to replace its members. Since President López Contreras had been elected to his current term of office by an illegally constituted Congress on December 26, the next logical step in the radical scheme would have been to declare the Venezuelan Presidency vacant. Eager young leftists assumed that they could gain mass support in the confusion, force immediate elections, triumph at the polls, and then rule in the name of the people. Expecting to cover an exclusive "Bloody April 19" story, Associated Press dispatched a special correspondent to Caracas to view the Latin American political fireworks.⁴³

For those who wanted either a revolution or a great byline, the election activities were a big disappointment. In a carefully publicized April 4 telegram, the President instructed General Elbano Mibelli, the new Federal District Governor, to insure that public order was maintained.⁴⁴ General Mibelli wired back an equally public affirmative

⁴²U.S., Archives, RG 59, Decimal File 831.00/1549, Division of Latin American Affairs Memorandum, December 27, 1935; and Santiago Gerardo Suárez, El Régimen de López Contreras (Caracas: Editorial Arte, 1965), pp. 24-25.

⁴³U.S., Archives, RG 59, Decimal File 831.00/1615 1/2 LH, Nicholson (Caracas) to Dept. of State, May 4, 1936.

⁴⁴U.S., Archives, RG 59, Decimal File 831.00/1612, Nicholson (Caracas) to Dept. of State, April 3, 1936.

reply.⁴⁵ The fact that both men were in Caracas and sending public wires to each other must have made the real message plain to everyone. Four days before the election, López Contreras stated in a radio message that outrages against members of the upcoming Congress would not be tolerated.⁴⁶ When the Congress convened on April 19, 1936, Caracas had already been "dry" for twenty-four hours. Police searched for weapons on the streets, while 14,000 crack troops waited in nearby barracks ready to respond to the first sign of disorder.⁴⁷ After trying to organize an anti-López Contreras general strike on April 20, 1936, on the 24th of April seventeen members of the PRP were arrested.⁴⁸ ORVE leaders called a hasty executive session and published a resolution protesting the arbitrary detention of the PRP members. The FEV issued a heroic statement declaring that students would fight to defend Venezuelan liberties. When the Congressional vote took place on April 26, López Contreras won a seven year term by a 132-1 margin.⁴⁹

Conservatives explained that the election was legal because the Venezuelan Constitution had no provision for allowing dissolution of the entire Congress.⁵⁰ Under the law, individual resignations had to

⁴⁵Ibid.

⁴⁶U.S., Archives, RG 59, Decimal File 831.00/1615, Nicholson (Caracas) to Dept. of State, April 18, 1936.

⁴⁷New York Times, April 19, 1936.

⁴⁸U.S., Archives, RG 59, Decimal File 831.00/1617, Nicholson (Caracas) to Dept. of State, May 4, 1936.

⁴⁹New York Times, April 26, 1936.

⁵⁰U.S., Archives, RG 59, Decimal File 831.00/1622, Nicholson (Caracas) to Dept. of State, May 5, 1936.

be approved by the entire Congress. If all of the gomecista Congressmen had resigned, no one would have been left to approve the action. In his inaugural address, the newly elected President requested that a new Constitution be drawn and that the seven year term of office be reduced to a length of time more appropriate to republican rule.⁵¹ Then with the election safely in hand, López Contreras eased political tension by ordering the release of the seventeen imprisoned PRP members on May 1.⁵²

Economic Measures to Insure Domestic Tranquility

During the 123 days between December 17, 1935, and April 19, 1936, López Contreras revealed himself to be one of the most astute political leaders in Venezuelan history. But the handling of the rival gomecistas and young radicals show only one side of his brilliance. For a more balanced assessment of his leadership abilities, consideration of his political actions must be broadened to include the economic policies he initiated during those first hectic four months.

Just as soon as he took power, López Contreras planned economic aid to stimulate the economy. With improved economic conditions, there would be much greater chance for political tranquility. The new government hastily prepared and announced two significant economic programs on December 21, 1935. Both measures were designed to be popular. The first action was formulated to clear thousands of

⁵¹U.S., Archives, RG 59, Decimal File 831.001 LC/17, Nicholson (Caracas) to Dept. of State, May 2, 1936.

⁵²U.S., Archives, RG 59, Decimal File 831.00/1617, Nicholson (Caracas) to Dept. of State, May 4, 1936.

unemployed workers off the streets of Caracas.⁵³ Work on public works projects in and around Caracas was made available to anyone who wanted a job. The wage paid was Bs5.00 per day or twice the Bs2.50 rate of the previous administration. Moreover, the government launched a "Let's get out and go to work campaign." Government trucks and buses drove throughout the city with banners "A Trabajar" (To Work) and offered free transportation to the projects. Public works expenditures which had been Bs400,000 per week under Gómez rose to Bs1,500,000 per week.⁵⁴ Very quickly the unemployed left the ranks of demonstrators and happily went to work.

The second economic decree was designed to revive the stagnating coffee industry. Large numbers of coffee plantations were being abandoned by their owners because the revenues from the harvest did not cover the costs of production.⁵⁵ Credit and savings had already been absorbed by the bad market years from 1931-32 to 1934-35. Unpaid agricultural workers, who formerly labored in the fields, left the rural plantations to find work in the larger cities and towns of Venezuela. To reverse the tide of worker migration and restore the coffee trade, López Contreras transferred Bs30,000,000 to an account in the Banco de Venezuela and empowered the bank to buy coffee for the

⁵³U.S., Archives, RG 151, Special Report No. 5, Commercial Attaché Frederick D. Grab to Department of Commerce, Bureau of Foreign and Domestic Commerce (BFDC), January 13, 1936.

⁵⁴Ibid.

⁵⁵Venezuela, Ministerio de Fomento, Dirección General de Estadística, Anuario Estadística de Venezuela, 1938 (Caracas, 1939), p. 290 reveals that the 1935 price of coffee was 40% of the 1913 value.

government.⁵⁶ While the going price for coffee before the decree ranged between Bs26 to Bs30 per kilogram sack, the government offered Bs50 per sack regardless of the grade.⁵⁷ After buying the crop, the government plan was to dispose of the coffee in foreign markets by bartering it for materials used in the public works program.⁵⁸ One of the good results of the program was that planters were guaranteed a price that made it good business to harvest the 1935-36 crop. It was soon recognized, however, that both the coffee purchase plan and the expanded public works program had been drafted with serious flaws.

During the peace provided by the six days of limited martial law between January 5 and 11, 1936, the Federal Executive acted to correct some of the shortcomings of the December 21 coffee support plan. Fortunately for the nation, private citizens had offered constructive criticisms of the program and began to serve in the new government. Dr. Alberto Adriani from the state of Mérida, for example, had notified López Contreras about the pitfalls inherent in his program almost as soon as it was published.⁵⁹ One of the first problems was that the growers would concentrate production on easily-grown low grades of

⁵⁶U.S., Archives, RG 59, Decimal File 831.00/1550, Nicholson (Caracas) to Dept. of State, December 23, 1935; and RG 151, Economic and Trade Note No. 12, Commercial Attaché Grab (Caracas) to Dept. of Commerce BFDC, January 3, 1936.

⁵⁷U.S., Archives, RG 151, Special Report No. 6, Grab (Caracas) to Dept. of Commerce BFDC, January 25, 1936.

⁵⁸U.S., Archives, RG 151, Economic and Trade Note No. 12, Grab (Caracas) to Dept. of Commerce BFDC, January 3, 1936.

⁵⁹Interview with Dr. Manuel Egafía, Caracas, August 30, 1971; and U.S., Archives, RG 151, Special Report No. 4, Grab (Caracas) to Dept. of Commerce BFDC, January 11, 1936. See also Grab's Special Report No. 5 of January 13, 1936.

coffee in order to get a greater subsidy. By doing so they would destroy the quality and marketability of Venezuelan coffee in world markets. A second major weakness was the establishment of the Banco de Venezuela as the government buying and trading agent. Such a scheme would completely disrupt the existing coffee marketing system and the general economy. Third, the government international barter plan was completely unsound. Fourth, the announcement of the buying scheme had led planters to gather the crop, but no one had sold or exported anything while they waited for the initiation of the higher prices. Their delay in selling the 1935-36 crop meant that markets overseas were in danger of being lost.⁶⁰ Finally, Dr. Adriani thought that the generally depressed state of agricultural prices required establishment of subsidies for all crops and animal products, except tonka beans.

Instead of having his critic arrested as could have happened in the previous regime, President López Contreras quickly appointed Dr. Alberto Adriani to head an emergency government committee organized to study and determine the best way to aid all agricultural interests.⁶¹ By January 27, 1936, the Adriani committee had designed a subsidy program that reached almost all segments of Venezuelan agriculture.⁶² López Contreras accepted the plan immediately. Export bounties were

⁶⁰U.S., Archives, RG 151, Special Report No. 11, Grab (Caracas) to Dept. of Commerce BFDC, February 13, 1936.

⁶¹U.S., Archives, RG 151, Special Report No. 4, Grab (Caracas) to Dept. of Commerce BFDC, January 11, 1936; and interview with Dr. Manuel Egafía, Caracas, August 30, 1971.

⁶²U.S., Archives, RG 151, Special Report No. 7, Grab (Caracas) to Dept. of Commerce BFDC, January 30, 1936.

established on coffee (Bs15.00 per 46 kilogram bag), cacao (Bs10.00 per 50 kilogram bag), sugar (Bs6.00 per 100 kilograms if the domestic price fell below Bs100.00 for the same quantity), and a 25% ad valorem subsidy placed on cattle, hides, fruits, and forest products. To prevent profiteering by large planters, growers of over 150,000 kilograms of coffee were not eligible for the subsidy. If the ordinary international market failed to absorb the crops, the Banco de Venezuela was authorized to purchase for the government up to 300,000 bags of coffee and 100,000 bags of cacao. The new price support program was a vast improvement over the earlier version.

Government officials also began to study the effect that the public works wage scale was having on the national economy. The doubling of the public works wage rate to Bs5.00 per day had helped to solve December's political unrest, but by January the program was creating economic dislocation in the labor market.⁶³ Laborers all over the country were striking for much higher wages.⁶⁴ The biggest problem, however, was the fact that agriculturalists around Caracas could only afford to pay their laborers between Bs3.00 and Bs3.50 per day. Planters elsewhere could pay even less.⁶⁵ If the federal government had continued its wage program unaltered, no workers would have stayed in the fields to harvest the crops on which the subsidies were

⁶³ U.S., Archives, RG 59, Decimal File 831.00/1569, Nicholson (Caracas) to Dept. of State, January 21, 1936.

⁶⁴ U.S., Archives, RG 84, January 1936 Political Report, Vice Consul Louis B. Mazzeo (La Guaira) to Dept. of State, January 31, 1936.

⁶⁵ U.S., Archives, RG 151, Special Report No. 18, Grab (Caracas) to Dept. of Commerce BFDC, March 31, 1936.

being paid. To reduce the attractiveness of wage scales available to public works laborers, a qualification system was established on January 20, 1936.⁶⁶ Those who were under 15 years old or who were not physically fit were excluded. Literate workers were paid Bs4.00 per day, while illiterates earned Bs3.00 per day. A brief attempt to strike against the changes failed. Even with the wage reductions, the public employment rolls kept growing.

It was at this point in his economic and political program that the press discussion about the wealth of gomecista favorites precipitated the tragedy of February 14, 1936. For a brief period, martial law was declared. To maintain the progressive spirit of his administration, López Contreras soon once again restored civil liberties and then presented the first general program of administration in Venezuelan political history.⁶⁷ The plan was broadcast to the Venezuelan people by a presidential radio address on February 21, 1936. To develop Venezuela into a modern state, the President's "Plan Februario" (February, 1936 Plan) proposed to: (1) re-establish rule by lawful administration, (2) restore self-government to local municipalities, (3) establish a national labor office to protect workers' bargaining and organizational rights, (4) promote better health and provide social assistance, (5) improve educational, transportation, and communication facilities,

⁶⁶U.S., Archives, RG 59, Decimal File 831.00/1569, Nicholson (Caracas) to Dept. of State, January 21, 1936.

⁶⁷Burggraft, The Venezuelan Armed Forces in Politics, p. 38; U.S., Archives, RG 59, Decimal File 831.00/1596, Nicholson (Caracas) to Dept. of State, February 25, 1936; and Ramón Díaz Sánchez, Transición: Política y Realidad (Caracas: Ediciones La Torre, 1937), pp. 63-64.

(6) modernize and support the national agriculture industries, and (7) implement sound fiscal and commercial policies to develop and protect the national economy. Public acceptance of the address was enthusiastic.⁶⁸ On February 26, 1936, López Contreras created three new ministries to help carry out the programs: Communications, Public Health and Assistance, and Agriculture.⁶⁹ Three days later the National Labor Office was opened. Within a week it had peacefully settled a labor dispute in a textile factory.⁷⁰ To assist the Venezuelan government, two experts were hired from the League of Nations and one from the United States: Pierre Denís in economics and financial affairs, (2) David Bellock in labor relations, and (3) Dr. Constantine McGuire in fiscal and monetary policy.⁷¹ President López Contreras had not simply announced the new program of government; he was moving to carry it out.

⁶⁸U.S., Archives, RG 84, Consular Report from Louis B. Mazzeo (La Guaira) to Dept. of State, February 29, 1936; and RG 59, Decimal File 831.00/1558, Nicholson (Caracas) to Dept. of State, February 22, 1936.

⁶⁹U.S., Archives, RG 59, Decimal File 831.02/62, Nicholson (Caracas) to Dept. of State, February 27, 1936.

⁷⁰U.S., Archives, RG 151, Economic and Trade Note No. 36, William Witman (Caracas) to Dept. of Commerce, March 13, 1936. A major weakness of the National Labor Office was that only five men were responsible for inspection and supervision of all Venezuelan industry.

⁷¹U.S., Archives, RG 59, Decimal File 831.01A/6, Consul Prentiss B. Gilbert (Geneva) to Dept. of State, March 9, 1936; Decimal File 831.01A/7, Nicholson (Caracas) to Dept. of State, March 24, 1936; Decimal File 831.01A/4, Nicholson (Caracas) to Dept. of State, March 3, 1936; and Decimal File 831.02/77, Nicholson (Caracas) to Dept. of State, July 7, 1937.

Conservative Pragmatism versus Political Populism

Throughout March and April the President and his Cabinet worked to prepare for the National Congress. In addition to the presidential election, ministerial reports for the economic year July 1, 1935, to June 30, 1936, were due in Congress. Proposed expenditures and revenues for fiscal year 1936-37 had to be prepared. During these studies it was revealed that the public works program had to be reduced in scale. The national Treasury balance which stood at Bs111,549,041 on December 31, 1935, had been reduced to Bs74,570,000 by May 30, 1936.⁷² This was a 33% drop in only six months time. Agricultural payments and the expanded public works payrolls accounted for most of the increased federal government expenditures. For example, the weekly public payroll grew from about Bs345,000-Bs500,000 under Juan Vicente Gómez to Bs1,500,000 during the first three weeks of the new government. Between January 15 and February 14, 1936, the weekly payroll had decreased to Bs800,000. After the February riots and extending until one month after the presidential election, the payroll swelled to Bs2,000,000 per week.⁷³ It was at this point on May 20, 1936, that action was taken to reduce the public labor force from 40,000 to 20,000 men and to cut expenses to a flat Bs800,000 per week.⁷⁴ High officials in Public Works were to take a 20% salary cut while white collar workers took a 10% reduction. To further lower expenditures, a five

⁷²U.S., Archives, RG 151, Special Report No. 3, Witman (Caracas) to Dept. of Commerce, June 9, 1936.

⁷³U.S., Archives, RG 151, Special Report No. 29, Grab (Caracas) to Dept. of Commerce BFDC, May 23, 1936.

⁷⁴U.S., Archives, RG 151, Economic and Trade Note No. 74, Grab (Caracas) to Dept. of Commerce BFDC, May 20, 1936.

day work week was introduced. To lessen unemployment caused by the layoff, the Minister of Public Works offered a subsidy of Bs1.00 per day to agricultural employers who would hire additional laborers.⁷⁵ The plan was to transfer public works employees earning Bs3.00-Bs4.00 per day to agricultural jobs paying Bs2.50-Bs3.00 per day. The additional Bs1.00 subsidy would allow agricultural employers to offer the same wages that the government paid. Under an additional experimental program, the government set up agricultural colonies near Lake Valencia where 32 men formed a cooperative on 150 acres.⁷⁶

In response to the labor curtailment program, workers formed the Association of Laborers on Public Works. The ORVE, PRP, FEV and the newly formed Venezuelan Workers Federation were asked to apply political pressure on the federal government to reinstate workers.⁷⁷ It was unfortunate that the growing labor unrest took place just as the Congress began debating a highly controversial bill. Fearful of continuing political unrest and looting, gomecista politicians in Congress decided to enact strict legislation to protect themselves.⁷⁸ Article 1 of the proposed Law of Social Defense stated that all

⁷⁵U.S., Archives, RG 151, Economic and Trade Note No. 84, Witman (Caracas) to Dept. of Commerce BFDC, May 29, 1936; and Special Report No. 29, Grab (Caracas) to Dept. of Commerce BFDC, May 23, 1936.

⁷⁶U.S., Archives, RG 151, Economic and Trade Note No. 83, Witman (Caracas) to Dept. of Commerce BFDC, May 29, 1936.

⁷⁷U.S., Archives, RG 151, Economic and Trade Note No. 93, Witman (Caracas) to Dept. of Commerce BFDC, June 6, 1936.

⁷⁸U.S., Archives, RG 59, Decimal File 831.00/1622, Nicholson (Caracas) to Dept. of State, May 21, 1936. A major part of the problem was caused by a fear that the new parties would succeed in their calls to dissolve the old gomecista Congress. J. Penzini Hernández, Democracia Habemos (Caracas: Editorial Artes Gráficas, 1939), pp. 139-144.

anti-republican acts were to be punished according to existing laws. Articles 2 and 3 established a four to six year prison term for anyone who used public communications media to insult, libel, or offend republican institutions or for anyone who defiled national symbols. The next six articles applied anti-communist penalties which ranged from prison to exile. Since the government traditionally applied a very loose definition of the term "communist agitators," the law was unpopular among Venezuelans who wished to demonstrate for their rights independent of government approval.

General strikes broke out against the national government all over Venezuela. Maracaibo and Barquisimento businesses closed on May 21, 1936.⁷⁹ In Caracas the newspaper El Herald criticized the legislation as dangerous, ambiguous, and overdrawn.⁸⁰ Deputies in favor of the bill had to slip out side exits to avoid angry opponents and hostile mobs on the streets. In the face of rising opposition to the bill and to the entire Congress, the proposed law was withdrawn from consideration.

In place of the legislation, a new bill was introduced. The more moderate Law of Public Order called for: (1) severe penalties for public disturbances, (2) government approval of political speeches, (3) licensing of public gatherings, and (4) anti-communist censorship of the press, radio, and telegraph.⁸¹ Although the expressed purpose of the act was

⁷⁹U.S., Archives, RG 59, Decimal File 831.00/1623, Nicholson (Caracas) to Dept. of State, May 25, 1936.

⁸⁰El Herald, May 20, 1936.

⁸¹U.S., Archives, RG 151, Economic and Trade Note No. 100, Witman (Caracas) to Dept. of Commerce BFDC, June 10, 1936.

to curtail foreign agitators and halt the spread of communist propaganda, the new law aroused suspicion about a potential return to gomecista repression. Radicals and communists hoped to use this fear to gather opposition to the measure before it passed. On Tuesday, June 9, most commercial enterprises in Caracas closed in anticipation of trouble. The official start of the general strike was declared Wednesday. Since it rained hard that day, large crowds didn't gather in the streets to protest. Thursday was the religious holiday of Corpus Christi. By 6:00 P.M. on Saturday, June 13, the fizzling general strike was called off.⁸² The few strikes elsewhere in Venezuela were ended by strike-breakers and troops.⁸³

After the June 11, 1936 passage of the Law of Public Order, the political climate of Venezuela calmed for several months. Everyone blamed the June disorders on radicals. During its ordinary session the Congress passed a new Federal Constitution of 1936, a basic labor law, and a revised banking law.⁸⁴ The 1936 Constitution reduced the presidential term of office from seven to five years and established election machinery to choose part of the Congress in 1937. The 1936 Labor Law incorporated the recommendations of the International Labor Office expert: (1) profit sharing was set up for each worker by the employer, (2) an eight hour work day was established, (3) compensation

⁸²Ibid.

⁸³U.S., Archives, RG 84, Consular Report from Mazzeo (La Guaira) to Dept. of State, June 11, 1936.

⁸⁴U.S., Archives, RG 151, Special Report No. 12, Grab to Dept. of Commerce BFDC, July 21, 1936.

for accident and illness (including paid maternity leave) was ordered, and (4) trade unions were allowed to organize and bargain collectively.⁸⁵ The Bank Law of 1936 required that 75% of all bank employees be Venezuelan, that 80% of the bank capital be invested in Venezuela, that a 2% net profit tax be paid to the national government, and that loans made to any individual customer be limited to 10% of the bank's capital reserve.⁸⁶ The Labor and Bank Laws of 1936 were aimed generally at the foreign petroleum companies and branch banks in Venezuela which had enjoyed very profitable business under very loose government supervision. One additional measure which increased the popularity of the Congress was the August 19, 1936 confiscation of all the possessions of the deceased Juan Vicente Gómez estate.⁸⁷

In September political activity revived as parties began to prepare for the January, 1937 elections. Rightist forces organized the Liga de Defensa Nacional movement, proclaimed a Bolívarian republican ideology, and supported law and order.⁸⁸ The main political objective of the movement was to counter the growing popularity of leftist groups such as ORVE, PRP, FEV, and the Workers Front which called for: (1) free congressional elections, (2) opposition to foreign imperialist

⁸⁵ Ibid. and "New Labor Law of Venezuela," Pan American Union Bulletin, LXX (1936), 970-971.

⁸⁶ U.S., Archives, RG 151, Special Report No. 5, Grab (Caracas) to Dept. of Commerce BFDC, July 15, 1936.

⁸⁷ U.S., Archives, RG 151, Economic and Trade Note No. 8, Witman (Caracas) to Dept. of Commerce BFDC, August 20, 1936. The new 1936 Constitution made provisions for the action.

⁸⁸ U.S., Archives, RG 59, Decimal File 831.00/1648, Nicholson (Caracas) to Dept. of State, September 29, 1936.

interests, (3) land reform, and (4) establishment of a single unified leftist party in Venezuela.⁸⁹ In November when the five major leftist parties attempted to consolidate into the Partido Democrático Nacional or PDN (National Democratic Party), the Governor of the Federal District refused to authorize a political charter for the new organization. Without such a charter, the party could not function publicly or legally.⁹⁰ Citing the anti-communist sections of the Law of Public Order and the Venezuelan Constitution, conservatives rallied to support the Governor's stand against the leftists. A vigorous campaign launched by the Liga de Defensa Nacional charged that PDN leaders, Jóvito Villalba, Rómulo Betancourt, Raúl Leoni and others, were communist sympathizers. The dispute was taken to the Venezuelan Supreme Court where on December 15, 1936, Governor Mibelli's ruling was upheld.⁹¹

Spurned by the Federal Executive and Supreme Court, leftist nationalists sought to demonstrate their strength by actively encouraging a crippling labor strike which had begun in mid-December, 1936. This pro-strike stance was carried out in direct opposition to the attempts of the National Labor Office to end the strike quickly.⁹² By the time the President ended the 40 day old strike with a January 23, 1937

⁸⁹ Ibid.

⁹⁰ U.S., Archives, RG 59, Decimal File 831.00/1649, Nicholson (Caracas) to Dept. of State, November 23, 1936; and Decimal File 831.00/1651, Chargé d'Affaires ad interim Henry S. Villard (Caracas) to Dept. of State, December 16, 1936.

⁹¹ Ibid.

⁹² Burggraft, The Venezuelan Armed Forces in Politics, p. 38.

decree, the PDN supporters had established a firm base of support among the oil workers. On January 28, Raúl Leoni, Jóvito Villalba, and two other candidates representing leftist opposition parties, who had won congressional seats in the January, 1937 national election, found that their victories were nullified by the Federal Executive.⁹³ Because the leftist parties had encouraged the oil workers to continue the costly strike against the Venezuelan national interest, the López Contreras government punished them by revoking the political charters of ORVE, PRP, and the FEV. When they ceased to function as overt political organizations, the newly founded labor unions lost their most boisterous support.

From February, 1937 to May, 1941, the López Contreras administration never again faced effective political opposition. In large part this was due to the manner in which the President separated the key leaders of the leftist opposition from their less-organized followers. All during 1936 the Ministry of Interior Relations had carefully monitored communications and manifestos of leaders of leftist parties. In a book popularly called the Libro Rojo (Red Book), the Venezuelan Secret Service of Investigation published its version of the extent of communist subversion in Venezuela.⁹⁵ While FEV student supporters rioted on the University campus in February, 1937, patriotic

⁹³Ibid. and U.S., Archives, RG 59, Decimal File 831.00/1662, Villard (Caracas) to Dept. of State, February 23, 1937. On February 19 the Supreme Court declared their election to be null and void due to their communist affiliations.

⁹⁴Ibid.

⁹⁵Ibid.; Luzardo, Notas Histórico-Económicas, pp. 225-234; and Darío Parra, Venezuela, "Democracia" vs. "Dictadura," (Madrid: n.p., 1961), pp. 83-84.

Venezuelans were urged to read and circulate the book. After a group of army officers published a memorandum calling for the repression of radicals, who were attempting to subvert the lower ranks of the Venezuelan Army, the stage was set for action against the leftists.⁹⁶

Having prepared the Venezuelan people for a dramatic move, on March 13, 1937, López Contreras evoked the special police powers authorized under Article 32 of the 1936 Constitution. Forty-seven top leftist leaders were rounded up by the secret service.⁹⁷ On March 27, 1937, the sentence of the decree was executed. Each of the opposition leaders was given a Venezuelan passport with visa to Mexico, a sum of cash sufficient for the first months overseas (with additional dependency allowances, if married), and placed in comfortable accommodations aboard a departing French steamship.⁹⁸ The term of exile was for one year. After that time if they were willing to cooperate with the government, they could return. The lack of public response to the decree was due to either agreement with the action or fear of the government on the part of the Venezuelan people. Leftists claimed that the populace was intimidated. It was more likely that the general feeling was that the opposition leaders had been a nuisance and that the one year exile was not overly harsh.

⁹⁶ U.S., Archives, RG 59, Decimal File 831.00/1656, Villard (Caracas) to Dept. of State, February 10, 1937; and Decimal File 831.00/1659, Villard (Caracas) to Dept. of State, February 16, 1937.

⁹⁷ Burggraft, The Venezuelan Armed Forces in Politics, p. 39.

⁹⁸ Ibid.

Assessment of the Political Administration of López Contreras

In Latin America the general pattern of history following the death of a long-term, powerful dictator is political anarchy and economic chaos. A man like Juan Vicente Gómez perpetuated himself by never permitting strong rivals or unchecked subordinates to exist and thus threaten his rule. When alive such a man literally is the nation; once dead he is nothing. After his death everyone defiles him, his henchmen, and the old system. The resulting power vacuum serves as the spawning ground for revolution. As always, terrible social and economic costs are borne by the people, a sad fact that has impoverished Latin American countries far more than any foreign imperialism.

Venezuela was fortunate that General Eleazar López Contreras proved to be an exceptional leader capable enough to gain power by maneuver rather than by force. His handling of gomecista generals and governors during the December, 1935 and the February, 1936 riots was masterful. All the while young leftists labored in the streets thinking that they were forcing great changes in Venezuela, López Contreras directed the economic and political rebirth of Venezuela according to his own plans. The February Plan of 1936 was the first coherent national plan in Venezuelan history. Once it was accomplished, a more ambitious program was begun. As could be expected, young leftist nationalists were not satisfied with the pace of political and economic reform. When the final confrontation between López Contreras and his leftist opposition took place in 1937, once again the President proved to have the situation well under control. As

was his style, López Contreras employed moderate rather than extreme measures (exile versus imprisonment or execution) against his opposition. Some observers believed that López Contreras made a tactical error by creating exiled martyrs.⁹⁹ It was more likely that he saved Venezuela from the rule of political novices during a critical time of transition when the economic and political system of the country could not afford the luxury of disunity.

Among the political exiles of 1937 were a number of men who would later rise to significant positions in Venezuelan politics. Rómulo Betancourt and Raúl Leoni were elected to the Presidency of Venezuela under the party banner of Acción Democrática (Democratic Action). Gustavo Machado became head of the Venezuelan Communist Party. Since supporters of both of these political parties have written the dominant interpretations of the López Contreras era, his administration has been castigated as being repressive, undemocratic, neo-gomecista, and incapable of protecting the nation's wealth from foreign exploitation.¹⁰⁰ These interpretations ignore the limited political experience of the Venezuelan people at the end of the Gómez dictatorship. They also ignore observations made by more temperate participants of the era. Speaking in March, 1937, the Minister of Education, Dr. Rafael Ernesto López who had led a large number of anti-Gómez liberals in exile,

⁹⁹ Ibid. Rómulo Betancourt called it the end of the democratic honeymoon. Suárez, El Régimen de López Contreras, p. 33.

¹⁰⁰ Rómulo Betancourt, Venezuela: Política y Petróleo, 3rd ed., (Caracas: Editorial Senderos, 1969), pp. 101-157; and Juan Bautista Fuenmayor, 1928-1948, Veinte Años de Política (Madrid: Editorial Mediterráneo, 1968), pp. 227-232.

stated that López Contreras had administered the most democratic government in Venezuela's history.¹⁰¹ Even Marxist Juan Bautista Fuenmayor conceded that many diverse elements were represented in the government.¹⁰² More recent historical interpretations are not as critical of López Contreras' political actions when they describe the lack of liberal democracy in Venezuela between 1935 and 1941.¹⁰³ Further analysis of fiscal policy, monetary policy, and international trade policy show that López Contreras' political rivals also erred in their economic interpretations of his government. His administration, which preached "calma y cordura" (composure and prudence) in all its actions, was much more capable than many of its critics could have ever believed.

¹⁰¹ New York Times, December 27, 1935, and March 21, 1937.

¹⁰² Fuenmayor, Veinte Años de Política, pp. 122 and 127.

¹⁰³ Burggraft, The Venezuelan Armed Forces in Politics, pp. 39-40; Guillermo Moron, Historia de Venezuela, 4th ed., (Caracas: Italgrafica, 1970), pp. 481-485; and Juan Liscano, Rómulo Gallegos y Su Tiempo (Caracas: Monte Avila Editores, 1969), p. 173. See especially, Luzardo, Notas Histórico-Económicas, pp. 52-53.

CHAPTER 4

THE BATTLE FOR THE BOLÍVAR: THE NATIONAL ECONOMIC DEVELOPMENT PROGRAM OF LOPEZ CONTRERAS, 1935-1937

The Campaign for Economic Recovery

When López Contreras took power in December, 1935, most of the Venezuelan economy was severely depressed. High unemployment was widespread because of low world market prices for coffee and cacao. The high foreign exchange value of the bolívar, caused by increasing petroleum exports, had fostered a Venezuelan market economy in which domestic production was too expensive to compete with foreign products. The only hope for restoring economic prosperity lay in gaining a greater participation in petroleum company profits and efficiently utilizing the Bs111,000,000 national Treasury surplus left by General Juan Vicente Gómez.¹

To promote national economic recovery and political tranquility, the new administration hurriedly planned a large scale program of deficit spending. From the beginning of the economic recovery program, however, the small Venezuelan industrial base hampered the government's stimulative efforts. Since almost every bolívar spent

¹United States, National Archives, RG 151, Special Report No. 6, Frederick D. Grab (Caracas) to Department of Commerce, Bureau of Foreign and Domestic Commerce (hereafter referred to as BFDC), January 25, 1936; Economic and Trade Note No. 61, Grab (Caracas) to BFDC, April 28, 1936; and Edwin Lieuwin, Petroleum in Venezuela (New York: Russell & Russell, 1967), p. 73.

in an effort to increase domestic employment and production also served to spur demand for imported manufactured goods, the need for foreign exchange soon became acute. When adequate foreign exchange reserves were not available at the private banks, the exchange value of the bolívar fell (e.g., rose from Bs3.90 to Bs4.00 to Bs4.10 per dollar, etc.). Government officials faced a serious dilemma. More money had to be spent to revive the Venezuelan economy, but this in turn exerted tremendous pressure to devalue the bolívar. Once the bolívar suffered devaluation, the foreign purchasing power of the national Treasury surplus (in bolívares) was reduced. For the government to sustain a deficit spending program for any significant length of time, the new administration had to find new ways to raise bolívar revenues and simultaneously to maintain or to raise the foreign exchange value of the bolívar. Finally, before such generalized fiscal and monetary objectives could be organized into specific plans of action, the López Contreras government first had to recruit capable bureaucrats and survive anti-gomecista political unrest.

In theory the end of the long dictatorship should have produced a crisis of confidence resulting in a major capital flight which would have lowered the exchange value of the bolívar at least momentarily. In late December, 1935 and early January, 1936, however, the bolívar did not fall as expected. Due to business and political uncertainty, commercial and import demand languished while merchants cautiously assessed the new administration. During these economic doldrums, petroleum companies continued to pour foreign exchange into the local market as prescribed in the June 19, 1935 modification of the 1934

Tinoco Agreement. Specifically, they were required to convert at least \$100,000 into bolívares each working day until January 31, 1936. Since the commercial demand for foreign exchange had fallen drastically, the companies were unable to find the usual importers who normally purchased foreign drafts at the then current rate of Bs3.90 per dollar. Instead, the companies were forced to convert the unsold portion of the \$100,000, which the open market was unable to absorb, with the government selling bolívares at the gold import point of Bs3.06.² Exchanging dollars for bolívares at the gold import point raised foreign exchange conversion costs 21.6% at a time when the petroleum companies did not need additional bolívares. During 1935 they had been able to acquire increasing amounts of bolívares at average monthly conversion rates which steadily became more advantageous (e.g., moved from Bs3.06 to Bs3.90 per dollar). Table 10 describes the official dollar conversion activities of the petroleum companies.³

By the end of January, 1936, when the dollar/bolívar conversion agreement was scheduled to lapse, the companies had amassed bolívar reserves sufficient to cover all projected payroll and tax payments for two months.⁴ Given this surplus, the foreign companies had only to refrain from converting foreign exchange into bolívares for a period of 3-4 weeks in order to cause the exchange value of the bolívar to

²U.S., Archives, RG 151, Special Report No. 10, Grab (Caracas) to BFDC, February 6, 1936.

³U.S., Archives, RG 151, Special Report No. 6, Grab (Caracas) to BFDC, January 25, 1936.

⁴U.S., Archives, RG 151, Special Report No. 10, Grab (Caracas) to BFDC, February 6, 1936.

TABLE 10
DOLLAR TO BOLÍVAR CONVERSIONS BY
PETROLEUM COMPANIES DURING 1935
(In Thousands)

Month	Bs at 3.06	Bs at 3.90	Total Bs
January	3,446	80	3,526
February	2,249	105	2,354
March	2,177	301	2,478
April	1,830	1,143	2,973
May	700	1,214	1,914
June	1,470	751	2,221
July	2,230	1,216	3,446
August	425	2,607	3,032
September	430	1,279	1,709
October	1,675	1,457	3,132
November	915	2,110	3,025
December	200	4,167	4,367

collapse from Bs3.90 to perhaps over Bs5.00 per dollar. This was critically important for both the government and the companies. At a Bs3.90 conversion rate Bs100,000 in taxes equalled \$25,600, while at a Bs5.10 conversion rate, Bs100,000 equalled only \$19,600. Venezuela imported many necessities and needed foreign exchange. By not selling exchange "momentarily," the companies could have reduced their dollar expenses in Venezuela by approximately \$7,500,000 annually. Simultaneously, the foreign exchange value of the Bs111,000,000 Venezuelan national Treasury surplus would have tumbled from \$28,000,000 to about \$20,000,000. Very clearly the interests of the companies and the Venezuelan government were not the same.

Venezuelan officials realized that such a devaluation would seriously jeopardize the ability of the government to continue economic recovery programs. To avoid political and economic chaos, a

quick offer to renegotiate the Tinoco foreign exchange agreement was made to the companies.⁵ In an early January, 1936 interview with the U.S. Commercial Attaché Frederick D. Grab, Dr. Alberto Adriani stated confidentially that he would have preferred to have established a bolívar to dollar conversion rate of Bs3.06 for the petroleum industry and a Bs5.00-Bs6.00 rate for agriculture.⁶ Given this option, the complicated agricultural export subsidy program could have been avoided. Considering the substantial bolívar reserves of the petroleum companies, however, it was unrealistic to expect Standard Oil of New Jersey, Royal Dutch Shell, and Gulf Oil to accept this proposal. The actual exchange plan advanced by the government was a compromise and called for the companies to convert dollars at a Bs3.60 rate.⁷ Since the average conversion rate that the companies realized during all of 1935 was about Bs3.50, the government officials thought that they had offered a reasonable proposal. But representatives for the oil interests did not agree. They pointed out that bolívar/dollar exchange rates in December had been close to Bs3.90. Only unusual business conditions had prevented the bolívar from falling even lower in value. Oil company officials rejected the proposed agreement which would have

⁵U.S., Archives, RG 151, Economic and Trade Note No. 29, Grab (Caracas) to BFDC, February 21, 1936. The original Tinoco Convention had been modified in June of 1935. See Alfonso Espinosa, El Proceso Monetario: Venezuela, 1930-1960 (Caracas: Editorial Arte, 1963), p. 31.

⁶U.S., Archives, RG 151, Special Report No. 10, Grab (Caracas) to BFDC, February 6, 1936; and Economic and Trade Note No. 62, Grab (Caracas) to BFDC, April 30, 1936.

⁷U.S., Archives, RG 151, Economic and Trade Note No. 29, Grab (Caracas) to BFDC, February 21, 1936; and Special Report No. 10, Grab (Caracas) to BFDC, February 6, 1936.

stabilized the value of the bolívar.⁸ Yet to prevent a serious loss of confidence in the new government, the petroleum companies protected their investments (estimated at \$350,000,000 in 1931) from more radical Venezuelan political factions by continuing to supply foreign exchange to Venezuelan banks on a voluntary basis, but only at Bs3.90 to the dollar.

After February 21, 1936, when President López Contreras announced his national economic development program, Plan Februario, it was clear that the Federal Executive planned to take action to regain Venezuelan control over a restored Venezuelan economy.⁹ His public broadcast singled out a number of specific fiscal and monetary policy objectives. The government would develop private wealth and implement new sources of taxation. The entire tax system was to be overhauled to make it more progressive. The nation's share of economic returns from Venezuelan natural resources was to be raised to the maximum extent possible. A central bank was to be created to regulate the money supply and protect the international exchange value of the bolívar. Finally, Venezuela's international commercial policy was to be reorganized along more nationalistic lines. Within weeks foreign economic and financial experts were recruited from the League of Nations and the United States to assist the government in its new program.¹⁰

⁸U.S., Archives, RG 151, Economic and Trade Note No. 29, Grab (Caracas) to BFDC, February 21, 1936.

⁹U.S., Archives, RG 151, Special Report No. 93 (II), Grab (Caracas) to BFDC, February 3, 1937; and Special Report No. 93 (IV), Grab (Caracas) to BFDC, February 21, 1937.

¹⁰U.S., Archives, RG 151, Economic and Trade Note No. 31, Grab (Caracas) to BFDC, March 3, 1936.

Maneuvers for Government Advantage

Even before the foreign experts began their advisory work, the López Contreras administration showed that, even though it negotiated from a position of relative weakness, it was capable of squeezing minor concessions out of the foreign-owned petroleum companies. Throughout February and March the petroleum companies converted only enough dollars to keep the Caracas bank foreign exchange market tightly at Bs3.90.¹¹ By late March, 1936, however, Royal Dutch Shell, Gulf, and Standard Oil of New Jersey were experiencing serious labor problems in the rich Maracaibo oil fields. The Venezuelan government, interestingly, did not seem to acknowledge the severity of the labor problems which the companies were facing. Agitators had begun to incite workers into taking militant action against the companies (and the government). Worried officials of the three major companies in Maracaibo wired their representatives in Caracas and urged them to convince the government to send troops to keep order.¹² The degree of nervousness on the part of the company managers can be estimated by assessing their offer to erect new barracks at their own expense.

Then trouble also erupted for Standard Oil in the eastern Venezuelan oil fields. When the company tried to placate workers' demands by raising wages to parity with the western Maracaibo oil field wage scale, striking workers were still not satisfied. At this point

¹¹Perhaps \$2,500,000 left the country in capital flight during March. U.S., Archives, RG 151, BDFC File 601.2 Venezuela, Grab (Caracas) to BFDC Finance Division, July 28, 1936.

¹²U.S., Archives, RG 59, Decimal File 831.00/1611, Nicholson (Caracas) to Department of State, March 28, 1936.

President López Contreras requested that the company not increase wages any further.¹³ Since the minimum daily petroleum wage in the eastern field was Bs6.00 and the average wage was Bs9.00, neither the eastern Venezuelan agriculturalists nor the government could afford to pay competitive wages.¹⁴ Higher wages to workers in the petroleum industry were severely detrimental to higher employment in the Venezuelan agricultural industry. Of course, the President's wage freeze was not popular with the oil workers (Venezuela's privileged labor class) or their political allies. Since the companies needed close government support if labor problems escalated, managers of Royal Dutch Shell and Standard Oil realized the wisdom of agreeing to a new dollar/bolívar conversion agreement with the government on a temporary basis. On April 17, 1936, when the new agreement was proclaimed, the terms were identical to those in the 1934 Tinoco Agreement.¹⁵ Until May 31, 1936, all three companies agreed to sell the banks a steady \$100,000 per working day at Bs3.90 per dollar. Opposition political leaders, who immediately denounced the agreement as unacceptable, were simply ignored by the government.¹⁶ Few Venezuelans on the streets listening to the populist politicians realized the poor exchange

¹³U.S., Archives, RG 59, Decimal File 831.6363/853, Division of Latin American Affairs Memorandum of call of Harold Walker (Standard Oil of New Jersey), April 3, 1936.

¹⁴U.S., Archives, RG 151, Economic and Trade Note No. 73, Grab (Caracas) to BFDC, May 23, 1936.

¹⁵U.S., Archives, RG 151, Economic and Trade Note No. 55, Grab (Caracas) to BFDC, April 20, 1936.

¹⁶U.S., Archives, RG 59, Decimal File 831.00/1648, Nicholson (Caracas) to Dept. of State, September 29, 1936; and Decimal File 831.00/1605, Nicholson (Caracas) to Dept. of State, March 14, 1936.

bargaining position of the national government. To many it seemed as if the López Contreras government had failed the nation by reverting back to the 1934 Gómez era exchange agreement terms. This was not the case; nationalism had been tempered by realism in making the deal.

Instead of battling with the eager but uninformed political opposition, officials of the Ministry of Treasury concentrated on more important matters. The annual audit report for expenditures during the gomecista period of fiscal year 1935-36 had to be prepared along with an itemization of disbursements made by the López Contreras administration. This report was to be presented to the Congress which began April 19, 1936. In addition, early in April the Bureau of Economics and Finance in the Ministry of the Treasury began a comprehensive national study of: (1) the national economy, (2) production capacity, (3) costs of production, (4) distribution of national wealth, (5) capital formation, (6) international trade, (7) systems of credit, (8) public revenues, and (9) monetary systems.¹⁷ It was the first time that such economic and statistical analyses had ever been undertaken by the Venezuelan government. Amidst disturbing political conditions and hampered by a lack of trained personnel, the Treasury Ministry was undertaking tasks of Herculean magnitude.

As these studies were being organized, President López Contreras transferred Dr. Alberto Adriani, who had been serving as Minister of Agriculture since March 1, 1936, to the post of Minister of Treasury.

¹⁷U.S., Archives, RG 151, Economic and Trade Note No. 46, Grab (Caracas) to BFDC, April 7, 1936.

When the 38 year old Dr. Adriani assumed the position, he had already acquired significant experience as the administrator of the agricultural export bounty program.¹⁸ From his point of view, the export subsidy system was more complicated than a simple alternative, devaluation of the bolívar. He knew that the Chilean and Colombian governments had improved their internal economies by devaluation; however, officials in the Ministry of Development sharply disagreed with the idea of devaluation.¹⁹ Under the program they advocated, a strong central government was needed to aid agricultural exporters, to finance local industrialization, and to maintain a protective tariff. To carry out this program the bolívar's foreign exchange value had to be maintained at Bs3.90 or appreciated. Although the cost of living and price levels in Venezuela remained extremely high, in terms of world price levels, this economic sacrifice was worth making if the government was to have the power to plan and control Venezuelan economic restoration. Different Venezuelan basic industries could be selectively encouraged by use of export bounties, tariff restrictions, and/or quid pro quo commercial trade agreements. In short, the Ministry of Development advocated the introduction of 20th Century centralized state economic planning concepts in place of the faltering 19th Century laissez-faire economic liberalism of the Gómez administration.

As a significant part of the Venezuelan economic program, the Venezuelan Ministry of Foreign Relations was directed to negotiate

¹⁸U.S., Archives, RG 151, Economic and Trade Note No. 62, Grab (Caracas) to BFDC, April 30, 1936.

¹⁹U.S., Archives, RG 151, Economic and Trade Note No. 63, Grab (Caracas) to BFDC, April 30, 1936.

bilateral trade agreements with other countries to protect and to expand Venezuelan export markets. This action was in direct response to protective tariffs such as the 1930 Hawley-Smoot tariff and the competitive devaluations of 1931 and 1933 which had made world trade channels more and more restrictive. As early as January, 1935, the Venezuelan Minister in Washington had been instructed to examine the advisability of negotiating a trade agreement with the United States under the 1934 Reciprocal Trade Agreement Act. Officially, the Department of State heard nothing about the proposal.²⁰ After the Venezuelan government negotiated trade agreements and treaties with France and Belgium in mid-1935, U.S. diplomatic officials had still heard nothing formally.²¹ Then in January, 1936, before returning to Venezuela to become Minister of Foreign Relations, Dr. Estéban Gil Borges informally discussed reciprocal trade agreement questions with Henry F. Grady, Chief of the Division of Trade Agreements in the Department of State. Since almost all of Venezuela's exports entered the U.S. market duty-free, when Gil Borges left he commented to Grady that there was no urgent need to begin diplomatic negotiations.²²

Protectionist trade policies sponsored by coal and oil state representatives in the U.S. Congress soon forced a complete reversal

²⁰U.S., Archives, RG 59, Decimal File 611.3131/35, Memorandum of William R. Manning of Division of Latin American Affairs, January 28, 1935.

²¹U.S., Archives, RG 59, Decimal File 611.3131/52, A. Manuel Fox of U.S. Tariff Commission to Dept. of State, July 21, 1936.

²²U.S., Archives, RG 59, Decimal File 611.3131/50, Nicholson (Caracas) to Dept. of State, May 7, 1936.

of the ambivalent Venezuelan position. On May 6, 1936, Foreign Minister Gil Borges notified the American Minister in Caracas that Venezuela desired to establish a commercial agreement to bind all tariffs on Venezuelan exports to the U.S. market.²³ In return Venezuela would reduce tariff duties on American exports to Venezuela. The urgency in Gil Borges' communication was, in large part, based on fears about Senate Resolution 2106 of February 28, 1935, House Resolution 10483 of January 22, 1936, and House Resolution 12161 of April 3, 1936.²⁴ If enacted into law, these proposed revenue measures would limit the amount of imports authorized and raise import excise taxes on petroleum imports. Venezuelan officials feared such legislation would reduce royalty income and petroleum industry growth in the country. As a prod to influence the Department of State to begin reciprocal trade talks immediately, Gil Borges pointed out that a general revision of Venezuelan trade policy was pending. The new policy was to be based on the principle "Buy from those who buy from us" under a system of bilateral balancing.

At first the Department of State thought that the Venezuelan Foreign Minister was over-reacting. On May 18, 1936, when the hearing before the House Committee on Ways and Means began on House Resolution 10483, the bill was not expected to pass out of the committee. The proposal called for limiting daily imports to 4.5% of the normal daily

²³Ibid.

²⁴H.R. 10483 had been authored by Representative Wesley E. Disney of Oklahoma. U.S., Archives, RG 59, Decimal File 611.3131/50, Assistant Secretary of State Sumner Wells to Nicholson (Caracas), June 9, 1936.

demand, and doubling present taxes on oil imports (except gasoline and lubricating oils which were stabilized at 2¢ and 4¢ per gallon).

Bunkering supplies for ships were to be taken off the free list and taxed at 1¢ per gallon. Surprisingly, after the strong opposition of both the committee chairman and the Department of State, the bill was reported out of the Ways and Means Committee by a favorable vote on May 29, 1936.²⁵ Assistant Secretary of State Sumner Welles instructed Nicholson to inform Gil Borges that "the Department was following the proposed legislation closely with full realization of the effect it could have on mutually profitable trade relations between the U.S. and Venezuela."²⁶

While the protectionists in the United States Congress were attempting to raise petroleum import barriers, newspapers in Venezuela called for tariff revision. A page one editorial in La Esfera on May 5, 1936, bluntly told politicians in the Venezuelan Congress that they should concern themselves with concrete questions like tariff reform rather than heroic theatrics.²⁷ The editors complained that

²⁵ New York Times, May 30, 1936; U.S., Congress, House, A Bill to Provide Revenue from the Importation of Crude Petroleum and its Products, H.R. 10483, 74th Cong., 2nd sess., 1936 in U.S., Archives, RG 59, Decimal File 611.003 Petroleum/21; Decimal File 611.003 Petroleum/27, Letter from Office of Economic Advisor to Robert L. Doughton, Chairman, House Ways and Means Committee; and Decimal File 611.003 Petroleum/28, Memorandum of Office of Economic Advisor, March 14, 1936 show the extent of Dept. of State opposition to the Disney bill.

²⁶ U.S., Archives, RG 59, Decimal File 611.3131/50, Assistant Secretary of State Sumner Welles to Nicholson (Caracas), June 9, 1936.

²⁷ U.S., Archives, RG 151, Economic and Trade Note No. 57, Grab (Caracas) to BFDC, May 5, 1936.

under the existing Venezuelan tariff schedule, luxury items paid low duties while necessities like food were taxed highly. The newspaper pointed out that the Venezuelan high cost of living was a serious problem aggravated by the faulty tariff schedule. Five days later the other major Caracas daily, El Universal called upon the government to levy duties on the basis of social utility and the degree of local productive self-sufficiency. The editors of El Universal denounced the Venezuelan system of collecting import taxes on the basis of gross weight as a complete absurdity. Poor quality heavy glassware was assessed at higher duties than fine Bohemian crystal. A \$500 automobile was charged Bs219.20 in duties (\$55) while \$500 of wheat cost Bs3,222 in duties (\$800). Almost everyone believed that the entire tariff system had to be revised so that the tax load was distributed among Venezuelan consumers more equitably.²⁸ The real problem for beleaguered Treasury officials was to reduce the tariff, and yet retain significant revenues to finance the national government.

As the Treasury Ministry struggled with the tariff revenue question and national budget, foreign advisor Pierre Denfs finally arrived in Venezuela to begin his work. He told Frederick Grab that Venezuelan Treasury officials were intelligent, but that the Ministry was not well-organized or able to establish clear functional responsibilities for its employees.²⁹ In large part this problem was caused

²⁸U.S., Archives, RG 151, Economic and Trade Note No. 60, Grab (Caracas) to BFDC, May 11, 1936.

²⁹U.S., Archives, RG 59, Decimal File 831.01A/10, Nicholson (Caracas) to Dept. of State, May 23, 1936.

by the lack of trained personnel after the departure of the gomecistas.³⁰ Denfs also declared that the key to the Venezuelan financial stability was the regular sale of foreign exchange by petroleum companies and that conversion of only \$100,000 per working day was inadequate. He pointed out that from the beginning of the López Contreras administration, the combination of rising government expenditures and increased circulation of privately issued banknotes had greatly accentuated import demand. While Denfs believed that the Bs3.90 exchange value should be devalued slightly, he told American embassy officials in Caracas that the petroleum companies' uncooperative attitude about existing exchange rates (by restricting foreign exchange sales) was creating antagonism.³¹ To offset the companies' policies, Treasury officials took action to protect the exchange value of the bolívar by exporting \$1,600,000 in gold on May 20, 1936.³² This gold was used to establish a temporary compensation fund which permitted the government to bypass the congested Caracas exchange market. Without the government demand for dollar drafts, total demand for foreign exchange in Caracas fell off immediately and the value of the bolívar began to strengthen. Within two weeks the companies and government

³⁰U.S., Archives, RG 151, Special Report No. 19, Grab (Caracas) to BFDC, April 7, 1936; and RG 59, Decimal File 831.00/1644, Nicholson (Caracas) to Dept. of State, September 11, 1936.

³¹U.S., Archives, RG 59, Decimal File 831.01A/10, Nicholson (Caracas) to Dept. of State, May 23, 1936.

³²U.S., Archives, RG 151, Economic and Trade Note No. 61, Grab (Caracas) to BFDC, May 12, 1936; Economic and Trade Note No. 69, Grab (Caracas) to BFDC, May 13, 1936; and Economic and Trade Note No. 94, Clerk to Commercial Attaché William Witman (Caracas) to BFDC, June 8, 1936.

came to a mutual understanding that the existing conversion agreement should be extended indefinitely.³³

During the short time between the gold export move (May 20, 1936) and the announcement of the extended conversion agreement (June 8, 1936), foreign exchange relations between Venezuela and the German Third Reich deteriorated significantly. For years the Germans had been the best buyers of mild, high quality Venezuelan coffees both in terms of tonnage and price. But the Third Reich "paid" Venezuelan coffee exporters by crediting their accounts with special Sondermarks, a bilateral compensation currency. These Sondermarks could only be spent to purchase German products. On the exchange market in Caracas, Sondermarks could usually be disposed of at a rate of Bs1.20 while "internationally convertible" Reichmarks were simultaneously quoted at Bs1.60.³⁴ To promote German exports, the German government declared that Sondermarks were at par with Reichmarks when Sondermarks were used to purchase German goods. In reality this meant that Venezuelan coffee exporters were required to accept at least a 33 1/3% price reduction $[(Bs1.60 \div Bs1.20) - 1]$ if they desired payment in freely convertible international currencies (pounds sterling, dollars, bolívaes, etc.) rather than in German products. Then on May 25, 1936, the German government began to squeeze Venezuelan exporters. As of that date all holders of Sondermarks were ordered to contribute a pro rata share,

³³U.S. Archives, RG 151, Economic and Trade Note No. 94, Witman (Caracas) to BFDC, June 8, 1936.

³⁴U.S. Archives, RG 151, Special Report No. 93 (III), Grab (Caracas) to BFDC, February 20, 1937.

depending on the number of marks held, of \$100,000 to be used to finance petroleum shipments to Germany.³⁵ Trade with Germany had become more complicated than with any other nation.

Roughly two weeks after this German action, the report of the Treasury Minister was made to Congress. While original Gómez national budget estimates for fiscal year 1935-36 had provided for Bs164,593,000 in total expenditures, no provision had been made for deficit spending.³⁶ The López Contreras administration, however, committed the State to a widespread economic assistance program. In the six months between December, 1935 and June, 1936, public works and agriculture project costs totaled about Bs96,625,000.³⁷ While increased revenues had offset some of the budget overage, the national Treasury surplus was reduced from Bs111,000,000 on December 31, 1935, to Bs74,500,000 on May 30, 1936.³⁸ This was a reduction of 33% in five months and additional deficits were planned. Dr. Adriani's proposed budget for fiscal year 1936-37 projected a deficit of Bs35,860,000. He estimated total national government spending at Bs211,000,000 or Bs47,000,000 more than in 1935-36.³⁹

³⁵ U.S., Archives, RG 151, Economic and Trade Note No. 78, Grab (Caracas) to BFDC, May 25, 1936.

³⁶ Venezuela, Ministerio de Fomento, Dirección General de Estadística, Anuario Estadístico de Venezuela, 1938 (Caracas, 1939), p. 422.

³⁷ U.S., Archives, RG 151, Special Report No. 2, Grab (Caracas) to BFDC, July 2, 1936; and RG 59, Decimal File 831.02/75, Nicholson (Caracas) to Dept. of State, July 6, 1937.

³⁸ U.S., Archives, RG 151, Special Report No. 2, Grab (Caracas) to BFDC, July 2, 1936.

³⁹ Ibid. and Special Report No. 3, Witman (Caracas) to BFDC, June 9, 1936.

Detailed analysis of the June 4 report would have revealed that the American Commercial Attaché's early hunches about Venezuelan tariff reductions were very wrong.⁴⁰ To finance the expanded budget, Dr. Adriani estimated that customs revenues would increase from Bs50,000,000 to Bs63,000,000 (up 26%) and mining revenues (including petroleum) would grow from Bs44,000,000 to Bs58,000,000 (up 24%).⁴¹ It was clear that the government was going to have to raise additional revenues through new taxes and higher excise taxes on superfluous luxury consumption.

To generate higher tax revenues the Venezuelan government turned again to the prospering petroleum corporations. On June 20, 1936, the Finance Minister asked the three major companies to pay their royalties and taxes at the gold import point, Bs3.06. Any other business expenses could be paid for with bolívares acquired at the normal commercial rate of Bs3.90 per dollar. If the companies would accept this offer, the government in return would guarantee the open market exchange rate in a Bs3.90-3.95 range. The companies declined the government offer. They reminded the government that they still had two months supply of bolívares in reserve. While other sellers of dollars on the Caracas market had received conversion rates as high as Bs4.30, they had graciously continued to sell dollar drafts at Bs3.90. In closing, the company officials said that exchange rates ought to be equal for

⁴⁰U.S., Archives, RG 151, Special Report No. 19, Grab (Caracas) to BFDC, April 7, 1936; and Economic and Trade Note No. 61, Grab (Caracas) to BFDC, April 28, 1936.

⁴¹U.S., Archives, RG 151, Special Report No. 2, Grab (Caracas) to BFDC, July 2, 1936.

all.⁴²

In July the Venezuelan government made another exchange conversion proposal. This time the companies were asked to convert dollars at a rate of Bs3.90 plus 28.7%.⁴³ This would yield an average conversion rate of about Bs3.50 per dollar or about the same as in 1935. Again the petroleum companies refused to accept the higher conversion rate, this time because they objected to the precedent of the additional percentage payments. By late July, 1936, the Venezuelan Treasury officials were discouraged by their lack of positive results. It seemed that the government had no leverage. Petroleum companies controlled enough bolívaes to cover their expenses for two months while letting the exchange market go to pieces. They had a strong position and they knew it.

A Second Front Against the Companies

While activities of Minister of Development Nestor Luis Pérez did not immediately reverse the government's weak position, significant progress was made. Pérez was energetic and creative. To more closely supervise the free wheeling petroleum industry, he already had organized a special petroleum task force. The newly created Dirrección de Hidrocarburos concentrated its efforts on resurrecting and then correcting the hideous frauds of the Gómez era.⁴⁴ Whereas

⁴²U.S., Archives, RG 151, Special Report No. 3, Grab (Caracas) to BFDC, July 2, 1936.

⁴³U.S., Archives, RG 151, Special Report No. 13, Grab (Caracas) to BFDC, July 21, 1936.

⁴⁴Lieuwin, Petroleum in Venezuela, pp. 74-75.

previous government reformers had had to fight the companies and the Venezuelan President, Pérez had the solid support of López Contreras, the Congress, and the Venezuelan public.⁴⁵ He used every tool at his disposal to increase Venezuelan control over the petroleum companies and to raise revenues. By comparing cost data that the companies had filed with the U.S. Tariff Commission in 1931 with reports made by the same companies to Venezuelan officials, Pérez proved that the old charges of fraudulent practice during the Gómez regime were correct.⁴⁶ Because the Maracaibo export value for petroleum, on which the Venezuelan royalty was computed, equalled the New York market value minus transportation charges, correct transportation charges were critical in setting royalty taxes accurately. Both Gulf and Lago Petroleum Company (a subsidiary of Standard Oil of Indiana) had rigged excessive transportation charges and had swindled the Venezuelan government out of at least Bs56,000,000 (Bs30,726,000 by Gulf Oil and Bs25,685,000 by Lago Petroleum) in royalty taxes.⁴⁷ Since Standard Oil of New Jersey had purchased Lago Petroleum Company from Standard Oil of Indiana after the fraud had been perpetrated, the López Contreras government allowed the new owners to settle out of court for Bs4,195,000. Venezuelan Gulf Oil Company fought the case bitterly until the Venezuelan Supreme Court finally awarded the government its claim in early 1941.⁴⁸

⁴⁵Ibid., p. 76.

⁴⁶Ibid., p. 75.

⁴⁷U.S., Archives, RG 59, Decimal File 831.6363/891, Nicholson (Caracas) to Dept. of State, July 31, 1936.

⁴⁸Lieuwin, Petroleum in Venezuela, p. 75.

Collection of back taxes and honest administration were not the only reforms introduced by Nestor Luis Pérez. In late May, 1936, he announced that the Ministry of Development would encourage the development of Venezuelan refineries to process products for the national market.⁴⁹ This was an effort to undo the economic damage that resulted when Gómez had allowed Standard, Shell, and Gulf to set up their refineries on Aruba, Curaçao, and in New Jersey. Pérez also introduced honestly administered competitive bidding governing sales of new petroleum concessions which gave companies other than Standard, Gulf, and Shell the opportunity to gain concession acreage. Early in August, Socony-Vacuum Company (now Mobil Oil) was finally able to purchase rights on 320,000 hectares after years of trying to gain Venezuelan concessions. The cash payment was \$2,000,000 and the company readily agreed to exchange the dollars at the gold import point, Bs3.06.⁵⁰ Psychologically, it was a tremendous victory for the government. Pérez had successfully played a new corporate entrant in the Venezuelan petroleum industry against the old established "big three." Standard Oil of Venezuela (another Standard Oil of New Jersey subsidiary) quickly purchased rights on 480,000 hectares for \$3,630,000 at the same conversion rate. The most significant parts of the government's victory, however, were the special terms of the new contracts. Standard Oil of Venezuela agreed to build a local 15,000 barrel per day refinery

⁴⁹U.S., Archives, RG 59, Decimal File 831.6363/886, Vice Consul George Phelen (Caracas) to Dept. of State, July 13, 1936.

⁵⁰U.S., Archives, RG 151, Special Report No. 33, Witman (Caracas) to Dept. of State, September 9, 1936.

while Socony-Vacuum promised to erect a 10,000 barrel per day refinery as soon as production from the newly acquired concession was adequate. The initial surface taxes were not at the legal minimum of Bs2.00 per hectare permitted by the 1936 Hydrocarbon Law, but at rates between Bs25.00 and Bs30.00 per hectare. Instead of only a 10% royalty, the contracts provided for the government to receive 15%.⁵¹ With \$5,630,000 on deposit in New York City, the Venezuelan government suddenly had acquired a reserve of foreign exchange capable of covering government import needs for many months. While the relative financial strength of the government was still less than that of the international petroleum corporations, it was growing.

Consolidating the Venezuelan Import Trade Position

The continuing weakness in the government's position was the problem of controlling steadily growing commercial import demand. For example, at the major Venezuelan port of entry, La Guaira, import shipments in July, 1936, were a whopping 75% above the 1935 levels.⁵² During the first six months of 1936, imports were 23% over the same period one year earlier.⁵³ The drain on foreign exchange was significant and on some days the value of the bolívar fell to Bs4.30 to the

⁵¹ Ibid., and RG 59, Decimal File 831.6363/927, Chargé d'Affairs Henry Villard (Caracas) to Dept. of State, October 7, 1936; Decimal File 831.6363/917, Nicholson (Caracas) to Dept. of State, September 15, 1936; and RG 151, Special Report No. 33, Grab (Caracas) to Dept. of Commerce, September 11, 1936.

⁵² U.S., Archives, RG 151, Special Report No. 40, Grab (Caracas) to BFDC, September 22, 1936.

⁵³ U.S., Archives, RG 151, Special Report No. 27, Grab (Caracas) to BFDC, August 25, 1936.

dollar.⁵⁴

To stem the import tide, raise revenues, and restore equity to the tariff schedule, Dr. Adriani presented his long awaited tariff recommendations to the Venezuelan National Congress on August 6, 1936.⁵⁵ The old tariff schedule had been an administrative nightmare. While it was organized into nine general classes of imports, there was no index. Each class paid a tax computed on the gross weight of the crated import. In addition, there were specific product surcharges and an overall 56.55% general surcharge. Finally, if the import had been shipped from an Antillean port, there was another 30% surcharge.⁵⁶ Except for the Antillean surcharge, Adriani proposed consolidation of the numerous surcharges into one rate for each of the nine import classes. The gross weight basis used to compute duties was retained because of the inability of customs officials to figure ad valorem rates consistently when the bolivar's value fluctuated. The most important customs recommendations were proposals to give the Federal Executive expanded powers to conduct commercial diplomacy. Dr. Adriani asked that the President be given power to use or establish: (1) retaliatory duty increases up to 100%, (2) ad valorem rates up to 100%, (3) import quotas, (4) trade embargos, and (5) export taxes of

⁵⁴U.S., Archives, RG 151, Special Report No. 14, Grab (Caracas) to BFDC, July 27, 1936.

⁵⁵U.S., Archives, RG 151, Special Report No. 25, Grab (Caracas) to BFDC, August 14, 1936.

⁵⁶U.S., Archives, RG 151, BDFC 041.2 Venezuela, Grab letter to Nicholson, September 16, 1936; and BFDC File 041.2 Venezuela, Letter of Ralph M. Sims, Chief, Latin American Section of Division of Foreign Tariffs to District BFDC Offices, December 21, 1935.

10%. As positive measures to promote Venezuelan trade, the President could negotiate commercial modus vivendi for one year terms, reduce Venezuelan tariffs up to 25%, and conclude compensation currency agreements.⁵⁷ Only three days after presenting these wide-ranging proposals to the Congress, Dr. Alberto Adriani died suddenly, and the Venezuelan nation suffered the tragic loss of a well-trained, dedicated public servant.⁵⁸ His replacement, Dr. Atilano Carnevali, was a lawyer who had little or no economic or agricultural experience.⁵⁹

Review of the proposed Adriani tariff schedule revealed that its general effect was to increase total duties approximately 2%.⁶⁰ Specific analysis on an item by item basis showed more significant tax rate changes. Commercial Attaché Frederick Grab complained that products which were predominantly supplied by the U.S. suffered the most drastic increases in proposed duty changes. A list of the major American exports affected by the tariff revision included:⁶¹

automobiles	+360-530%	calculators	+964%
large radio sets	+104%	cash registers	+666%
metal furniture	+126%	sardines	+ 79%
motion pictures	+155%	oatmeal	+260%
typewriters	+964%	potatoes	+ 57%
radio transmitters	+1,177%		

⁵⁷U.S., Archives, RG 151, Special Report No. 25, Grab (Caracas) to BFDC, August 14, 1936.

⁵⁸U.S., Archives, RG 59, Decimal File 831.00/1640, Nicholson (Caracas) to Dept. of State, August 11, 1936.

⁵⁹U.S., Archives, RG 151, Economic and Trade Note No. 21, Grab (Caracas) to BFDC, August 25, 1936.

⁶⁰U.S., Archives, RG 151, Special Report No. 25, Grab (Caracas) to BFDC, August 14, 1936.

⁶¹Ibid. and Special Report No 27, Grab (Caracas) to Dept. of

Grab complained that the planned reductions were most beneficial to Japanese-English cottons, Japanese-French silks, and German iron and steel. American trade would benefit somewhat because imports of building materials (except lumber) were to be granted reduced rates and all agricultural processing equipment was to be admitted duty free.⁶² Since the Commercial Attaché had been counseling the Department of State for months to go slow in the negotiating of a reciprocal trade agreement so as to allow "lower revised" Venezuelan tariff rates to come into effect, the higher tariff left the embarrassed Grab furious.⁶³ For the next several months, his pique continued whenever he referred to the tariff. Since Department of State representatives in Caracas had great respect for the opinions of the veteran Commercial Attaché (who was a very capable observer), their reports also overestimated the commercial importance of the tariff changes.

When the news describing the higher tariffs reached reciprocal trade personnel in Washington, D.C., it produced feelings of shock, dismay, and outrage. Only three short months before, Gil Borges had urgently requested that reciprocal trade negotiations begin. Americans had disregarded his warning and had proceeded slowly. Work by U.S. trade officials to decipher the complicated Venezuelan tariff and U.S.-Venezuelan trade had been extremely difficult. Import and export

Commerce, Division of Foreign Tariffs, August 25, 1936. The final tariff was quite similar: See Special Report No. 46, Grab (Caracas) to BFDC, October 15, 1936.

⁶²U.S., Archives, RG 151, Special Report No. 27, Grab (Caracas) to Dept. of Commerce, Div. of Foreign Tariffs, August 25, 1936.

⁶³U.S., Archives, RG 151, Special Report No. 5, Grab (Caracas) to BFDC, July 9, 1936; and Special Report No. 6, Grab (Caracas) to BFDC, July 13, 1936.

figures were not published for the Venezuelan nation, but by separate custom districts. There were no major breakdowns for these international trade figures by commodity class, by country of origin or destination. Totals had to be collected item by item, harbor by harbor.⁶⁴ Bureau of Foreign and Domestic Commerce officials in the U.S. Department of Commerce admitted that they had no real idea of the state of industrial development in Venezuela.⁶⁵ In truth, native Venezuelan economic experts like Manuel Egafía, Julio Plouchart, Ramón Tello, Arturo Uslar-Pietri, José A. Vandellos and Ernesto Rivero Palacio were also trying to compile the economic data necessary to understand the Venezuelan economy.⁶⁶ It seemed that unless the tariff change proposals were undone, a satisfactory trade agreement lowering tariff barriers would be almost impossible to achieve.

Despite the representations of the American Legation staff in Caracas, nothing could be done to convince Venezuelan officials to modify the original tariff proposals. Members of the Venezuelan Congress found economic nationalism to be very popular. Moreover, they were unwilling to radically alter the last bill that Dr. Adriani had presented before his death.⁶⁷ Efforts to stimulate Federal Executive action were

⁶⁴U.S., Archives, RG 151, BFDC File 041.2 Venezuela, Director of BFDC Alexander V. Dye to Grab (Caracas), June 26, 1936.

⁶⁵Ibid.

⁶⁶The first statistical abstract of the Venezuelan economy was not published until 1939. It was the Anuario Estadístico de Venezuela, 1938 compiled under the direction of Manuel R. Egafía.

⁶⁷U.S., Archives, RG 59, Decimal File 831.00/1640, Nicholson (Caracas) to Dept. of State, August 11, 1936; and RG 151, Economic and Trade Note No. 36, Grab (Caracas) to Dept. of Commerce, September 17, 1936.

fruitless. The President had no intention of interfering with ministers, planners, or the Congress as they implemented specific proposals to advance the government's economic recovery and development programs.⁶⁸

In a conciliatory move to pacify members of the American Legation, Minister of Foreign Relations Gil Borges masterfully arranged a joint interview between Commercial Attaché Frederick Grab, the new Treasury Minister, Atiliano Carnevali, and Julio Plouchart, the Chief of the Bureau of Commercial Policy in the Ministry of Foreign Relations. When Grab and Plouchart met with Carnevali on September 25, they both pointed out that the revisions were especially prejudicial towards U.S. products. The Commercial Attaché pointed out that the obstructions placed against U.S. automobiles were tantamount to measures of economic retaliation. After Grab indignantly pointed out that a Chevrolet was assessed at a rate higher than a Ford, Carnevali replied that he might consider ad valorem rates for cars (rather than tax by weight). As the interview continued, Grab took the opportunity to criticize other sections of the pending tariff legislation. Carnevali was a lawyer by profession and unable to counter Grab's economic arguments effectively, so he stalled. At the close of the meeting, the new Minister promised to send a report to the Foreign Minister which would show that the new tariff was fair and non-discriminatory in nature.⁶⁹

The next day a memorandum explaining the Venezuelan tariff was

⁶⁸ U.S., Archives, RG 59, Decimal File 611.3131/60, Nicholson (Caracas) to Dept. of State, October 6, 1936.

⁶⁹ U.S., Archives, RG 151, BFDC File 041.2 Venezuela, Grab (Caracas) to Nicholson (Caracas), September 25, 1936.

sent from Dr. Carnevali to Foreign Minister Gil Borges. The detailed September 26, 1936 position paper stated that no favoritism toward any country had been intended and that the new rates were reasonable. It continued by relating that Venezuela had extended the United States unique duty free import concessions (for petroleum companies) and that Venezuela suffered an adverse balance of trade with the United States. In accordance with the new policy to develop national wealth, duties on non-necessities were increased. Almost as an afterthought, the memorandum closed with the declaration that the spirit of inter-American cooperation inspired the present Venezuelan government in all its acts.⁷⁰

When Grab reviewed the Carnevali memorandum, he was still bitter about the entire tariff situation which he had misassessed so badly. The Commercial Attaché thought that the Venezuelan arguments, probably drafted by Ramón Tello, were either completely inconsistent with economic reality or irrelevant. Grab stated that it was impossible to find another country on whose export products the proposed increases were as substantial as those levied on U.S. goods. The claim about reasonable tariff rates seemed absurd; the old rates averaged 65% ad valorem while the new rates averaged 73% ad valorem.⁷¹ When Grab

⁷⁰ U.S., Archives, RG 151, Special Report No. 44, Grab (Caracas) to BFDC, October 9, 1936.

⁷¹ Ibid. The notorious Hawley-Smoot Tariff in 1930 was established to be 40% ad valorem, but additional specific duties raised the tariff ad valorem effective rate to 59% in total. Arthur William Schatz, Cordell Hull and the Struggle for the Reciprocal Trade Agreements Program, 1932-1940 (unpublished Ph.D. dissertation, University of Oregon, 1965), p. 18. The reciprocal trade program was almost like a religious crusade to Hull.

compared Venezuela's tariff schedule to neighboring Colombian rates, he was astonished to find they were many times higher.⁷² The Commercial Attaché discounted the complaint about the adverse balance of trade because Venezuela's balance of payments with America had been extremely favorable due to petroleum operations. In reality the U.S. was transferring tremendous amounts of capital (wealth) to Venezuela.⁷³ To answer the argument that Venezuela offered duty free import privileges to American mining and petroleum interests, Grab replied that the Venezuelan government had voluntarily decided to grant tariff exemptions to all mineral developers in order to promote investment in Venezuelan mineral resource industries. He pointed out that the Carnevali contention that petroleum operations contributed only a small economic benefit to Venezuela was simply not true. Without petroleum generated foreign exchange, Venezuela would be able to import much less and the standard of living would fall.⁷⁴ In short, the explanation of the new Venezuelan government tariff policies was not satisfactory to the American Attaché and his reports to Washington indicated his displeasure.

When Secretary of State Cordell Hull received word of the decisive Venezuelan customs duty increases, he was extremely disappointed. To

⁷²U.S., Archives, RG 59, Decimal File 611.3131/63, Grab Memorandum, October 9, 1936.

⁷³U.S., Archives, RG 151, Special Report No. 93 (V), Grab (Caracas) to BFDC, February 20, 1937. Ramón Tello estimated a favorable balance of trade of Bs34,000,000 (\$8,000,000) in 1936.

⁷⁴U.S., Archives, RG 151, Economic and Trade Note No. 47, Grab (Caracas) to BFDC, October 9, 1936.

lower international trade barriers, Hull had established himself as the leading sponsor of the reciprocal trade movement in the United States.⁷⁵ He feared that the abrupt Venezuelan action would kindle similar restrictive measures in the U.S. Congress. While the oil import legislation proposed by Congressman Disney of Oklahoma and the Independent Petroleum Association of America had failed to reach the floor of Congress during the summer of 1936, Hull knew that the oil interests would love to have an excuse to retaliate against Venezuela. On October 5, 1936, he instructed the American Minister in Caracas, Meredith Nicholson, to once again ask the Venezuelan government if they had fully considered what the effect of their tariff action would be. Always the complete advocate of free trade, Hull intimated that it "would be regrettable, indeed, were a country of Venezuela's importance and traditionally moderate tariff policy to deviate from a course so generally recognized as beneficial in the long run to every country."⁷⁶

When Nicholson attempted to reach Gil Borges to deliver Hull's message, he discovered that Gil Borges was ill, and there was no one available in the Foreign Ministry with whom a meaningful audience could be arranged. Nicholson asked if he should see President López Contreras, but Gil Borges (who was somehow contacted) recommended that another meeting be arranged with Treasury Minister Carnevali. While Nicholson tried for the next several days to find someone of consequence to whom he could deliver the protest, Chargé d'Affairs Henry Villard had the personal

⁷⁵Schatz, Cordell Hull, p. 28.

⁷⁶U.S., Archives, RG 59, Decimal File 611.3131/59A, Secretary of State Cordell Hull to Nicholson (Caracas), October 5, 1936.

satisfaction to report to Washington that over the telephone Gil Borges had seemed to react favorably to the Department of State position.⁷⁷ Two days later, on October 7, when American Legation Secretary Villard and Commercial Attaché Grab attempted to interview several minor Treasury Ministry officials, someone accidentally opened the wrong door. Villard and Grab found themselves mistakenly ushered into the presence of the Treasury Minister. During the previous interview on September 25, Carnevali had been coldly receptive to the American position. Now he was warm. He revealed that regardless of Venezuelan Congressional action, the Federal Executive would act to rectify the situation. The President would use authority under Article 17 of the new 1936 Custom Law to reduce rates 25% and Article 18 to admit some imports duty free. The two Americans were happy to hear this. In their enthusiasm they overlooked the fact that Carnevali never indicated when or under what conditions the action would be taken. Later when Villard reviewed the entire tariff incident for Washington, his admiration for the reform-minded López Contreras government was not hidden. He rationalized about how the tariff misunderstanding had happened.⁷⁸

By the time the new tariff became effective on October 23, 1936, emotions in the American Legation had calmed. All during the Legation's protest, Grab noticed that few, if any, of the American exporters appeared to be concerned. The only protest came from a local chewing

⁷⁷U.S., Archives, RG 59, Decimal File 611.3131/63, Villard (Caracas) to Dept. of State, October 9, 1936.

⁷⁸Ibid.

gum representative.⁷⁹ When a representative from National Cash Register Company called at the Legation, Grab discovered that the salesman didn't believe that the increased rates were anything significantly different from elsewhere in Latin America. After re-examining the final draft of the tariff, Grab reported that it was "evident that the net effect of the new tariff upon American trade will not be nearly so bad as at first seemed likely."⁸⁰ Luxury items like caviar, eggs, ornamental feathers, furs, pearls, and ivory would be taxed at much higher rates. Baby foods, cheaper yarn and thread, seed potatoes, whole wheat, and agricultural industrial products were all granted reductions. Of the 493 items which were classified in the tariff schedule, tax rates on 120 were increased and those on 125 were lowered.⁸¹

An interesting new feature of the 1936 Customs Law was the power granted to the Development Minister to determine which items qualified as duty exempt under existing petroleum development contracts. The Mineral Laws from 1920 to the Hydrocarbon Law of June 17, 1935, had allowed unnamed duty exempt imports of machines used for production, refining, and transportation of petroleum. While these imports amounted to Bs50,000,000 a year, there never had been an actual itemized list of what imports could be classified under this exemption. Development

⁷⁹ Ibid.

⁸⁰ U.S., Archives, RG 151, BFDC File 041.2 Venezuela, Grab (Caracas) to Nicholson (Caracas), November 11, 1936; and Grab (Caracas) to Henry Chalmers of BFDC, October 20, 1936.

⁸¹ U.S., Archives, RG 151, Special Report No 52 (II), Grab (Caracas) to BFDC, November 6, 1936; and Special Report No. 53, Appendix A, Grab (Caracas) to BFDC, November 11, 1936.

Minister Pérez planned to allow duty exemption only for those products which could not be manufactured in Venezuela. The plan was to stimulate local industry. In response company officials complained that the new ruling was an ex post facto administrative measure which unconstitutionally denied legal exemptions which had been granted prior to the Hydrocarbon Law of 1936 or the new Customs Law.⁸² To protect their concession rights, the companies went to court. While in the end the position of the companies was sustained, Pérez showed company managers that a lack of cooperation could be a two-way proposition.

Triumph in the Battle for the Bolívar

There were other ramifications about the new tariff and the long August to October congressional debates which preceded its enactment. To avoid paying higher duties, Venezuelan importers used the two and one half month period to import products for shelves and showrooms. Record automobile sales took place in the third quarter of 1936.⁸³ Surging demand for foreign exchange greatly overwhelmed supplies available in the private banks. By October 20, 1936, a crisis threatened. Treasury Minister Atiliano Carnevali broadcast a radio appeal for the Venezuelan people to reduce their consumption of imported products and to favor domestic production.⁸⁴ The appeal to Venezuelan patriotism fell on

⁸²U.S., Archives, RG 151, Special Report No. 64, Grab (Caracas) to BFDC, November 23, 1936.

⁸³U.S., Archives, RG 151, Special Report No. 40, Grab (Caracas) to BFDC, September 22, 1936; Special Report No. 51, Grab (Caracas) to BFDC, October 23, 1936; and Special Report No. 49, Grab (Caracas) to BFDC, October 20, 1936.

⁸⁴U.S., Archives, RG 151, Special Report No. 62, Grab (Caracas) to BFDC, October 21, 1936; and El Universal, October 21, 1936.

deaf ears. The \$100,000 per working day converted into bolívares by the petroleum companies was completely inadequate, and coffee crop export earnings were not expected to materially relieve the shortage. Too many Sondermark credits were tied up in Germany. Rates for foreign exchange in the street rose to Bs4.10 and foreign exchange at this price was difficult to find.⁸⁵ The government tried to calm the situation by selling \$300,000 on the open market on November 12. The money was not to be used to finance capital flight movements.⁸⁶ In spite of the effort, there was still no abatement in the exchange shortage. To prevent financial panic, the Treasury and Development Ministers broadcast a joint message on November 18 that the bolívar would be defended "heroically" and even appreciated to the gold import point.⁸⁷ Then on November 20, the petroleum companies were ordered to sell the \$100,000 daily quota directly to the government. Rumors of speculation had to be stopped.⁸⁸ At the time it seemed that there were plenty of words available, but the market was still short of exchange.

While the actual shortage was real and the bolívar was slumping downward, the whole financial situation didn't seem to make sense.

⁸⁵U.S., Archives, RG 151, Special Report No. 55, Grab (Caracas) to BFDC, November 11, 1936.

⁸⁶U.S., Archives, RG 151, Special Report No. 60, Grab (Caracas) to BFDC, November 13, 1936.

⁸⁷This program was advocated by the American economic expert Dr. Constantine McGuire. U.S., Archives, RG 151, Special Report No. 75, Grab (Caracas) to BFDC, December 8, 1936; Special Report No. 93, Grab (Caracas) to BFDC, February 24, 1937; and RG 59, Decimal File 831.515/101, Nicholson(Caracas) to Dept. of State, November 19, 1936.

⁸⁸U.S., Archives, RG 151, Special Report No. 62, Grab (Caracas) to BFDC, November 20, 1936.

Only two months earlier the Venezuelan government had received \$5,630,000 in cash from the sale of the two large petroleum concessions. This cash reserve remained uncommitted in New York City where the Venezuelan government could have employed it almost instantly in defense of the bolívar. Yet the bolívar's defense was anything but heroic.

The reason behind the seemingly inconsistent behavior of high Venezuelan officials became clear on November 30, 1936. President López Contreras proudly announced that a supplementary appropriation of Bs22,000,000 had been credited to the Ministry of Public Works. Venezuela had negotiated the purchase of the English-owned La Guaira Harbor Corporation, Ltd. The docks of the major port in the country were now owned by the nation.⁸⁹ Public enthusiasm and national pride swelled throughout Venezuela.⁹⁰ Stamps were issued to commemorate the event. The specific terms of the sale provided that the government was not to pay Bs22,000,000, but either \$5,500,000 or £1,100,000.⁹¹ Thus the actual bolívar expense depended on exchange values at the time Venezuela paid the dollars or pounds sterling. Since the stated policy of the government was to strengthen the bolívar to Bs3.06 per dollar, it was possible to speculate that the real cost of the docks on some

⁸⁹U.S., Archives, RG 151, Economic and Trade Note No. 104, Grab (Caracas) to BFDC, December 2, 1936.

⁹⁰U.S., Archives, RG 84, Report of American Consul Louis B. Mazzeo (La Guaira) to Dept. of State, December 4, 1936. Venezuela had also acquired the English-owned Central Railroad of Venezuela in mid-November. U.S., Archives, RG 151, Special Report No. 95, Grab (Caracas) to BFDC, November 24, 1936.

⁹¹U.S., Archives, RG 151, Economic and Trade Note No. 117, Grab (Caracas) to BFDC, December 7, 1936.

future date would be a mere Bs17,000,000. By appreciating the bolívar, the Venezuelan government could make the purchase and spend Bs5,000,000 less out of the national Treasury.⁹²

On December 1, 1936, the government partially reorganized the exchange market to centralize agricultural export exchange operations. By decree of the Federal Executive, exporters of agricultural products were required to sell all foreign exchange proceeds to the Banco de Venezuela in order to receive the government export bounty. This action, together with the earlier November 20 measure, allowed the government to directly control the majority of foreign exchange sales in Venezuela. The three petroleum companies agreed to continue selling dollars at Bs3.90 and raised the quota supplied to \$102,000 each working day.⁹³

It was at this critical time that disaster hit. In mid-December, 8,743 workers in the Maracaibo oil fields began a strike for higher wages. Young nationalists and radicals thought that the strike offered a perfect opportunity to squeeze the petroleum companies, but the exact opposite was true. Once the strike started, the companies involved in the dispute, withdrew their share of the \$102,000 in foreign exchange per working day that was usually supplied. The strike

⁹²Pierre Denfs disagreed with Dr. Constantine McGuire's plan to appreciate the bolívar. Denfs thought that the conversion rate of Bs5.18 per dollar would aid the Venezuelan economy much more than an appreciated bolívar. U.S., Archives, RG 151, Special Report No. 75, Grab (Caracas) to BFDC, December 8, 1936; and Special Report No. 84, Grab (Caracas) to BFDC, December 18, 1936.

⁹³U.S., Archives, RG 151, Special Report No. 73, Grab (Caracas) to BFDC, December 2, 1936; Special Report No. 71, Grab (Caracas) to BFDC, December 2, 1936; and Special Report No. 69, Grab (Caracas) to BFDC, December 1, 1936.

generated tax and payroll losses estimated at Bs150,000 per day.⁹⁴ Foreign exchange supplies again became tight. On December 18, the government freed \$300,000 to support the bolívar.⁹⁵ It was fortunate that some coffee exporters sold to markets outside Germany. Foreign exchange earned from agricultural exports helped to support the weakening bolívar.

For approximately forty days, while the nationalistic leftist opposition parties urged the oil workers to fight the foreign companies, the López Contreras administration and the nation endured the strike. Finally the labor walkout was terminated by presidential decree on January 22, 1937, not because López Contreras had sold out to the foreign companies, but because the Venezuelan economy needed petroleum royalties, payrolls, and foreign exchange. Petroleum production had fallen off 27% and exports had declined 32%.⁹⁶ In accordance with new labor relations statutes passed in February, 1936, the Venezuelan National Labor Office's Board of Conciliation intervened in the dispute and rendered judgement as to what constituted fair wages on January 19, 1937; López Contreras had acted to enforce the Board's decision. Some

⁹⁴U.S., Archives, RG 151, Weekly Report, Grab (Caracas) to BFDC, December 19, 1936; Special Report No. 85, Grab (Caracas) to BFDC, December 22, 1936; Economic and Trade Note No. 206, Witman (Caracas) to BFDC, March 15, 1937; Economic and Trade Note No. 163, Witman (Caracas) to BFDC, February 4, 1937; Economic and Trade Note No. 155, Witman (Caracas) to BFDC, January 22, 1937.

⁹⁵U.S., Archives, RG 151, Special Report No. 94, Grab (Caracas) to BFDC, February 5, 1937; and Economic and Trade Note No. 130, Grab (Caracas) to BFDC, December 19, 1936.

⁹⁶U.S., Archives, RG 151, Economic and Trade Note No. 214, Witman (Caracas) to BFDC, March 18, 1937; and Economic and Trade Note No. 134, Grab (Caracas) to BFDC, December 28, 1936.

claimed that the wage increase won by the workers was nominal and the President was to blame.⁹⁷ In reality, the oil workers were the best paid labor force in Venezuela. They earned three or four times the cash wage of agricultural workers and enjoyed company housing, health, and other benefits.⁹⁸ If their wages had gone higher, no laborer in Venezuela would have been satisfied working for any employer other than a petroleum company.

With the termination of the petroleum strike, the government resumed its efforts to strengthen the bolívar. On February 3, 1937, López Contreras decreed establishment of a National Exchange Centralization Office (NECO). Under the supervision of the Development and Treasury Ministers, NECO was empowered to manage the agricultural export bounty program, hold compensation currency consignments (i.e., Sondermarks), and regulate sales of foreign exchange on the Caracas market. The first conversion rate that NECO set was Bs3.90 for petroleum company sales to NECO, Bs3.91 for NECO sales to banks, and Bs3.93 for bank sales to the public.⁹⁹ Political unrest in February and March caused a capital flight, but the problem was very short-lived. The Development Ministry had sold a 650,000 hectare petroleum concession to a Royal Dutch Shell subsidiary. An advance tax payment of \$2,655,000

⁹⁷ U.S., Archives, RG 59, Decimal File 831.00B/15, Nicholson (Caracas) to Dept. of State, March 27, 1937; RG 151, Special Report No. 91, Grab (Caracas) to BFDC, January 25, 1937; and Winfield J. Burggraft, The Venezuelan Armed Forces in Politics, 1935-1959 (Columbia: University of Missouri Press, 1972), p. 38 calls the wage settlement a token raise.

⁹⁸ U.S., Archives, RG 151, Economic and Trade Note No. 25, Witman (Caracas) to BFDC, August 25, 1937.

⁹⁹ U.S., Archives, RG 151, Special Report No. 98, Grab (Caracas) to BFDC, February 22, 1937; and Special Report No. 95, Grab (Caracas) to BFDC, February 8, 1937.

ballooned the NECO foreign exchange reserves and eased the exchange situation.¹⁰⁰

At last the López Contreras government had acquired sufficient financial strength and organization to force a confrontation with the foreign petroleum corporations on the bolívar conversion value question. The attack began March 20, 1937. NECO simply refused to convert company foreign exchange drafts into bolívares. The companies were forced to dig into the reserves that they had long held as a threat to the exchange market. Finally on April 13 and 14, after NECO had foregone perhaps \$1,530,000 in petroleum company foreign exchange drafts, one petroleum company ran out of bolívares and was forced to sell a total of \$750,000 at Bs3.09.¹⁰¹ The back of company resistance had been broken. NECO appreciated the bolívar to Bs3.50 on April 16 and then on April 26 raised the bolívar/dollar conversion rate to Bs3.09 for buying and to Bs3.17 for selling. Soon after the two stage revaluation, the entire agricultural export bounty system was revised and increased.¹⁰² At the end of the long struggle the López Contreras government had accomplished three of its objectives. The foreign exchange value of the national Treasury surplus had been

¹⁰⁰U.S., Archives, RG 151, Special Report No. 104, Grab (Caracas) to BFDC, March 11, 1937; Special Report No. 108, Grab (Caracas) to BFDC, March 23, 1937; and Special Report No. 97, Grab (Caracas) to BFDC, February 17, 1937.

¹⁰¹U.S., Archives, RG 151, Special Report No. 115, Grab (Caracas) to BFDC, April 13, 1937; and Special Report No. 118, Grab (Caracas) to BFDC, April 8, 1937.

¹⁰²U.S., Archives, RG 151, BFDC File 601.2 Venezuela, Grosvenor Jones, Finance Division of BFDC to district offices, April 19, 1937; and Economic and Trade Note No. 235, Witman (Caracas) to BFDC, May 4, 1937.

increased over 20%, the government saved Bs5,000,000 when it paid for the La Guaira docks in June, 1937, and the government controlled almost all foreign exchange dealing.¹⁰³

Monetary Policy in Review

Fair assessment of the political and economic policies and accomplishments of the López Contreras government requires simultaneous consideration of contemporaneous economic, political, and financial limitations which hampered this government. Viewed in isolation the brilliant timing of major economic, political, and financial programs is lost to the observer. Events seem to happen randomly. Once the inter-related actions are examined in total, however, the real accomplishments of the López Contreras government can be seen. To make the national economic development program operational and to free Venezuelan financial affairs from foreign domination, the government had to gain control over the value and trading of the bolívar. The major policy question at the time was whether or not the bolívar should be devalued to allow Venezuelan export crops to be competitive in the world market (the Pierre Denfs approach) or should the bolívar be appreciated to allow the country greater import purchasing power under the guidance of the national government (the Constantine McGuire approach). While both options had serious shortcomings, the second alternative gave Venezuelan government planners the opportunity to shape future economic development much more significantly than the

¹⁰³U.S., Archives, RG 151, Special Report No. 122, Witman (Caracas) to BFDC, June 11, 1937.

first laissez-faire approach. Not surprisingly the policy calling for a centralized control of the economy was adopted during the late summer of 1936. After sale of several petroleum concessions in the early fall, the government finally had the financial strength to force the petroleum companies to accept a much more costly foreign exchange conversion rate. The inopportune labor strike from December, 1936, to January, 1937, only caused several months delay in the government move to raise the value of the bolívar and simultaneously save millions on the purchase of foreign-owned harbor facilities. After concluding the battle of the bolívar, the López Contreras administration was on the verge of directing Venezuelan control over the Venezuelan economy for the first time in history.

CHAPTER 5

PETROLEUM WITHOUT A COUNTRY: CONFLICTS ANTECEDENT TO THE FORMAL ANNOUNCEMENT OF RECIPROCAL TRADE NEGOTIATIONS, 1936-1938

Protecting a U.S. Export Market

With rising petroleum revenues in the late 1920s, Venezuela became a significant Latin American export market for the United States. The most important commodity classes in the growing shipments to Venezuela were: (1) metals and metal manufactured goods and (2) machinery and motor vehicles.

TABLE 11

U.S. EXPORTS TO VENEZUELA (In Thousands of Dollars)

Year	Metals and Metal Manufactured Goods	Machinery and Motor Vehicles	Total U.S. Exports
1928	\$10,055	\$11,902	\$37,617
1929	9,649	16,030	44,851
1930	6,006	12,324	32,967
1931	1,815	5,319	15,645
1932	1,309	2,968	10,229
1933	2,251	4,712	13,115
1934	4,547	7,995	19,281
1935	2,721	9,014	18,585
1936	3,766	11,160	24,079

Source: United States, Department of Commerce, Bureau of Foreign and Domestic Commerce, Foreign Commerce and Navigation of the United States, 1928-1936 (Washington: Government Printing Office, 1929-1937).

As illustrated in Table 11, U.S. exports to Venezuela shrank considerably during the Depression years 1929-1932. Between 1932 and 1936, however, Venezuelan imports increased approximately \$13.8 million. The clear source of this growth was the \$10.6 million rise in sales of goods in the two commodity classes listed in Table 11. While this upturn pleased U.S. exporters and Venezuelan merchants, the resurgent growth of imports, which threatened the bolivar, was not deemed desirable by the Venezuelan government. In mid-1936 when measures were taken to curb imports, goods in the two U.S. dominated commodity classes were assessed the highest duty increases in the revised Venezuelan tariff:¹

automobiles	+200%	refrigerators	up to +283%
trucks	+400%	calculators	+600%
radios	up to +150%	cash registers	+400%
typewriters	+250%		

While the U.S. Commercial Attaché Frederick D. Grab had seen the necessity of beginning reciprocal trade negotiations before the new tariff became effective, the change in Venezuelan commercial policy and import taxes after passage of the 1936 Customs Law made negotiations imperative.² For over a century the United States had traded with Venezuela without concluding a commercial treaty. As long as Venezuela continued to practice laissez-faire trade policies, no formal agreement was

¹United States, National Archives, RG 151, Special Report No. 43, Commercial Attaché Frederick D. Grab (Caracas) to Department of Commerce, Bureau of Foreign and Domestic Commerce (BFDC), October 16, 1936, and Special Report No. 46, Grab (Caracas) to BFDC, October 15, 1936.

²U.S., Archives, RG 151, Special Report No. 6, Grab (Caracas) to BFDC, July 13, 1936.

necessary. But after the signing of the French and Danish commercial agreements in mid-1936, Venezuelan commercial policy changed significantly. The new diplomatic commercial policy was designed to promote Venezuelan exports by allowing imports only on a bilateral quid pro quo basis.³ Countries without formal agreements with Venezuela faced tariff discrimination and potential export losses. In addition, the Commercial Attaché saw more and more frequent signs of economic nationalism in the statements and writings of high Venezuelan government officials and their advisors.⁴ To safeguard the U.S. export market in Venezuela, Grab reported in November, 1936, that it was time to start reciprocal trade negotiations.

Despite the real need to begin negotiations with Venezuela, the Department of State could not act without first neutralizing domestic political opposition to petroleum tariff concessions which would be a sure result of any tariff bargaining with Venezuela. The only important Venezuelan export to the U.S. which was not already on the duty free list was petroleum (both crude and refined). Since nations engaging in bilateral trade negotiations customarily judged trade agreements by balancing revenues sacrificed with the value of concessions gained, Department experts concluded in November, 1936, that the

³U.S., Archives, RG 151, Economic and Trade Note No. 93 1/2, William Witman (Caracas) to BFDC, June 6, 1936; Economic and Trade Note No. 13, Grab (Caracas) to BFDC, August 10, 1936; Economic and Trade Note No. 142, Witman (Caracas) to BFDC, January 11, 1937; Economic and Trade Note No. 136, Grab (Caracas) to BFDC, January 5, 1937; and Special Report No. 15, Grab (Caracas) to BFDC, July 28, 1936.

⁴Constantine McGuire, "Notas sobre política monetaria venezolana," Revista de Hacienda 1 (December, 1936), pp. 10-15; U.S., Archives, RG 151, Special Report No. 62, Grab (Caracas) to BFDC, November 20, 1936; and Economic and Trade Note No. 62, Grab (Caracas) to BFDC, October 10, 1936.

ultimate success or failure of a Venezuelan reciprocal trade agreement would depend on a U.S. petroleum tariff concession.⁵

This concession policy would have been extremely unpopular with powerful petroleum and coal state interests in the U.S. Congress had they known about it. All during the spring and early summer of 1936, they had made futile attempts to raise petroleum import excise taxes while the Department of State had lobbied against their efforts.⁶ Whereas the Venezuelan government had called for bilateral trade negotiations and then had raised Venezuelan tariffs before the trade negotiations had begun, the Department of State did not take a similar opportunity presented by U.S. petroleum tariff forces to maximize its negotiating position against Venezuela. By choice, considerable leverage in later tariff bargaining was sacrificed.

As the Department of State planned its course of action in conducting trade negotiations with Venezuela, it considered more than simply one trade agreement. Much larger questions were involved. Harry C. Hawkins of the Department's Division of Trade Agreements surmised in November, 1936, that there were nearly 200 votes in the U.S. House of Representatives which represented the 16 major oil and

⁵U.S., Archives, RG 59, Decimal File 611.3131/77, Memo of the Division of Trade Agreements, November 21, 1936; Decimal File 611.3131/65, Memo of Harry C. Hawkins of Division of Trade Agreements, November 25, 1936; Decimal File 611.0031 Executive Committee on Foreign Trade Agreements/765, Memo of Executive Committee on Foreign Trade Agreements, March 21, 1933.

⁶U.S., Archives, RG 59, Decimal File 611.003 Petroleum/47, Secretary of State Cordell Hull to Robert L. Doughton, Chairman of U.S. House Ways and Means Committee, April 15, 1936; 611.003 Petroleum/52 1/2, Memo of Office of Economic Advisor, May 25, 1936; and Decimal File 611.0031 Executive Committee on Foreign Trade Agreements/142, Memo of Office of Economic Advisor, February 10, 1934.

coal producing states. His list included California, Texas, Oklahoma, Kansas, Michigan, Illinois, Louisiana, Pennsylvania, and West Virginia. Additional protectionist opposition to the Hull-inspired reciprocal trade agreements program could be expected from congressmen representing districts with industries like lumbering, copper mining, sugar cane, cattle and sheep ranching, and textiles. Once coherently organized, protectionist and isolationist interests in the U.S. Congress would have been extremely powerful. The main concern of the Department of State was not that the Congress would attempt to block one pending reciprocal trade agreement, but that the entire Hull trade program would be scuttled.⁷ House and Senate hearings on the extension of the 1934 Reciprocal Trade Agreement Act were scheduled to begin in late January and February, 1937.⁸

To forestall well-organized opposition to the pending trade agreement bill, Assistant Secretary of State Francis B. Sayre and Harry Hawkins decided that the U.S. government should conduct silent negotiations in Caracas on an ad referendum basis. The Venezuelan government would be requested to maintain absolute secrecy about the general subject of trade negotiations or even that they were in progress. If the secret negotiations were ever discovered by U.S. domestic petroleum interests or their congressional representatives, the Department would respond that sensitive, on-going diplomatic negotiations should not be disturbed. In short, the strategy was to begin the trade

⁷ U.S., Archives, RG 59, Decimal File 611.3131/77, Memo of Division of Trade Agreements, November 21, 1936; and Decimal File 611.3131/65, Memo of Harry Hawkins, November 25, 1936.

⁸ Ibid.

agreement negotiations secretly and to continue to block protectionist attempts to raise the petroleum import excise tax. Only after the reciprocal trade agreement act had been extended, would the Department declare its intention to initiate trade negotiations with Venezuela.⁹

Greasing the Gears of Diplomacy

On December 3, 1936, Venezuela's Foreign Minister Esteban Gil Borges once again raised the question of negotiating a reciprocal trade agreement with the United States. With the exception of Japan, Gil Borges pointed out that the U.S. was the only major Venezuelan trading partner which lacked most-favored-nation (MFN) status. To correct this deficiency and to lower duties on specific U.S. export products up to 25%, he announced that Venezuela was willing to begin negotiations immediately. The tantalizing offer, however, included a bombshell: the López Contreras administration was unwilling to negotiate an agreement which would include Venezuelan petroleum exports to the United States.¹⁰

This proposition utterly astonished Trade Agreements personnel in Washington, D.C. If Venezuela refused a U.S. tariff concession on petroleum, there was nothing of value left that the Department of State could offer in tariff bargaining. Of course, the Venezuelan Foreign Minister had made his statement with the intention of

⁹U.S., Archives, RG 59, Decimal File 611.3131/65, Memo of Hawkins, November 25, 1936; and Decimal File 611.3131/78, Memo of Laurence Duggan in Division of Latin American Affairs, November 30, 1936.

¹⁰U.S., Archives, RG 59, Decimal File 611.3131/66, Legation Secretary Henry Villard (Caracas) to Dept. of State, December 3, 1936.

improving his bargaining position. When pressed on the subject a week later, Gil Borges revealed that with great reluctance the Venezuelan government would be willing to consider petroleum exports in the negotiations only because of the great anxiety expressed by U.S. petroleum company officials. He stated that winning a U.S. petroleum tariff concession would be of little value to the Venezuelan government, however, because only 14% of Venezuelan oil exports were shipped directly to the United States. Furthermore, foreign petroleum companies, not the Venezuelan government, would realize the greatest benefit from such tariff reductions.¹¹

When the Department of State answered on December 19, 1936, the reply was as clever as Gil Borges' opening ploy. Whereas the Venezuelan Foreign Minister had started discussions by feinting indifference to potential U.S. petroleum tariff concessions, the U.S. announced that it was ready to begin as soon as an essential precondition was satisfied. Since Venezuelan goods had always entered the U.S. market on equal terms with all other countries, the State Department asked that U.S. goods be treated fairly in a reciprocal manner. Once Venezuela unilaterally granted MFN privileges to the U.S., the Department would be ready to begin informal, preliminary trade discussions.¹² A surprised Gil Borges replied on December 22

¹¹U.S., Archives, RG 59, Decimal File 611.3131/69, Villard (Caracas) to Dept. of State, December 16, 1936.

¹²U.S., Archives, RG 59, Decimal File 611.3131/70A, Assistant Secretary of State Francis B. Sayre to American Minister Meredith Nicholson (Caracas), December 12, 1936. This argument was an interesting reversal of the bargaining strategy which had been advocated in September, 1934. Decimal File 611.3131/34 1/2, Edwin

that the whole purpose of bilateral trade negotiations would be lost if MFN benefits were simply awarded to third countries without negotiation. Venezuela had embarked on an international trade policy to accord favors to those trading partners who offered Venezuela concessions.¹³

But there was a dangerous weakness in Gil Borges' position. If Venezuela began to discriminate against the United States which had not previously discriminated against Venezuela, the new Venezuelan trade policy invited swift economic retaliation. Perhaps aware of his entrapment, Gil Borges gracefully closed his conversation with Legation Secretary Henry Villard by stating that he had not realized that the U.S. had historically awarded Venezuelan products MFN privileges and that he would study the U.S. proposal further.¹⁴ On January 5, 1937, the first petroleum tariff bill of the session was introduced in the U.S. House of Representatives. In the next few weeks, three additional petroleum import tax bills were submitted. By that time, however, the Venezuelan government had already acted. On January 11, 1937, the Venezuelan government agreed to grant to the U.S. the tariff privileges which had been extended to France. In extending these privileges, Gil Borges hoped that the ensuing trade agreement could be kept as brief and simple

Wilson (Division of Latin American Affairs) to Henry Grady (Chief of Division of Trade Agreements), September 14, 1934.

¹³ U.S., Archives, RG 59, Decimal File 611.3131/71, Villard (Caracas) to Dept. of State, December 22, 1936.

¹⁴ Ibid.

as possible.¹⁵

Venezuelan government officials were not the only ones to notice the January, 1937 reintroduction of U.S. legislation calling for higher petroleum tariffs. On January 28, 1937, Gil Borges told Henry Villard that he had been informed that a bill (HR 88), which would raise petroleum import excise taxes, had been introduced in the U.S. Congress. This bill was a close copy of legislation which had failed in 1936, except that it made no attempt to establish a petroleum import quota.¹⁶ While the Venezuelan government was not unduly concerned, the Foreign Minister reported that U.S. petroleum company officials in Caracas were very apprehensive. For this reason he again repeated his request that trade negotiations begin.¹⁷ Only three days later on January 31, 1937, the Venezuelan Foreign Minister reversed his position about the minor importance of HR 88 and lodged a strong protest against it. First, the tax on crude petroleum and asphalt would hurt U.S. automobile manufacturers and motorists. Second, highway construction would become more expensive. Third, the bill

¹⁵U.S., Archives, RG 59, Decimal File 611.3131/72, Villard (Caracas) to Dept. of State, January 11, 1937; Decimal File 611.3131/74, Villard (Caracas) to Dept. of State, January 12, 1937; and Decimal File 611.3131/75, Villard (Caracas) to Dept. of State, January 12, 1937. See also Decimal File 611.3131/83, Dept. of State Press Release, January 13, 1937.

¹⁶U.S., Archives, RG 59, Decimal File 611.003 Petroleum/74 1/2, Memo of the Office of Economic Advisor, January 22, 1937.

¹⁷U.S., Archives, RG 59, Decimal File 611.003 Petroleum/76, Villard (Caracas) to Dept. of State, January 28, 1937; Decimal File 611.3131/80, Villard (Caracas) to Dept. of State, January 28, 1937; and Decimal File 611.3131/82, Villard (Caracas) to Dept. of State, January 28, 1937.

was not a revenue bill, but an aid to a special interest group. Fourth, the tax increase ignored the needs of U.S. trading partners in Latin America. Fifth, Venezuela had recently granted the United States unconditional most-favored-nation (UMFN) privileges, and HR 88 was hardly equitable reciprocity. Finally, the Venezuelan government asked if HR 88 was part of the Roosevelt "Good Neighbor Policy."¹⁸

The criticisms were excellent, but several were far too succinct to have been originally composed in Spanish. Someone had supplied Gil Borges with arguments. A month after the protest was filed, Legation Secretary Henry Villard learned why Gil Borges had changed his position so suddenly. The top Standard Oil Company official in Caracas had told Gil Borges that if the U.S. petroleum tariff bill passed, Standard Oil would curtail petroleum production and cease shipping petroleum products to U.S. ports.¹⁹ Given the financial importance of the Standard Oil bluff, Gil Borges' reaction was not surprising.

Additional company involvement took place in Washington on February 4, 1937, when "a man who represented important U.S. interests in Venezuela" called on William Manning of the Department of State Division of Latin American Affairs. The unnamed visitor intimated

¹⁸U.S., Archives, RG 59, Decimal File 611.3131/81, Venezuelan Foreign Minister Esteban Gil Borges (Caracas) to Dept. of State, February 1, 1937.

¹⁹U.S., Archives, RG 59, Decimal File 611.3131/91, Villard (Caracas) to Dept. of State, February 26, 1937.

that the Venezuelan government really wished to negotiate a trade agreement, but the López Contreras administration was afraid of revealing its intentions for internal political reasons.²⁰ The real purpose of the caller, of course, was to launch trade negotiations in order to head off the efforts of petroleum protectionists in the U.S. Congress.

The Defeat of the Petroleum Protectionist Lobby

As in 1936 the Department of State strenuously opposed legislation such as HR 88 which proposed a doubling of import taxes on petroleum. In addition to Venezuelan complaints about the bill, diplomatic protests had been received from the governments of the Netherlands and England.²¹ Department officials knew that the petroleum protectionists had to be stopped. During the ensuing legislative struggle on Capitol Hill, the Department issued testimony based on arguments formulated by the U.S. Tariff Commission and Standard Oil Company of New Jersey.

After a February 10, 1937 interview with Leroy Stinebower of the Economic Advisor's staff, Standard Oil Company of New Jersey representative John Bohanon left a well-prepared set of memoranda which concisely attacked HR 88. The position papers revealed that naval

²⁰U.S., Archives, RG 59, Decimal File 611.3131/87, Memo of William Manning in Division of Latin American Affairs, February 4, 1937. The man probably was from Standard Oil Company of New Jersey. Company representative John Bohanon had already visited the Dept. of State Economic Advisor on January 22, 1937.

²¹U.S., Archives, RG 59, Decimal File 611.003 Petroleum/90, British Commercial Attaché to Dept. of State, March 15, 1937; and Decimal File 611.003/85, Royal Netherlands Minister to Dept. of State, March 1, 1937.

bunker fuel had been in short supply on the East Coast for several years. In fact, the Navy Department had experienced serious problems obtaining adequate supplies for peacetime maneuvers in 1936. While the residual fuel shortage could be relieved by running greater volumes of light U.S. crude petroleum through U.S. refineries, this would also produce higher volumes of gasoline which would be a glut on the market. From Standard Oil's viewpoint, it would have been economically indefensible to use high quality crude oil to make residual fuel oil when low gravity Venezuelan crude oil and Netherlands West Indies refined fuel oils could serve the U.S. market with less waste. Moreover, by using foreign petroleum, the U.S. could conserve its own rapidly depleting reserves. If the existing import excise tax were doubled, however, the Standard Oil memoranda closed with the statement that continual importation of fuel oil was unlikely. The completeness of the company lobbying effort could be seen in the information left with the Department of State. Individually tailored position papers had been drafted for the U.S. Departments of State, Navy, and Interior.²² As could be expected, the ideas freely supplied to the U.S. policy makers were based on the implicit assumption that the best policy for the U.S. government to follow was a policy which favored the financial interests of Standard Oil Company of New Jersey.

The economic analysis provided by the U.S. Tariff Commission combined excellent petroleum trade statistics with inaccurate generalizations and conclusions about the U.S. domestic petroleum industry.

²²U.S., Archives, RG 59, Decimal File 611.003 Petroleum/111, Memo of John Bohanon of Standard Oil Company of New Jersey, February 15, 1937.

As in the case of the Department of State, the U.S. Tariff Commission lacked resident petroleum experts. The Commission report began with an erroneous description of the operations of large, international petroleum corporations and independent domestic producers. The large companies were depicted as the major source of petroleum exploration in the U.S. and vitally concerned about discovering new oil fields for the future. Independents were assessed as being narrowly concerned only about securing as large a share of the U.S. market as possible. In reality it had been the independents who had discovered the major oil fields in the U.S. during the 1920s and 1930s. Before the major companies could buy them out, they had fairly well succeeded in destroying the oligopolistic petroleum industry in areas of East Texas and Oklahoma.²³

A second major error in the U.S. Tariff Commission report was a misconception about the effect of the petroleum tariff on U.S. petroleum imports and exports. The Commission staff began by correctly pointing out that the U.S. had historically been a large net exporter of refined petroleum products. After imposition of the mid-1932 import excise tax, however, U.S. imports of crude petroleum and exports of refined products declined. To the Commission experts,

²³U.S., Archives, RG 59, Decimal File 611.003 Petroleum/110, A. Manuel Fox of U.S. Tariff Commission to Sayre, February 8, 1937. See also the testimony of W.S. Farish, President of Standard Oil Company of New Jersey, in U.S., Congress, Senate, Temporary National Economic Committee, Review and Criticism on Behalf of Standard Oil Co. (New Jersey) and Sun Oil Co. of Monograph No. 39 with Rejoinder by Monograph Author, Monograph No. 39-A, Senate Committee Print, (Washington, D.C.: Government Printing Office, 1941), p. 28.

this was direct evidence that the 1932 import tax had hindered U.S. world petroleum trade. Unknown to the Commission analysts, the real reason for the loss of U.S. petroleum export markets was a sale of assets between two U.S. corporations. Until 1931 Standard Oil Company of Indiana controlled major Venezuelan production and marketed this output in the United States. After Standard Oil Company of New Jersey bought all of Standard Oil of Indiana's Venezuelan properties in 1931, the major market for Venezuelan petroleum was switched by the new owners from the U.S. to Europe. In spite of what U.S. Tariff Commission staff believed, a simple reduction in the U.S. petroleum import excise tax would never restore lost petroleum export markets to U.S. producers and refiners.²⁴ High officials in the State Department were either indifferent to or unaware of the shortcomings of their testimony as they worked to block petroleum protectionists in the U.S. Congress.

In an effort to induce the Department of State to drop its opposition to the proposed petroleum tariff, domestic petroleum interests also lobbied at the Department. When Russell B. Brown (lawyer for the Independent Petroleum Association of America) and Congressman Wesley E. Disney (Dem., Okla.) called on Assistant Secretary of State Sayre on March 1, 1937, Brown tried to explain that imports injected an element of uncertainty into the U.S. prorationing

²⁴U.S., Archives, RG 59, Decimal File 611.003 Petroleum/110, Fox to Sayre, February 8, 1937; Decimal File 611.003 Petroleum/48, Memo of Herbert Feis (Office of Advisor on International Economic Affairs), April 18, 1937; and Edwin Lieuwin, Petroleum in Venezuela (New York: Russell & Russell, 1967), pp. 59-60.

system which had been established to curb excess production. Since the major buyers of U.S. crude oil were also the largest importers of foreign crude, they could manipulate domestic petroleum prices by varying their ratio of purchases between foreign and domestic petroleum. After Sayre appeared to be unimpressed, Brown and Disney asked if the Department had any ideas how to rewrite the pending petroleum tariff legislation so that it would be acceptable. In response Sayre and a representative from the Economic Advisor's office could think of nothing to help the domestic petroleum interests.²⁵

Undaunted by failure, Brown and Disney returned to the State Department many times in April of 1937 to argue that only competition in the U.S. petroleum industry could prevent monopolistic control and profiteering by the major companies. To illustrate their contention, Brown described a clear case where the U.S. consumer had not benefited from the removal of petroleum import duties. After fuel bonded for use in international shipping was allowed duty free entry into the New York City bunker fuel market, prices increased significantly despite the import tax saving. Assistant Secretary of State Sayre remained unimpressed.²⁶

When the House Ways and Means Committee began to consider HR 88, Secretary of State Hull filed a letter of opposition. The Department referred to the U.S. Tariff Commission contention that petroleum

²⁵U.S., Archives, RG 59, Decimal File 611.003 Petroleum/105, Memo of Office of Economic Advisor, March 1, 1937.

²⁶U.S., Archives, RG 59, Decimal File 611.003 Petroleum/105, Memo of Russell B. Brown (counsel of Independent Petroleum Producers of America), April 5, 1937.

import taxes disrupted the profitable U.S. petroleum export trade. In addition U.S. Tariff Commission experts had determined that U.S. petroleum imports were insignificant and not dangerous as had been implied by the domestic petroleum interests. As shown in Table 12, total U.S. imports had averaged less than 5.5% of domestic production in the years 1933 to 1936.²⁷

TABLE 12

U.S. TARIFF COMMISSION REPORT ON 1936 U.S. PETROLEUM SITUATION
(In Thousands of Barrels per Day)

Type	1933	1934	1935	1936
Total Daily U.S. Production	2,481	2,488	2,730	3,001
Total Daily U.S. Imports:	124	139	150	160
for U.S. consumption	106	101	94	103
bonded for export	18	38	56	57
Percentage of Imports to				
Domestic Production:	5.00%	5.60%	5.50%	5.33%
for U.S. consumption	4.26%	4.05%	3.46%	3.43%
bonded for export	.74%	1.55%	2.04%	1.90%

Source: U.S., Archives, RG 59, Decimal File 611.003 Petroleum/110, A. Manuel Fox to Francis B. Sayre, February 8, 1937

Shortly after the Department of State objection was filed, the Navy Department sent an objection against HR 88 to the Ways and Means Committee. On May 6, 1937, the Interior Department also communicated its opposition to the bill. Both federal agency position statements were very similar to the memoranda Standard Oil had presented to the State

²⁷U.S., Archives, RG 59, Decimal File 611.003 Petroleum/47, Hull to Doughton, April 19, 1937; and Decimal File 611.003 Petroleum/110, Fox to Sayre, February 8, 1937.

Department in early February, 1937.²⁸ Faced with formidable opposition from Standard Oil Company of New Jersey, and the Departments of State, Navy, and Interior, petroleum tariff supporters were forced to spend their efforts to merely extend the 1932 petroleum excise tax; their plans to increase the tax had to be abandoned completely.²⁹

Because of the noisy controversy raised by the protectionist lobby in the Congress, Department of State officials decided to reassess the petroleum tariff situation before presenting the final plan to President Franklin D. Roosevelt. In late May, 1937, the staff of the Executive Committee on Commercial Policy in the State Department conducted a cursory review of the proposal to offer Venezuela petroleum tariff concessions. If the tax were reduced, the U.S. Treasury would sacrifice revenues. Foreign operating petroleum companies and foreign governments would benefit. While imports would probably not increase, domestic producers would agitate about privileges granted to large, internationally oriented companies. But the criticism of the independents was seen as selfishly irrelevant. After all, profits for the major oil companies had almost recovered to 1929 levels. To Department officials, this meant that the entire industry had returned to prosperous times. In addition, there were the arguments which had been advanced by the U.S. Tariff Commission, Department of Navy, Department of Interior, and Standard Oil Company of New Jersey.

²⁸U.S., Archives, RG 59, Decimal File 611.003 Petroleum/142, Navy Department to Doughton, April 28, 1937; Decimal File 611.003 Petroleum/141, Charles West (Dept. of Interior) to Doughton, May 6, 1937.

²⁹U.S., Archives, RG 59, Decimal File 611.003 Petroleum/130, Memo of Office of Economic Advisor, June 26, 1937.

The obvious conclusion of the perfunctory policy review was to proceed exactly as had been planned by the Department's Trade Agreements staff.³⁰ A June 3, 1937 interview Assistant Secretary of State Sayre had with President Roosevelt formalized the U.S. concession policy. The U.S. would agree to offer Venezuela a petroleum import tax reduction. The President, however, only authorized a concession limited by quota to a volume equal to 6 1/2% of U.S. refinery runs in the preceding year.³¹ The only problem that remained now was to convince the Venezuelan government to accept an agreement based on U.S. proposals.

A Green Light for Negotiations

During February, 1937, actions taken by the U.S. Congress freed the Department of State from the threat that protectionist forces would dismember the entire Hull reciprocal trade program. On January 22, 1937, the Chairman of the House Ways and Means Committee, Robert L. Doughton (Dem., N.C.), introduced an act to extend the trade bill.³² Secretary of State Cordell Hull testified the same day that much of the economic emergency which confronted the U.S.

³⁰U.S., Archives, RG 59, Decimal File 611.003 Petroleum/133, Memo of Executive Committee on Commercial Policy, June 16, 1937. Better analysis of the true economic significance of the excise tax could have been found in the 1931 U.S. Tariff Commission Report to Congress and a 1934 observation of the Dept. of State Economic Advisor. Decimal File 611.0031 Executive Committee on Trade Agreements/142, Memo of Office of Economic Advisor, February 10, 1937.

³¹U.S., Archives, RG 59, Decimal File 611.3131/105, Sayre Memo of conversation with Franklin D. Roosevelt, June 3, 1937.

³²New York Times, January 22, 1937.

economy could be traced directly to the collapse of U.S. foreign trade. He announced that through the 15 trade agreements which had been negotiated, the U.S. economy and its export markets were recovering.³³ By a vote of 284-100, the House approved the bill on February 6, 1937. The Senate passed similar legislation on February 25, 1937, by a 58-24 margin.³⁴ The way was now clear to publicly announce the intention of negotiating a trade agreement with Venezuela just as soon as basic agreement could be assured.

The Department of State Trade Agreements organization had outlined the basic objectives that the U.S. desired to achieve by February 8, 1937. The agreement would require Venezuelan acceptance of the basic U.S. reciprocal trade agreement provisions in addition to duty reductions and bindings on a long list of U.S. products.³⁵ On February 16, 1937, Assistant Secretary of State Sumner Welles instructed Henry Villard to present the general trade agreement draft (without the tariff concession product list) to the Venezuelan government. The proposed agreement was comprised of 17 complicated articles, one of which (on exchange matters) was so detailed that it was not ready to be sent with the original trial draft.³⁶

³³Ibid.

³⁴New York Times, February 6, 1937; and February 26, 1937.

³⁵U.S., Archives, RG 151, BFDC File 046.2 Venezuela, Henry Chalmers (Bureau of Foreign and Domestic Commerce) to Grab, February 8, 1937; and RG 59, Decimal File 611.0031 Committee on Foreign Trade Agreements/28, Memo of Peek, July 11, 1934.

³⁶U.S., Archives, RG 59, Decimal File 611.3131/79, Assistant Secretary of State Sumner Welles to Villard, February 16, 1937.

The complicated legal language in the U.S. text had stunning effect in Spanish translation. Gil Borges was not enthusiastic about the draft. He wanted to negotiate a brief, simple document which could easily be discussed in Venezuelan Cabinet meetings. Without an exchange control article, the otherwise detailed U.S. draft was seriously incomplete. In February, 1937, the Venezuelan government had just begun the final process of centralizing all foreign exchange operations in the National Exchange Centralization Office (NECO).³⁷ On March 4, 1937, after the Venezuelan government had only studied the complicated proposal for two weeks, Hull optimistically cabled Caracas, that if the Venezuelan government accepted the general draft and an unspecified "future" exchange article, the U.S. government would be willing to announce the beginning of formal negotiations on April 1, 1937. Other Department officials suggested announcing on March 15, 1937.³⁸ These hopes were not to be realized.

In Caracas, the prospect of speedy conclusion of the preliminary trade negotiations bogged down in a mire of technical disagreements. Gil Borges had no intention of surrendering Venezuela's freedom to bargain with other nations by agreeing to the restrictive UMFN covenants included in the U.S. trade agreement draft of February 16. This was especially true as it became apparent that U.S. petroleum

³⁷U.S., Archives, RG 151, Special Report No. 98, Grab (Caracas) to BFDC, February 22, 1937; and Special Report No. 95, Grab (Caracas) to BFDC, February 8, 1937.

³⁸U.S., Archives, RG 59, Decimal File 611.3131/88, Hull to Nicholson, March 4, 1937; and Decimal File 611.3131/88, Memo of Willard L. Beaulac to Sayre, March 4, 1937.

tariff proponents were going to be unsuccessful.

From early April to mid-July, 1937, the Foreign Minister found numerous reasons why Venezuela could not agree to the type of trade pact envisioned by U.S. diplomats. First, major Venezuelan trading partners (France, Italy, and Germany) did not espouse liberal free trade policies. If UMFN privileges were formally extended to the U.S., Venezuela would be forced to accord similar treatment to other nations which would not reciprocate fairly. Second, if Venezuela accepted the U.S. position, which prohibited import quotas and exchange control systems, and then granted tariff concessions to the United States, it would be impossible for the government to control either Venezuelan imports or the nation's economic destiny. Finally, the NECO had just won the battle for the bolívar and had appreciated the official conversion rate from Bs3.93 to Bs3.19 per dollar. Gil Borges argued that since the revaluation had the effect of substantially reducing Venezuelan customs duties, further tariff reductions were unwarranted.³⁹

Table 13, parts I and II, shows how appreciation affected the gross weight duty system used by Venezuela. The last two columns reveal that after the 1937 revaluation of 18.8%, specific class duty rates increased in terms of effective ad valorem equivalents, but Venezuelan wholesale customers paid lower bolívar prices on imported

³⁹U.S., Archives, RG 59, Decimal File 611.3131/95, Nicholson (Caracas) to Dept. of State, March 29, 1937; Decimal File 611.3131/96, Nicholson (Caracas) to Dept. of State, April 8, 1937; Decimal File 611.3131/99, Nicholson (Caracas) to Dept. of State, April 23, 1937; and Decimal File 611.3131/104, Nicholson (Caracas) to Dept. of State, May 21, 1937.

TABLE 13

EFFECT OF BOLÍVAR APPRECIATION ON THE VENEZUELAN TARIFF

Hypothetical Product Class	U.S. Export Product Value	Venezuela Import Product Value	Duty Rate per Kg*	Venezuela Product Cost ⁺	Effective <u>ad valorem</u> Equivalency
Part I: Bs3.93 per \$1.00					
1	\$2.00	Bs7.86	Bs1.96	Bs9.82	25%
2	2.00	7.86	3.93	11.79	50%
3	2.00	7.86	7.86	15.72	100%
4	2.00	7.86	11.79	19.65	150%
Part II: Bs3.19 per \$1.00					
1	\$2.00	Bs6.38	Bs1.96	Bs8.34	31%
2	2.00	6.38	3.93	10.31	62%
3	2.00	6.38	7.86	14.24	123%
4	2.00	6.38	11.79	18.17	185%

* Specific duty was assessed according to product class and weight

⁺ Product cost included the tariff

goods than previously. For example, a product in class 1 worth \$2.00 at port of entry had an ultimate Venezuelan wholesale price of Bs9.82 after duties were paid. Once the bolívar appreciated to Bs3.19, the same item had a wholesale price of only Bs8.34. The net effect illustrated in Table 13 is that goods in each of the four hypothetical tariff schedule product classes enjoyed bolívar price reductions of 14%, 13%, 9%, and 8% respectively after the revaluation. As a result of the NECO appreciation of the bolívar, Venezuelan merchants imported U.S. goods at a rate higher than during the import boom of the late summer of 1936.⁴⁰ With the surging demand for foreign exchange,

⁴⁰U.S., Archives, RG 59, Decimal File 611.3131/109, Nicholson

Foreign Minister Gil Borges did not desire to increase Venezuelan economic problems by concluding a restrictive agreement with the U.S. By June 15, 1937, it was evident that petroleum protectionist forces in the U.S. Congress had been defeated. But, the most that Gil Borges was willing to offer the U.S. was a brief June 15, 1937 modus vivendi draft which accorded only very qualified MFN privileges.⁴¹

The Department of State did not appreciate the changed Venezuelan attitude toward negotiating a detailed reciprocal trade agreement. The U.S. Minister was instructed on July 14, 1937, to inform Gil Borges that the U.S. was prepared to grant duty reductions on 67% of Venezuelan direct exports to the U.S. and was willing to bind an additional 22% to existing rates. In return, the U.S. would only ask for reduced rates on 29% of U.S. direct exports to Venezuela and rate binding on 12% more. Thus, 89% of Venezuela's export trade to the U.S. (1935 figures) would be favored while only 42% of U.S. export shipments to Venezuela would benefit. After explaining these benefits, Minister Meredith Nicholson left a memorandum which pointedly asked Venezuelan officials why they had lost interest in negotiations they had suggested. In the recent past Venezuela had expressed definite interest in negotiating for U.S. petroleum import tax benefits. In addition, Gil Borges was asked whether or not Venezuela desired

(Caracas) to Dept. of State, July 15, 1937.

⁴¹U.S., Archives, RG 59, Decimal File 611.3131/106, Nicholson (Caracas) to Dept. of State, June 14, 1937; Decimal File 611.3131/108, Nicholson (Caracas) to Dept. of State, June 15, 1937; and Decimal File 611.3131/108, Memo of Gil Borges attached to Nicholson (Caracas) to Dept. of State, June 15, 1937.

liberalization of trade and why Venezuela refused to grant the U.S. UMFN treatment.⁴²

The Work of a Master Diplomat

After spending a month struggling to draft a reply to the U.S. note, on August 30, 1937, the Venezuelan government consented to resume trade negotiations.⁴³ Soon thereafter a mysterious news leak about the secret trade negotiations appeared in the Caracas newspaper La Crítica on September 17, 1937, under a United Press header. The report intimated that a Department of State official in Washington had revealed that preliminary trade negotiations were being undertaken in Caracas. Because a number of other Caracas newspapers also subscribed to UP and did not carry the story, Nicholson thought the leak had occurred elsewhere. A week later on September 25, Gil Borges brought the story to Nicholson's attention and suggested that since the damage had been done, formal announcement should be made.⁴⁴

While the source and reason for the news leak have never been documented, a reasonable explanation can be deduced in light of contemporaneous Venezuelan circumstances. The source of the leak had to be in the Venezuelan Foreign Ministry. The newspaper La Crítica was clearly affiliated with the López Contreras administration, and

⁴²U.S., Archives, RG 59, Decimal File 611.3131/109, Welles to Nicholson, July 14, 1937.

⁴³U.S., Archives, RG 59, Decimal File 611.3131/115, Nicholson (Caracas) to Dept. of State, August 30, 1937; and Decimal File 611.3131/117, Nicholson (Caracas) to Dept. of State, August 31, 1937.

⁴⁴U.S., Archives, RG 59, Decimal File 611.3131/123, Nicholson (Caracas) to Dept. of State, September 27, 1937.

Gil Borges was far too astute to have been "unaware" of the news item for seven days before bringing it to Nicholson's attention. The probable reason the leak was staged was because 1937 imports from the U.S. had risen dramatically after the appreciation of the bolívar. While 1936 U.S. automobile exports to Venezuela totaled \$11,000,000, they reached \$22,000,000 in 1937. Imports of U.S. manufactured goods in 1937 tripled to \$9,000,000.⁴⁵ Responsible officials in the Treasury and Development Ministries would have urgently advised against negotiating a trade agreement which would have lowered the Venezuelan import barrier. Thus, the leaked story was a subtle attempt to induce the State Department to begin public negotiations before the other Ministries could block Foreign Ministry action.

Gil Borges planned to satisfy U.S. diplomats and to protect Venezuelan interests by concluding an agreement containing weak general provisions and as few tariff concessions as possible. This strategy was revealed on November 24, 1937, when Venezuela communicated its tariff concession request list (see footnote definitions):⁴⁶

guano	magnesite	asbestos	uncut diamonds
balata	horns, hoofs	asphalt	phytoplankton
fish skins	egret feathers	iron ore	divi-divi
cacao	bananas	manganese	sisal
coffee	mahogany	pearls	tonka beans
hides	gold ore	guns	sneezewort
bones	copper ore	mica	tobacco

⁴⁵U.S., Department of Commerce, Bureau of Foreign and Domestic Commerce, Foreign Commerce and Navigation of the United States, 1936-1938 (Washington, D.C.: Government Printing Office, 1938, 1939), pp. 411-412 and 853-854.

⁴⁶U.S., Archives, RG 59, Decimal File 611.3131/151, Nicholson

The significant omission on the Venezuelan list was petroleum. The clear implication of the Venezuelan Cabinet decision was that Venezuela would seek and grant few tariff concessions. In comparison, the list of products on which the U.S. would later desire reductions was extensive. The Committee for Reciprocity Information reported to the Department of State on December 2, 1937, that U.S. manufacturers had submitted over 200 items for consideration.⁴⁷ The vast imbalance between the two lists had to be reduced before the U.S. would have any chance to negotiate a significant agreement. To pressure the Venezuelan government into requesting a tariff concession on petroleum, on December 17, 1937, the U.S. government repeated arguments which had been used to rekindle Venezuelan negotiating interest in July. Secretary of State Sumner Welles invited Gil Borges to expand trade between the two countries along natural lines by including petroleum on the Venezuelan concession request list.⁴⁸

In early January, 1938, while Venezuelan officials again debated whether or not to include petroleum and petroleum products in the trade agreement, petroleum company representatives in Caracas frantically tried to get the government to include both product groupings.

(Caracas) to Dept. of State, November 24, 1937. Balata is a rubberlike gum used in golf balls, insulated wire, etc.; divi-divi is a source of tannic and gallic acids used in tanning, dyeing, and medicine; phytoplankton is a microscopic water plant used for fish food; sneezewort leaves are used in snuff; and tonka beans are fragrant seeds used for perfume and flavoring.

⁴⁷U.S., Archives, RG 59, Decimal File 611.3131/157, John P. Gregg (Secretary of Committee for Reciprocity Information) to Dept. of State, December 2, 1937.

⁴⁸U.S., Archives, RG 59, Decimal File 611.3131/160, Telegram from Welles to Nicholson, December 17, 1937.

Officials in the Ministry of Development did everything they could to pressure the companies to expand refinery operations in Venezuela.

When Gil Borges finally agreed on January 18, 1938, to add petroleum to the Venezuelan request list, it was only because specialists in the Foreign Ministry had drafted a series of clever qualifications:⁴⁹

(1) Only direct exports of crude petroleum and petroleum products from Venezuela would be granted duty concessions by the United States.

(2) Petroleum product exports from Aruba and Curaçao were not to be included in the concession benefits granted by the U.S.

(3) Duty concessions granted by the U.S. on petroleum imports would not oblige Venezuela to grant tariff reductions of equal value.

(4) Inclusion of petroleum in the trade agreement would be made only if the petroleum companies agreed to refine 50% of their production in Venezuela.

Since the petroleum companies would be the major beneficiaries of a U.S. petroleum tariff concession, the Venezuelan government clearly intended to use the trade negotiations to squeeze concessions from the companies. If the companies did not agree, in future international trade negotiations their interests would be without diplomatic representation (i.e., petroleum without a country).

The Department of State response to the revised Venezuelan concession request list was delayed until March 7, 1938. The first problem the Department trade agreement staff had was to identify the U.S. tariff classification of the exotic Venezuelan tropical products. Then existing trade agreements and tariff schedules had to be searched to see if duty concessions had already been reduced to the 50% limit that the U.S. President was authorized to extend. Finally, the

⁴⁹U.S., Archives, RG 59, Decimal File 611.3131/171, Memo of the Bureau of Political Economy in the Venezuelan Ministry of Foreign Relations, January 18, 1938.

Department of State had to insure that concessions extended to Venezuela did not transfer, in the majority, to other U.S. trading partners because of UMFN privileges. When Assistant Secretary of State Sayre formally responded to the Venezuelan list on March 7, he rejected the four qualifications as irrelevant, but stated that the U.S. would offer to negotiate tariff reductions on:⁵⁰

crude petroleum	goat manure	divi-divi
fuel oil	reptile skins	boxwood in logs
cacao	coffee	
tonka beans	balata	

It was not possible to grant concessions to Venezuela on some requested items for the following reasons:⁵¹

gold ore--duty free
 egret feathers--prohibited
 manganese--already reduced 50% in Brazilian trade agreement
 tobacco--Venezuela exported none to the U.S. during 1931-1936
 raw copper--Venezuela exported none to the U.S. during 1933-1936
 rum and alcohol--Venezuela exported 0.03% of existing U.S. imports;
 already reduced 50% in trade agreement

bones--duty free
 asphalt--duty free
 fish skins--duty free
 guano--duty free
 cattle hides--Venezuela exported 0.5% of existing U.S. imports

As the 1938 Venezuelan Congressional session approached and other Cabinet ministers advocated establishing import quotas or a 2 or 3 column discriminatory tariff, the Foreign Minister acted once again to insure that the negotiations would not be broken off with adverse results. On March 23, 1938, he suggested that a brief modus vivendi be concluded to establish formal UMFN relations in writing. The simple request was

⁵⁰ U.S., Archives, RG 59, Decimal File 611.3131/171, Sayre to Nicholson, March 7, 1938.

⁵¹ Ibid.

more than it seemed to be. The modus vivendi would serve as the perfect solution to the Venezuelan dilemma of how to end the negotiations agreeably without sacrificing customs revenues needed for the new 1938 Three Year Economic Development Plan proclaimed by President López Contreras. If trade negotiations broke down later, the modus vivendi would have served as a secure fall-back position. After Gil Borges' proposal was broadened to include UMFN relations in customs administration, internal taxes, and import quotas, both governments exchanged the modus vivendi agreement on May 12, 1938.⁵²

In an effort to salvage a meaningful trade agreement, the Department of State dispatched Foreign Service Officer Paul C. Daniels to take over negotiations in May, 1938. Very quickly Daniels learned that the Venezuelan position had not changed in spite of sixteen months of hard bargaining. Venezuela would not exempt U.S. listed goods from import quotas, but would extend UMFN treatment. In matters relating to foreign exchange, the Venezuelan government would only agree to offer fair and equal treatment. By June 8, 1938, after long talks with Arturo Uslar-Pietri, Ramón Tello, and Domingo B. Castillo (Director of NECO), Daniels reported that no significant problems stood in the way of concluding a significant trade agreement.⁵³

⁵²U.S., Archives, RG 59, Decimal File 611.3131/179, Nicholson (Caracas) to Dept. of State, March 23, 1938; Decimal File 611.3131/186, Memo of Venezuelan Foreign Ministry, April 26, 1938; Decimal File 611.3131/186, Hull to Nicholson, May 7, 1938; Decimal File 611.3131/191, Daniel M. Braddock (Caracas) to Dept. of State, May 12, 1938; Decimal File 611.3131/190, Foreign Service Officer Paul C. Daniels to Dept. of State, May 5, 1938; RG 151, Special Report No. 1, Commercial Attaché Osborne S. Watson (Caracas) to BFDC, July 9, 1938; and RG 151, Special Report No. 3, Watson (Caracas) to BFDC, August 4, 1938.

⁵³U.S., Archives, RG 59, Decimal File 611.3131/202, Daniels

In answer to a question as to how long it would take to finish all negotiations, the Foreign Service Officer estimated on June 24 that it would be difficult to finish by September.⁵⁴

Presented with a satisfactory opportunity to conclude the long drawn-out talks, on June 27, Sayre instructed Daniels to reach speedy agreement with the Venezuelan government on a finalized version of its tariff request list. In addition, Daniels was ordered to complete all trade agreement negotiations before the October, 1938 congressional political campaigns.⁵⁵ Formal announcement that a trade agreement would be negotiated with Venezuela was made by the Department of State on July 12, 1938. In accordance with established reciprocal trade agreement procedures, the Committee for Reciprocity Information scheduled hearings on the Venezuelan tariff concession request list for August 15, 1938, in Washington, D.C.⁵⁶ While the formal announcement signaled the end of preliminary haggling, the frustration of formal trade negotiations with Venezuela was soon to begin.

(Caracas) to Dept. of State, June 8, 1938.

⁵⁴U.S., Archives, RG 59, Decimal File 611.3131/206, Antonio C. Gonzalez (American Minister in Caracas) to Dept. of State, June 24, 1938.

⁵⁵U.S., Archives, RG 59, Decimal File 611.3131/194, Sayre to Daniels, June 22, 1938; and Decimal File 611.3131/206, Sayre to Daniels, June 27, 1938.

⁵⁶U.S., Archives, RG 59, Decimal File 611.3131/220, Daniels (Caracas) to Dept. of State, July 11, 1938; and Decimal File 611.3131/218, Dept. of State Press Release, July 11, 1938.

The Fruits of Persistence

Despite widespread U.S. Congressional efforts to raise U.S. import taxes on crude petroleum and petroleum products, the Department of State determined that a petroleum tariff concession was imperative in trade negotiations with Venezuela. The rationale for this decision was that petroleum import duties were the only significant U.S. tax sacrifices that could be made to induce Venezuelan officials to concede tariff benefits for U.S. goods. Since major U.S. and British petroleum companies were the primary beneficiaries of U.S. petroleum tariff concessions, the Venezuelan government was unwilling to include petroleum in the trade talks. Only under Department of State pressure did Foreign Minister Gil Borges agree to add petroleum to the Venezuelan tariff concession request list. Thus, the Department of State played the critical role of advocating and then forcing inclusion of a U.S. petroleum tariff concession in the reciprocal trade agreement talks.

Throughout the long preliminary discussions, Standard Oil Company of New Jersey helpfully supplied the Departments of State, Navy, and Interior with justifications for lowering the U.S. petroleum import tax. This aid was especially significant during the struggle to defeat congressional petroleum protectionist forces in 1936 and 1937. Since there were no petroleum experts in the U.S. government who were able to assess the competitive status of the U.S. petroleum industry or the potential effect of lower import taxes, Standard Oil Company of New Jersey had little trouble tailoring self-serving position papers for various U.S. executive departments. No one in

the U.S. government understood the long-term implications of basing national policies on arguments provided by a private corporation.

Venezuelan interest in securing a trade agreement ebbed and flowed with the prospects of petroleum tariff legislation in the U.S. Congress. After first requesting trade negotiations in December, 1936, Gil Borges tried to escape from detailed bargaining in the summer of 1937. By then the Department of State had decisively defeated the U.S. petroleum protectionist lobby. While the Venezuelan Foreign Minister discovered that he could not break off discussions and retain agreeable relations with the U.S., he and his staff proved to be well-aware of Venezuelan economic interests and how to delicately nurse trade negotiations along month after month without reaching a conclusion. Until the U.S. position changed or the Venezuelan perception of world trading patterns and events changed, it was unlikely that Gil Borges would have ever come to an agreement with the United States.

CHAPTER 6

THE GATHERING STORM AND TRADE DIPLOMACY: FORMAL NEGOTIATION OF THE VENEZUELAN RECIPROCAL TRADE AGREEMENT, 1938-1939

U.S. Public Reaction to Formal Negotiations

For over two months after the July 12, 1938 Department of State press release announcing the U.S. intention to negotiate a trade agreement with Venezuela, Secretary of State Cordell Hull was bombarded by protests from influential business associations, labor organizations, and political leaders. Many critics wondered why the Department of State was determined to offer Venezuela petroleum tariff concessions which they believed would mainly benefit Standard Oil Company of New Jersey, Gulf Oil Company, and Royal Dutch Shell Oil Company at the direct expense of U.S. domestic petroleum and coal producers.¹ For example, the Speaker of the House, William B. Bankhead, protested that the U.S. coal industry was depressed to the point that petroleum tariff protection similar to that passed in England was necessary. Speaker Bankhead advocated raising the existing 1/2¢ per gallon tax on imported crude petroleum to 3¢ per

¹Protests were filed by: United Mine Workers; International Association of Oil Field, Gas Well, and Refinery Workers of America; one governor; sixteen U.S. Congressmen including the Speaker of the House and Majority Whip; eleven U.S. Senators including the Chairman of the Rules Committee; National Coal Association; Independent Petroleum Association of America; Louisville and Nashville Railroad; and several regional coal associations.

gallon.² An even clearer complaint about the inadequacy of the petroleum import excise tax was sent by Senator Morris Sheppard. The Senator from Texas argued about the growing importance of Mexican petroleum imports, and supported his complaint with a vivid case. After 79,000 barrels of gasoline and 100,000 barrels of crude petroleum from Mexico were dumped on the market in Houston, Texas, a price war broke out. Even after paying the import excise taxes of 21 1/2¢ per barrel on the crude and \$1.05 per barrel on the gasoline, the Mexican products sold at a lower price than domestic products.³ It was clear to these political leaders and many others that import taxes on petroleum products needed to be raised rather than be lowered by reciprocal trade negotiations.

In response to the many protests, the Department drafted a general, vaguely worded letter which at first glance looked very conciliatory. Secretary of State Hull stated that no tariff decisions would be made by the interdepartmental trade agreements organization until after all interested parties had the opportunity to submit briefs to the Committee for Reciprocity Information and formal hearings had been held. Critics were assured that before any final tariff concession recommendations were formulated, government experts would carefully assess the economic situation in each affected industry in order to insure that the appropriate tariff policy was ultimately

²United States, National Archives, RG 59, Decimal File 611.3131/278, Speaker of the House William B. Bankhead to Secretary of State Cordell Hull, August 12, 1938.

³U.S., Archives, RG 59, Decimal File 611.3131/321, Senator Morris Sheppard to Hull, September 15, 1938.

recommended to the President.⁴

Simply because the Secretary of State wrote a letter stating that federal experts would analyze the impact of tariff revisions on the domestic petroleum industry, this did not mean that a meaningful policy review would ever take place. The entire interdepartmental trade agreements organization was dominated by Department of State personnel who were directly responsible to Cordell Hull and Assistant Secretary of State Francis B. Sayre. Ambitious career civil servants in the diplomatic service knew exactly how to find the facts upon which their superiors could base high level decisions. The most significant stumbling block to an effective federal petroleum policy, however, was the fact that the U.S. government had never acquired petroleum experts who were capable of assessing the importance of petroleum tariff policy changes on domestic petroleum and coal producers.

Two examples reveal the economic blindness afflicting government agencies which reviewed the impact of Venezuelan petroleum shipments to the United States. After receiving word about the impending trade agreement with Venezuela (which included reference to petroleum imports), the Director of the Planning Branch of the War Department, Colonel H.K. Rutherford, reported to Hull on July 14, 1938, that there were no items significant to U.S. national defense which would be discussed in the negotiations.⁵ Two weeks later the Office

⁴U.S., Archives, RG 59, Decimal File 611.3131/233, Hull to Governor T. Marland (Oklahoma), July 20, 1938 is an example of the general reply.

⁵U.S., Archives, RG 59, Decimal File 611.3131/224B, Col. H.K.

of the Chief of Naval Operations issued the same comment.⁶ Amazingly, neither agency had recognized the importance of fuel oil or bunker fuel imports to the northeastern petroleum market! Only five months later in January, 1939, the New York Times reported that Venezuelan crude petroleum processed in Aruba and Curaçao supplied 75% of the petroleum energy used by the United Kingdom.⁷ Incredible as it may seem, the two major U.S. strategic military planning offices were oblivious to American and foreign consumption of Venezuelan petroleum.

The blasé attitude of the military was definitely not shared by domestic petroleum producers represented by the Independent Petroleum Association of America (IPAA). The Association's legal counsel Russell Brown called the Department of State on July 18, 1938, to request a 60 day postponement of the scheduled August 15 hearing of the Committee for Reciprocity Information. Brown naively revealed to the Department that many of the most influential opponents of the proposed trade agreement would be unable to be in Washington, D.C. on August 15. Some of the domestic petroleum industry spokesmen from Kansas, Oklahoma, and Texas were elected officials who would be busy campaigning in state primary elections. This was good news for the trade agreements personnel. Since they wanted to limit opposition to the petroleum tariff concession as much as possible, the IPAA request for delay

Rutherford to Hull, July 20, 1938.

⁶U.S., Archives, RG 59, Decimal File 611.3131/281, Captain Archer M.R. Allen to Henry L. Deimel, July 27, 1938.

⁷New York Times, January 29, 1939; and Bryce Wood, The Making of the Good Neighbor Policy (New York: Columbia University Press, 1961), p. 265.

was instantly rejected.⁸ Although Brown persisted in his effort to delay the hearings, he was unsuccessful. Henry Diemel of the Trade Agreements Division staff explained to Brown on July 19, 1938, that: (1) too many delays had already endangered negotiations with Venezuela, (2) the Department had a moral obligation to hold the hearing as scheduled, and (3) all parties would have the opportunity to present briefs to the Committee for Reciprocity Information which would be carefully reviewed by government experts.⁹

When the Committee convened on August 15, 1938, the formal deliberations were the epitome of government efficiency. In a whirlwind of activity, proceedings opened and closed the same day. When the Committee filed its report to the Department of State Trade Agreements organization, it revealed that 124 written statements had been received covering 200 export and 30 import items. It was significant that opposition to petroleum tariff concessions was expressed in 20 of the 30 written briefs which were filed on imports. While representatives of the major petroleum importing companies did not bother to appear before the Committee, eight of the thirteen witnesses who testified represented state and regional petroleum associations adamantly opposed to reducing U.S. petroleum import excise taxes. A spokesman for the Pennsylvania Grade Crude Oil Association pointed out that the 1931 U.S. Tariff Commission report showed that Venezuelan

⁸U.S., Archives, RG 59, Decimal File 611.3131/221, Russell B. Brown to Hull, July 18, 1938.

⁹U.S., Archives, RG 59, Decimal File 611.3131/296, Memo of Henry L. Deimel, July 19, 1938.

crude could be imported to the Atlantic Seaboard petroleum market for \$.87 per barrel while Pennsylvania grade crude oil reached the same market priced between \$2.55 and \$3.07 per barrel (plus transportation). Pennsylvania oil interests explained, that in spite of the fact that 20% of their crude oil yielded valuable paraffin-based lubricating oils, they could not produce petroleum which could sell at prices as low as Venezuelan imports. The same complaint about adverse price competition was echoed by spokesmen for the Interstate Oil and Gas Compact Commission, the Oil Producers Agency of California, and several anthracite and bituminous coal associations. It should have been clear that major opposition to petroleum tariff reduction had not dissipated despite the sidetracking of HR 88.¹⁰

The testimony of IPAA lawyer Russell Brown focused on allegations that a petroleum tariff concession would have an extremely unfavorable effect on the national petroleum prorationing system (balancing production with demand) and the independent petroleum producer. If the existing 21 1/2¢ per barrel tax were bound or reduced, Brown claimed that a tremendous flood of petroleum imports would follow. The delivered cost of Venezuelan crude oil to Atlantic Seaboard refineries was at least \$1.03 to \$1.12 less per barrel than mid-continental oil. Once the State Department froze the import tariff at 21 1/2¢ per barrel in a treaty, the Congress would be powerless

¹⁰U.S., Archives, RG 364, Report of the Committee for Reciprocity Information in Connection with the Negotiation of a Reciprocal Trade Agreement with Venezuela, September, 1938; and RG 59, Decimal File 611.3131/304, Committee for Reciprocity Information correspondence record, August 19-25, 1938.

to stop the major companies from importing tremendous amounts of cheaper foreign crude oil. Venezuelan production was dominated by three major oil companies: Standard Oil Company of New Jersey, 51.8%; Royal Dutch Shell Oil Company, 35.9%; and Gulf Oil Company, 11.6%. Brown stated that these three companies would gain monopolistic advantages in the U.S. petroleum market by importing foreign oil to displace U.S. produced crude oil. After hearing this testimony, puzzled Committee members quizzed Brown about how a relatively small amount of imported petroleum (5% of total U.S. demand) could significantly depress domestic prices when large exports did not. The naive question revealed that Committee members did not understand that: (1) inventories of cheap foreign oil gave large companies great leverage against independent petroleum producers who had to sell in the U.S. market, (2) refined product exports were made by the major companies after they refined oil which was purchased on the depressed domestic U.S. market, and (3) Congress would no longer control imports after a trade agreement with Venezuela was signed.¹¹

When Henry Grady prepared the Committee report for the Department of State, he made the incredible observation that he and the other Committee members thought that neither the petroleum producers nor the coal producers were truly alarmed by the prospect of lower petroleum import taxes. Representatives of these groups had merely appeared at the formal hearings to satisfy members of their constituent

¹¹ Ibid.

organizations!¹² With the close of the Committee for Reciprocity Information hearings on August 15, 1938, American public participation in Venezuelan trade agreement planning ended. Exactly as Cordell Hull had promised, his opposition had been allowed full opportunity to present their briefs.

Continued Negotiations in Caracas

Hoping to acquaint his superiors with potential negotiating problems in order to avoid misunderstanding and delay, Foreign Service Officer Paul C. Daniels described Venezuelan political and economic realities in a long report on July 15, 1938. Daniels stated that the prevailing attitude of influential Venezuelans was that the U.S. could offer few tariff concessions in return for those it wanted. Moreover, Daniels reported that protectionist support was developing in Caracas and that the Venezuelan government policy calling for bilateral trade balancing was completely inimical with the Department's free trade philosophy. Despite these difficulties (plus a recently established import quota system and a pending 2 column tariff), the American trade negotiator thought that unconditional-most-favored-nation (UMFN) privileges could be obtained to protect U.S. trade. Rather than struggle for concessions counter to general Venezuelan policies, he recommended that the Department direct him to secure broad commitments (i.e., UMFN treatment in a generally worded agreement). Notwithstanding the high Venezuelan tariff passed in 1936, Daniels pointed out that U.S. trade had grown from \$13.1 million in 1933 to \$46.4

¹²U.S., Archives, RG 59, Decimal File 611.3131/303, Henry Grady to Hull, August 25, 1938.

million in 1937. If the U.S. were to press for a number of minor points, Daniels explained that conclusion of the trade negotiations would be seriously delayed.¹³

One week after he sent his detailed memorandum to Washington, Daniels received his initial instructions. The tentative list of tariff reductions, for which the young American was to negotiate, read almost exactly like a carefully drawn antithesis to his July 15 suggestions. Assistant Secretary of State Francis B. Sayre wanted Daniels to win Venezuelan tariff concessions ranging from 50% to 75% for approximately 80 U.S. industrial and agricultural exports.¹⁴ When the U.S. negotiator presented the list to Foreign Minister Esteban Gil Borges on August 4, 1938, the Venezuelan diplomat looked at it, but said nothing. The reaction of Ramón Tello was not so cautious. He explained that difficulties would now be impossible to avoid. Some of the products, on which the U.S. had requested extensive reductions, were slated to receive tax rate increases. Also the U.S. proviso that the Venezuelan government place no import quotas on 80 items included in the American list was completely unacceptable. Moreover, Tello pointed out that the U.S. requests were in excess of the 25% reduction which President Eleazar López Contreras could legally authorize. The trade agreement could no longer be negotiated as a simple executive agreement between the two countries. Because the U.S. had requested extensive concessions, the

¹³U.S., Archives, RG 59, Decimal File 611.3131/226, Paul C. Daniels (Caracas) to Dept. of State, July 15, 1938.

¹⁴U.S., Archives, RG 59, Decimal File 611.3131/232A, Assistant Secretary of State Francis B. Sayre to Daniels, July 26, 1938.

Venezuelan Congress would have to ratify the final result of the trade negotiations as a trade treaty. To avoid the delay that this procedure would cause, Daniels asked his superiors if they wished to lower their requests to the flat 25% the Venezuelan President was authorized under the 1936 Customs Law.¹⁵

Two weeks later on August 12 when Daniels opened his next dispatch from Washington, he read an answer to his July 15 memorandum rather than a reply appropriate to his July 26 message. While delays were aggravating, the latest instructions were even more maddening. In very cool language, Daniels was advised that the Department "assumed" he was still following the standardized, approved trade negotiation instructions. In case Daniels had forgotten, he was told to reach an agreement with the Venezuelan government which would insure that: (1) no import quotas would be placed on the listed American exports to Venezuela, (2) UMFN treatment would be granted to cover Venezuelan customs administration and government procurement contracts, and (3) high customs penalties would be reduced. Since Venezuelan diplomats had historically supported all of these measures in general principle at Pan American Commercial Conferences, the Department expected Daniels to win speedy Venezuelan re-affirmation of these points in the trade negotiations.¹⁶ Another Department dispatch on August 23, 1938, revealed the continuing inability of Washington

¹⁵ U.S., Archives, RG 59, Decimal File 611.3131/267, Daniels (Caracas) to Dept. of State, August 4, 1938.

¹⁶ U.S., Archives, RG 59, Decimal File 611.3131/274A, R. Walton Moore to Daniels, August 12, 1938. .

based diplomats to recognize changed conditions in Venezuela. Daniels was asked to ascertain from the Venezuelan trade negotiators exactly what tariff concessions they would accede to pending approval of the Venezuelan Congress and which could be granted independent of congressional approval.¹⁷

After long discussions with Arturo Uslar-Pietri and Ramón Tello on August 29 and 31, Daniels once again tried to describe the serious problems which had to be overcome before the trade agreement could ever be concluded successfully. First, Venezuelan negotiators would not agree to exempt the 80 industrial and agricultural items on the U.S. list from future Venezuelan import quotas. Second, the U.S. concession request amounted to Bs20,000,000 or 6.5% of the entire Venezuelan national budget. Finally, the Venezuelan Minister of Agriculture was determined to maintain the wheat flour revenue tariff and protective tariffs against hog lard, dairy, and textile imports.¹⁸

Because of these disagreements, the Venezuelan government began to stall off serious tariff rate negotiations. When Daniels tried to discuss specific tariff items, he found that Venezuelan negotiators referred to old points of agreement as if no agreement had ever existed between the two countries. Arturo Uslar-Pietri argued that U.S. tariff concessions on petroleum imports should only apply to direct shipments from Venezuela to the U.S. and that the 50% tariff reduction on

¹⁷ U.S., Archives, RG 59, Decimal File 611.3131/267, Moore to Daniels, August 23, 1938.

¹⁸ U.S., Archives, RG 59, Decimal File 611.3131/309, Daniels (Caracas) to Dept. of State, August 29, 1938; and Decimal File 611.3131/310, Daniels (Caracas) to Dept. of State, September 2, 1938.

Venezuelan magnesite was essential to any agreement. Since it appeared unlikely that the Venezuelan government would ever agree to reduce customs penalties or to provide UMFN treatment in customs administration, Daniels asked the Department if these points were to be considered as sine qua non.¹⁹ As usual there was no immediate answer from the State Department.

Trade Diplomacy in a Changing World

Considering the great divergence between the U.S. and Venezuelan positions, it would have been reasonable to expect that the long stalled negotiations had almost reached final failure. But because of the growing threat of war in Europe, Venezuela continued trade discussions with the United States. After the League of Nations' pathetic mishandling of Italian aggression in Ethiopia, Venezuela had withdrawn from the League on July 11, 1938.²⁰ Then during the September, 1938 Czechoslovakian crisis, realists in the Venezuelan Foreign Ministry reassessed economic ties with European powers. It would be all too easy for international conflict to completely disrupt Venezuelan-European trade. On September 28, 1938 (the day before the Munich Conference), the Venezuelan National Press Office announced that due to the unsettled European situation all ministries were studying measures to reduce the costs of essential products and to stimulate domestic production. Superfluous luxury imports were to

¹⁹ Ibid.

²⁰ New York Times, July 13, 1938; and Eleazar López Contreras, Gobierno y Administración, 1936-1941 (Caracas: Editorial Arte, 1966), p. 79.

be restricted.²¹ Shortly thereafter, the Venezuelan Minister of Public Works told American Minister Antonio C. González that the Venezuelan Three Year Economic Plan of 1938 would use U.S. equipment, supplies, and technical advise wherever possible. Moreover, if hostilities broke out, the Venezuelan government asked that the U.S. Navy protect eastern Venezuelan waters.²² Thus, the growing crisis in Europe began to force Venezuela to establish closer economic, diplomatic, and military ties with the United States.

At this point in the talks, it seemed that both sides had agreed to general principles regarding the nature of the negotiations, but disagreed about specific proposals. Daniels wanted to find a simple solution for the impasse. Together with Uslar-Pietri, the American decided to write a new, informal draft of the general trade agreement provisions which would be acceptable to both countries. The Department of State was notified that the entire exercise was only advisory in nature. With both men eager to come to mutual agreement, the entire project progressed quickly and was completed by September 22, 1938. There were, however, several significant differences from earlier U.S. proposals. Article V of the advisory draft stated that no quantitative restrictions (i.e., import quotas) were to be placed on products enumerated on the U.S. or Venezuelan lists except if such

²¹U.S., Archives, RG 151, Economic and Trade Note No. 38, William Witman (Caracas) to Dept. of Commerce, Bureau of Foreign and Domestic Commerce (BFDC), September 29, 1938.

²²U.S., Archives, RG 59, Decimal File 831.00/1693, Antonio C. González (Caracas) to Dept. of State, October 5, 1938.

measures were necessary to: (1) regulate domestic production, (2) control market supply, or (3) protect the exchange value of the national currency. Article VIII differed from the standard Department article on exchange matters by allowing delay to take place in international payments as long as all trading partners received equal treatment. Finally, to protect each country from the unforeseen, Article XIII provided that, if any unilateral action violated the UMFN intent of the trade agreement, it could be abrogated 30 days after written notice.²³ With the successful completion of the informal, advisory draft, Daniels finally had an indication that an agreement could be reached. Concluding the final trade agreement, however, would still be a difficult task.

While Venezuela needed to establish stronger economic relations with the United States, the López Contreras government was still determined not to make unnecessary economic sacrifices. Venezuelan treasury officials decided in early October that the U.S. concessions were not extensive enough to warrant such large Venezuelan concessions. The Venezuelans argued that there should be approximate value equivalency in duty reductions granted by each country. Since the U.S. only offered reductions on barbasco roots, tonka beans, and orchids, Venezuela could not offer more than equal revenue sacrifice. Ramón Tello argued that the only possible equivalency could result if the U.S. would reduce import excise taxes on Venezuelan petroleum shipments

²³U.S., Archives, RG 59, Decimal File 611.3131/323, Daniels (Caracas) to Dept. of State, September 22, 1938.

by 50%.²⁴ It began to appear that the expectations of Paul C. Daniels' supervisors in Washington were being confirmed. The Venezuelans were making anticipated responses in the tariff bargaining.

After Ramón Tello revealed the Venezuelan tariff attitude, Daniels mentioned informally on October 6, 1938, that the U.S. import excise tax on petroleum could be lowered 50% under a planned customs quota equal to 5% of U.S. refinery runs during the preceding year. When Gil Borges alertly asked if the customs quota would be allocated by shares to specific exporting countries, Daniels explained that the Department of State did not intend to set national shares for the 50% duty reduction. Arturo Uslar-Pietri then pointed out that such a loose arrangement could work to the detriment of Venezuelan petroleum exports. For example, Mexico could export petroleum a short distance to U.S. markets and fill the 5% customs quota before Venezuela could benefit from the concession. Daniels suggested tactfully to the State Department, that if customs quota shares were ever allocated, the Venezuelan share could be protected by a system based on certificates of origin.²⁵

The Department did not wish to compromise its free trade philosophy by assigning quota shares, so action had to be taken to insure that other petroleum exporting countries would not request pro rata allocations on a UMFN basis. Since major petroleum imports came

²⁴U.S., Archives, RG 59, Decimal File 611.3131/327, Daniels (Caracas) to Dept. of State, October 6, 1938.

²⁵U.S., Archives, RG 59, Decimal File 611.3131/330, Daniels (Caracas) to Dept. of State, October 6, 1938.

from the Netherlands West Indies, Assistant Secretary of State Sayre sent a message on September 28, 1938, to the government of the Netherlands requesting that it relinquish its right to a formal quota share. Sayre asked the entire quota to be filled through free competition.²⁶ Two weeks later the Dutch refused to accept the proposal due to the opposition of both Standard Oil Company of New Jersey and Royal Dutch Shell Oil Company. Each company feared that without formal quota shares, direct petroleum shipments from Venezuela and Mexico would have advantage over exports from Aruba and Curaçao.²⁷ Sayre was amazed that a message he had sent to The Hague in the strictest confidence had been reviewed by the two private oil companies!²⁸ Since the size of the customs quota was larger than previous imports to the U.S., the Department again asked The Hague how its Caribbean refining interests could be adversely affected by non-allocation of quota shares.²⁹ Finally after almost two months of discussion, The Hague agreed to accept the U.S. proposal on November 18, 1938.³⁰

²⁶U.S., Archives, RG 59, Decimal File 611.3131/324A, Sayre to The Hague, September 28, 1938.

²⁷U.S., Archives, RG 59, Decimal File 611.3131/335, Ambassador Benton (The Hague) to Sayre, October 14, 1938.

²⁸U.S., Archives, RG 59, Decimal File 611.3131/337, Sayre to Benton, October 21, 1938.

²⁹U.S., Archives, RG 59, Decimal File 611.3131/345, Sumner Welles to Benton, October 27, 1938.

³⁰U.S., Archives, RG 59, Decimal File 611.3131/354, Benton (The Hague) to Sayre, November 18, 1938.

A Breakthrough

Meanwhile, on October 21, the Venezuelan Cabinet responded officially to the U.S. tariff concession proposals of September 14, 1938. The Cabinet stated that the offer made by the U.S. was unacceptably disproportionate. The only tariff reductions the U.S. had offered were on orchids, barbasco root, and tonka beans. Orchids made up only \$118 of Venezuela's export trade and total barbasco root shipments were valued at \$1,775. Even if all Venezuelan orchids and barbasco root were exported to the U.S., Gil Borges pointed out that the total U.S. concession was worth \$175. If all tonka beans were shipped to the U.S., the entire tonka bean concession would only aid Venezuelan exporters \$41,245. In return for a total of \$41,420 in benefits, Venezuela had been asked to sacrifice Bs7,380,000 or \$2,350,000. When he communicated the Cabinet's response to Daniels, Foreign Minister Gil Borges suggested that the Department of State reconsider its first offer and include concessions on crude petroleum, fuel oil, and magnesite.³¹

For the first time in the negotiations, the Venezuelan government had attached official significance to U.S. petroleum tariff concessions in writing. Paul C. Daniels thought that satisfactory Venezuelan tariff concessions could be attained, but that they would never be as extreme (50%-75%) as those on the first U.S. list. Since more than two months had passed since the close of the Committee for Reciprocity Information hearings, he suggested on October 24, 1938, that the

³¹U.S., Archives, RG 59, Decimal File 611.3131/346, Venezuelan Foreign Minister Esteban Gil Borges to González, October 21, 1938.

Department send a final concession request list.³² Two days later Sayre responded by sending 20 more products to be added to the original U.S. list. Since this was clearly not the final list, Daniels wisely deferred presenting the additional requests to the already dissatisfied Venezuelan government.³³

After a miserable start, bargaining with the Venezuelan negotiators appeared to be making reasonable headway. But on November 3, 1938, Sumner Welles advised Daniels that major portions of the September 22 advisory draft were unacceptable. Welles complained there were too many exceptions which would allow Venezuela to impose import quotas. In addition, the Department did not want a special termination article (which would enable U.S. opponents to undo the agreement).³⁴ Daniels responded on November 8 by stating that it was unwise to delay informing the Venezuelan government about the complete tariff reductions which the U.S. would desire or grant.³⁵ After another week passed with no response, Daniels asked if the long-awaited draft article on exchange control could also be sent to Caracas.³⁶ Despite the near plea for information and guidance, the Department of State almost completely

³²U.S., Archives, RG 59, Decimal File 611.3131/346, Daniels (Caracas) to Dept. of State, October 24, 1938.

³³Ibid. and Decimal File 611.3131/343, Sayre to Daniels, Oct October 26, 1938.

³⁴U.S., Archives, RG 59, Decimal File 611.3131/323, Welles to Daniels, November 3, 1938.

³⁵U.S., Archives, RG 59, Decimal File 611.3131/351, Daniels (Caracas) to Dept. of State, November 8, 1938.

³⁶U.S., Archives, RG 59, Decimal File 611.3131/355, Daniels (Caracas) to Dept. of State, November 15, 1938.

neglected the Venezuelan trade negotiations during November, 1938.

Unknown to the negotiator in Caracas, the long delay was caused by U.S. consternation over the possible effect that the recent Mexican expropriation of American petroleum interests would have on the petroleum tariff concession planned in the Venezuelan trade agreement. Assistant Secretary of State Sayre and President Franklin D. Roosevelt discussed the necessity of granting Venezuela a petroleum tariff reduction on November 11, 1938. To insure that the proper policy was being formulated, F.D.R. asked that a meeting be arranged between Sayre, Trade Agreements Division Chief Harry Hawkins, and Department of Interior Secretary Harold Ickes. At the resulting December 6 conference, the three men decided that the limited (5%) customs quota reduction could be offered in the Venezuelan trade agreement. Ickes supported the idea because it would conserve U.S. petroleum and serve as a bargaining point in the trade negotiations.³⁷ At another Presidential interview on December 9, 1938, F.D.R. approved the petroleum concession plan if petroleum which had been nationalized by Mexico could be excluded. Sayre answered that while this would be impossible to draft into the trade agreement, Congress could act to stop Mexican petroleum shipments by passing separate legislation. F.D.R. suggested that this might be a good idea to leak to Capitol Hill.³⁸

Of course, none of this discussion solved the unanswered questions

³⁷U.S., Archives, RG 59, Decimal File 611.3131/356A, Memo of Sayre, November 11, 1938; and Decimal File 611.3131/370, Memo of Harry Hawkins (Division of Trade Agreements), December 6, 1938.

³⁸U.S., Archives, RG 59, Decimal File 611.3131/371, Memo of Sayre, December 15, 1938.



of Daniels in Caracas. By December 8, even the American Minister to Venezuela, Antonio C. González, was beginning to complain about the lack of diplomatic support from Washington. Since other Venezuelan treaties were being delayed pending completion of the American trade agreement, the Venezuelan Foreign Minister was extremely interested in obtaining definite tariff concession proposals in place of the tentative bargaining package. González was worried that the entire trade agreement might be jeopardized unless the Department acted quickly.³⁹ On December 9, Sumner Welles cabled to explain that the delay had been caused by the Mexican oil situation.⁴⁰

On December 17, Daniels received new instructions and a revised tentative list which contained seven more products than were in the original request. This time the American negotiator was to reveal that the U.S. would offer a 50% import excise tax reduction limited by a customs quota equal to 5% of U.S. refinery runs made in the previous calendar year. As a counter to Venezuelan objections about disproportionate tariff sacrifices, Daniels was told to remind the Foreign Minister about the large 1936 tariff increases.⁴¹ Immediately the new lists were presented to the Venezuelan government. When Uslar-Pietri and Tello saw the revised proposals, both men expressed dismay that the U.S. still desired large concessions even after the strong Venezuelan

³⁹ U.S., Archives, RG 59, Decimal File 611.3131/360, González (Caracas) to Dept. of State, December 8, 1938.

⁴⁰ U.S., Archives, RG 59, Decimal File 611.3131/360, Welles to González, December 9, 1938.

⁴¹ U.S., Archives, RG 59, Decimal File 611.3131/346, Sayre to Daniels, December 17, 1938.

Cabinet renunciation.⁴²

It was January 5, 1939, before Foreign Minister Gil Borges answered the second U.S. tentative request for Venezuelan tariff concessions. In order for Venezuela to gain more from U.S. tariff concessions, he suggested that Venezuela and the importing companies split the 1/4¢ import tax saving resulting from the 50% tax reduction. In this way both the petroleum companies and the Venezuelan government would benefit equally from the U.S. tariff concession. Assistant Secretary of State Sayre replied that any financial arrangements between the government and the companies concerning tax benefits would be independent of the trade negotiations.⁴³ After study of the revised requests, Daniels reported on January 19, that the concessions, if granted, would cost Venezuela Bs20,646,990. Treasury Ministry representatives had already told Daniels that their government was only willing to sacrifice about Bs7,000,000 in the agreement. Due to the Venezuelan government's revenue needs, agricultural assistance program, and local industrial protectionism, Daniels asked the Department to reduce its requests to a more achievable level.⁴⁴

As of January, 1939, the promised draft article (supposedly ready in July, 1938) on foreign exchange matters had still not been sent to Caracas. It was beginning to get embarrassing for the American

⁴²U.S., Archives, RG 59, Decimal File 611.3131/369, Daniels (Caracas) to Dept. of State, January 4, 1939.

⁴³U.S., Archives, RG 59, Decimal File 611.3131/368, Daniels (Caracas) to Dept. of State, January 5, 1939; and Sayre to Daniels, January 7, 1939.

⁴⁴U.S., Archives, RG 59, Decimal File 611.3131/372, Daniels (Caracas) to Dept. of State, January 19, 1939.

negotiator to face Uslar-Pietri because the foreign exchange issue had been delayed for so long.⁴⁵ The advisory foreign exchange control draft written on September 22 was not acceptable to the Department because it was extremely reluctant to allow delays in international transfer payments. Finally the Department agreed to modify the original American position on import quotas, but only as they related to foreign exchange stabilization programs. Import restrictions against the items in the U.S. list would be allowed if UMFN administered import quotas were needed to maintain the bolívar's exchange value.⁴⁶

A mutually acceptable exchange article had yet to be drawn. After citing numerous foreign exchange reports of the Commercial Attaché on January 24, 1939, Daniels showed that at various times Venezuela had experienced inconvenient shortages of foreign exchange. Therefore, the Venezuelan government would never accept the usual U.S. draft exchange article which would require Venezuela to pledge that there would never be shortages of dollar exchange available for U.S. products. All that the U.S. could reasonably expect in the trade agreement was that Venezuela would grant UMFN treatment in all matters relating to exchange control.⁴⁷ The only response Daniels received was a February 9 complaint from Sayre about the dangers

⁴⁵ Ibid. and Decimal File 611.3131/369, Daniels (Caracas) to Dept. of State, January 4, 1939.

⁴⁶ U.S., Archives, RG 59, Decimal File 611.3131/355, Sayre to Daniels, January 17, 1939.

⁴⁷ U.S., Archives, RG 59, Decimal File 611.3131/379, Daniels (Caracas) to Dept. of State, January 24, 1939.

of incomplete protection against foreign exchange control restrictions.⁴⁸ The message did nothing to solve the dilemma of a mutually acceptable foreign exchange article.

Serious Bargaining at Last

Despite the poor support from Washington, Daniels made significant progress and was able to send a complete draft of general provisions (less tariff concession lists) to Washington on February 9. Articles I and II described the tariff concessions each country would grant. Articles III and IV prevented discrimination between foreign and domestic goods arising from differential internal taxes. Article V allowed import quotas only if they were used to: (1) control production or regulate market supply and price, (2) increase labor costs of production, or (3) stabilize the exchange value of the currency. Article VI established the minimum duration for import quotas to be three months and required that 30 days public notice be given before they were imposed. If shares were allocated, UMFN proportionality would assure fairness. Article VII provided that UMFN treatment would be followed in all government monopoly purchasing agreements. Under provisions of Article VIII each nation agreed to extend UMFN treatment in the event of exchange control systems. Article IX established UMFN treatment in all customs administration and rules. In the event that extensive fluctuation took place between the U.S. and Venezuelan currencies, Article X authorized renegotiation of tariff concessions or termination of the entire agreement on 30 days notice. Articles XI,

⁴⁸U.S., Archives, RG 59, Decimal File 611.3131/382, Sayre to Daniels, February 9, 1939.

XII, XIII, and XIV covered the geographical applicability and listed minor qualifying exceptions to the first ten articles. Article XV stated that all future differences were to be decided by pacific means recognized in international law. Article XVI terminated the existing May 12, 1938 modus vivendi and the final Article XVII set the minimum life of the trade agreement at three years. Until abrogated, the agreement could be automatically renewed for additional three year terms. As a protective step, three specific escape clauses were written into Articles V, VIII, and X.⁴⁹

For the next five weeks, both sides proposed minor modifications to the basic February 9 draft agreement. The Venezuelan Foreign Ministry was advised by Treasury officials that internal taxes on foreign produced cigarettes and liquor were already higher than on domestic brands. Due to strenuous opposition of small local producers, it was unlikely that existing rates could be changed by the trade agreement. Uslar-Pietri recommended that present internal taxes be frozen exactly as they were.⁵⁰ This was done. From the U.S. viewpoint, Article XV was unacceptable. The Department of State Treaty Division staff explained that the President of the United States did not have the authority to obligate the American government to arbitrate any future disagreement.⁵¹ Therefore, the article was deleted. Yet another

⁴⁹U.S., Archives, RG 59, Decimal File 611.3131/388, Daniels (Caracas) to Dept. of State, February 9, 1939.

⁵⁰U.S., Archives, RG 59, Decimal File 611.3131/393, Daniels (Caracas) to Dept. of State, March 6, 1939.

⁵¹U.S., Archives, RG 59, Decimal File 611.3131/388, Dept. of State Treaty Division Memo, March 9, 1939.

modification was the Venezuelan request to change the wording of Article X from "exchange fluctuations between the two currencies" to "exchange fluctuations of the two currencies." In the revised version, if both the dollar and bolivar were equally and simultaneously revalued against another currency, the trade agreement could be terminated if the resulting exchange rate with the third country gravely distorted either Venezuelan or American trade with that third country.⁵² Sayre objected to this provision as completely hypothetical and unnecessary. Ultimately, the Venezuelan government agreed to accept Article X of the February 9 draft.⁵³

Venezuelan response to the second U.S. tentative request list was delivered to the American Embassy on March 18, 1939. Daniels reported that an excellent counteroffer had been made. Venezuela offered 27 duty reductions and 60 bindings at current rates. The majority of the rate reductions were 25%, but several more significant revisions were offered: 40% on wheat, 40% on cigarettes, 40% on beds, and 50% on farm machinery parts. The concession request for magnesite and phytoplankton were dropped. Gil Borges stated these were the maximum reductions Venezuela would offer. Against further small advantages, which would be hard to achieve, Daniels called attention to the fact that it appeared that Venezuela was willing to sign a

⁵²U.S., Archives, RG 59, Decimal File 611.3131/397, Daniels (Caracas) to Dept. of State, March 15, 1939.

⁵³This case occurred in 1968 and 1971. U.S., Archives, RG 59, Decimal File 611.3131/397, Sayre to Daniels, April 4, 1939; and Decimal File 611.3131/403, Daniels (Caracas) to Dept. of State, April 22, 1939.

very significant trade agreement at that moment.⁵⁴

By now it was clear Daniels wanted to conclude the negotiations without further delay. On March 27, 1939, he informed the Department that the Venezuelan position on import quotas was well-founded. Daniels agreed with Gil Borges that 30 days notice prior to implementation would be completely unworkable. With five day freight service between New York City and La Guaira, speculators and merchants could easily import large quantities before the restriction became effective. This problem had already occurred in the fall of 1936, when importers correctly anticipated the higher automobile tariff. In closing, Daniels again referred to the advantage of concluding negotiations before a change in policy or personnel made such an opportunity impossible.⁵⁵

In spite of Daniels' appeal for action, nothing of significance was accomplished from mid-March to the end of April, 1939. Then on April 27, Daniels asked the Department if it desired to extend the expiring modus vivendi of 1938. Sayre quickly wired approval. The exchange of notes on May 6, 1939, extended the existing modus vivendi for one year or until it was superceded by a trade agreement.⁵⁶

Later in May a series of disagreements again broke out over

⁵⁴U.S., Archives, RG 59, Decimal File 611.3131/398, Daniels (Caracas) to Dept. of State, March 20, 1939.

⁵⁵U.S., Archives, RG 59, Decimal File 611.3131/399, Daniels (Caracas) to Dept. of State, March 27, 1939.

⁵⁶U.S., Archives, RG 59, Decimal File 611.3131/405, Daniels (Caracas) to Dept. of State, April 27, 1939; Sayre to Daniels, May 2, 1939; and Decimal File 611.3131/407, Winthrop Scott (Caracas) to Dept. of State, May 9, 1939.

import quota restrictions. The Venezuelan interpretation of the draft article on quantitative restrictions allowed imposition of import quotas for many reasons. In contrast, the U.S. approved version would only allow quotas to control market supply and price or to equalize labor costs. The controversy broadened on May 11 when Assistant Secretary of State Sayre transmitted new requests to Daniels which lowered the Venezuelan "best offer" on 13 items (wheat, radios, automobiles, etc.) an average of 25% more than Gil Borges had indicated.⁵⁷ After Daniels got the message, he immediately reported to Sayre that the Venezuelan government would be subjected to serious criticism if the public thought that the trade agreement increased the nation's economic dependence on petroleum. The object of the López Contreras government was to diversify the industrial base of Venezuela. After the appreciation of the bolívar in April, 1937, this policy was difficult to promote even with high tariffs. There was a real danger that by binding or lowering present tariffs, Venezuelan industrial production might be endangered or actually cease.⁵⁸

Somewhat upset after seeing the new request list on May 18, 1939, Ramón Tello told Daniels that duty reductions on hog lard, wheat flour, and fresh fruit would be fiercely opposed by Venezuelan agriculturalists. A final decision would have to be made by the

⁵⁷ U.S., Archives, RG 59, Decimal File 611.3131/412A, Sayre to Daniels, May 11, 1939.

⁵⁸ U.S., Archives, RG 59, Decimal File 611.3131/413, Daniels (Caracas) to Dept. of State, May 18, 1939.

Venezuelan Cabinet during meetings on May 26.⁵⁹ While Venezuelans deliberated about the American request, Sayre attempted to force a response. On June 8, the Department of State revealed that the petroleum customs quota would be prorated on a month by month basis. The number of months remaining in 1939 multiplied by 1/12 of the allowable customs quota would be granted only after the trade agreement was signed. The longer Venezuela delayed conclusion of the agreement, the smaller the allowable customs quota would be in 1939.⁶⁰

Finally on June 30, the Venezuelan government responded to what was now the third revision of the American request list. Every one of the expanded tariff concessions was rejected and the Venezuelan government reaffirmed its freedom to place quotas on U.S. imports if they were needed to protect domestic industry or to stabilize the bolivar.⁶¹ At this point Daniels reported that perhaps the final impasse had been reached.⁶² One week later the U.S. negotiator was ordered to ask the Venezuelan government to explain again why it would need to establish quotas on goods on the American concession list.⁶³ On July 20, 1939, Gil Borges answered that Venezuela had no

⁵⁹ Ibid.

⁶⁰ U.S., Archives, RG 59, Decimal File 611.3131/416A, Sayre to Daniels, June 8, 1939.

⁶¹ U.S., Archives, RG 59, Decimal File 611.3131/418, Daniels (Caracas) to Dept. of State, June 30, 1939.

⁶² U.S., Archives, RG 59, Decimal File 611.3131/419, Daniels (Caracas) to Dept. of State, July 1, 1939.

⁶³ U.S., Archives, RG 59, Decimal File 611.3131/418, Sayre to Daniels, July 7, 1939.

intention of implementing quotas against a specific country; only general quotas of a global nature would be used. To the discomfort of his superiors, Daniels volunteered the observation that the U.S. planned to use a global 5% customs quota in its petroleum tariff concession to Venezuela. Therefore, why should Venezuela be barred from using an import quota to protect its economy?⁶⁴ Negotiations stalled for another month. The stalemate was broken when Frank P. Corrigan, the new American Ambassador, and A. Manuel Fox, Head of the American Economic Advisory Mission, sent a joint appeal to Cordell Hull on August 23, 1939. They asked that the Trade Agreement Committee in Washington be instructed to adopt a more realistic position on import quotas.⁶⁵ On August 28, Henry Grady reluctantly modified the U.S. position on import quotas.⁶⁶ At last agreement seemed at hand.

Tying the Final Knots

With the outbreak of war in Europe, both Venezuela and the United States acted quickly to finish negotiations which had lingered on for more than three years. On September 9, 1939, President López Contreras issued a decree establishing local Venezuelan price fixing boards to

⁶⁴U.S., Archives, RG 59, Decimal File 611.3131/423, Daniels (Caracas) to Dept. of State, July 20, 1939.

⁶⁵U.S., Archives, RG 59, Decimal File 611.3131/439, Frank P. Corrigan (Caracas) to Dept. of State, August 23, 1939.

⁶⁶U.S., Archives, RG 59, Decimal File 611.3131/440, Henry Grady to Daniels, August 25, 1939.

control rents and market prices of necessities.⁶⁷ The Treasury Ministry acted the same day to lower the high cost of living by lowering tariffs on wheat flour, oats, rice, potatoes, hog lard, and butter 33%-50%.⁶⁸ So that further emergency measures taken by the Venezuelan government would not complicate U.S.-Venezuelan trade discussions, Ambassador Corrigan advised the State Department on September 21 that ratification of the agreement should take place within 10 days.⁶⁹

The problem remained as to how both governments could sign the agreement and put it into effect. In the United States, since trade agreements were authorized as an executive agreement under the Reciprocal Trade Agreements Act, Senate approval was not needed. The President had only to issue a proclamation. In Venezuela, however, the trade agreement was considered to be a trade treaty. Congressional concurrence was needed to activate the tariff concessions. The Department of State asked if the agreement could be affected on a provisional basis pending congressional approval.⁷⁰ Foreign Minister Gil Borges responded on September 28, 1939, that Venezuela was willing to put the general provisions and tariff schedules into effect immediately by means of a new modus vivendi. The exchange of notes would be valid

⁶⁷U.S., Archives, RG 151, Economic and Trade Note No. 15, Osborne Watson (Caracas) to BFDC, October 2, 1939.

⁶⁸U S. Archives, RG 151, Economic and Trade Note No. 13, Jack B. Neathey (Caracas) to BFDC, September 12, 1939.

⁶⁹U.S., Archives, RG 59, Decimal File 611.3131/451, Corrigan (Caracas) to Dept. of State, September 21, 1939.

⁷⁰U.S., Archives, RG 59, Decimal File 611.3131/442, Hawkins to Corrigan, September 14, 1939.

for one year or until the Venezuelan Congress ratified the commercial treaty.⁷¹

Secretary of State Cordell Hull commended Gil Borges for his offer, but considered a simple, temporary modus vivendi to be very dangerous. If the trade agreement only had a one year term, it would come up for renewal simultaneously with the Reciprocal Trade Agreement Act in early 1940. U.S. Congressional opponents would then have an opportunity to defeat both measures in one session. While Hull accepted Gil Borges' idea to conclude a modus vivendi, he suggested that the wording be specifically phrased so that the United States could consider the pact to be a one year modus vivendi and a three year trade agreement. Once the Venezuelan Congress had ratified the treaty officially, the modus vivendi would be terminated.⁷² This would satisfy the desires of both countries.

With only the formalities of the signing ceremony remaining, the incredible happened. Caracas representatives of the major petroleum companies in Venezuela filed a protest against the U.S. petroleum tariff concession on October 24! They feared that the Venezuelan government would attempt to participate in the new profits gained from the U.S. petroleum tax concession by imposing a Venezuelan petroleum export tax.⁷³ Immediately Secretary of State Hull wired

⁷¹U.S., Archives, RG 59, Decimal File 611.3131/455, Corrigan (Caracas) to Dept. of State, September 28, 1939.

⁷²U.S., Archives, RG 59, Decimal File 611.3131/461, Hull to Corrigan, October 12, 1939.

⁷³U.S., Archives, RG 59, Decimal File 611.3131/471, Corrigan (Caracas) to Dept. of State, October 24, 1939.

orders to suspend all action pending an investigation.⁷⁴

If there were substantial opposition to the U.S. petroleum tariff concession in Venezuela, Cordell Hull would have had an embarrassing time explaining to the U.S. Congress why it had ever been granted. Hull's message stated ironically, "Naturally, we cannot place ourselves in the position of urging the [petroleum tariff] concession upon the Venezuelans."⁷⁵ Ambassador Corrigan immediately assembled the petroleum industry representatives and told them bluntly that (1) their action was counter to the foreign trade policy of the United States, and (2) they were jeopardizing an international agreement which affected more than their own interests. Company representatives remained completely unswayed. They were against any agreement if it meant that an export tax was to be imposed by the Venezuelan government. Gil Borges had already told them that they were going to be assessed the additional costs associated with protective naval patrolling along the coast. The company spokesmen did not intend to pay export taxes in addition. After an extended discussion, Corrigan convinced the representatives to support the trade agreement. They could remain free to oppose export tax proposals on a later date.⁷⁶

Once again everyone seemed ready to sign a final agreement.

⁷⁴U.S., Archives, RG 59, Decimal File 611.3131/473, Hull to Corrigan, October 26, 1939.

⁷⁵U.S., Archives, RG 59, Decimal File 611.3131/473, Hull to Corrigan, October 27, 1939.

⁷⁶U.S., Archives, RG 59, Decimal File 611.3131/493, Corrigan (Caracas) to Dept. of State, November 8, 1939.

Before this detail could be attended to, however, the Venezuelan government was reminded that the United States would not establish petroleum customs quota shares. No allocations would be formally divided among America's trading partners. Such proposals were completely counter to the spirit of free trade. Since 1938 dutiable imports only amounted to 2 1/2% of American refinery runs during the 1938 base year, the 5% customs quota reduced taxes on a volume of foreign petroleum imports in 1939 twice as great as the 1938 shipments. Venezuela would be assured of receiving a significant share even without a formal share of the customs quota. Though Gil Borges had long argued that Venezuela would prefer the protection of a definite quota share, he agreed to accept the American position. If quotas were ever established, Venezuela was assured of UMFN treatment.⁷⁷

At last, with all disagreements settled, the trade agreement was signed by representatives of both countries in Caracas on November 6, 1939. (See Appendix for the complete text.) Venezuela authorized 35 duty reductions and 61 bindings. These concessions affected 36% of the total U.S. exports to Venezuela or about \$19,000,000 out of \$52,000,000 shipped in 1938. To reduce the high Venezuelan cost of living, the López Contreras administration had concentrated almost all of the tariff reductions on essential foodstuffs (rice, flour, hog lard, potatoes, etc.). Some of the emergency tariff reductions, which had been made by the Treasury Ministry on September 11 were actually lower than the rates conceded to the U.S. in the

⁷⁷U.S., Archives, RG 59, Decimal File 611.3131/470, Hull to Corrigan, October 23, 1939; and Decimal File 611.3131/475, Henry Grady to Corrigan, November 1, 1939.

November 6 agreement. During the period of wartime emergency, the U.S. would enjoy temporary Venezuelan tariff rate reductions in excess of those offered on a three year basis. In return for the Venezuelan concessions, the U.S. conceded duty reductions and bindings on 88.6% of total Venezuelan exports to the American market or approximately \$17,759,000 out of \$20,054,000 shipped in 1938. Duty or excise tax reductions were conferred to four Venezuelan products (crude petroleum, fuel oil, tonka beans, and ground barbasco root) and ten products were bound at existing rates. In its final form, the trade agreement's general provisions firmly established UMFN status between the two countries.⁷⁸

Assessing the U.S.-Venezuelan Reciprocal Trade Negotiations

After the Munich crisis in September, 1938, Venezuelan interest in establishing reliable trade relations with the United States was rekindled. Simply interpreting the November, 1939 reciprocal trade agreement as a Venezuelan capitulation to U.S. imperialist pressure would be incorrect. Venezuelan diplomatic considerations were complicated, as always, by world events. In a 1971 interview, Dr. Arturo Uslar-Pietri emphasized the fact that Venezuelan acceptance of the trade pact was made under the conditions which existed in 1939, and not those which existed at some later date. In response to a question about the relationship between the European political

⁷⁸U.S., Archives, RG 364, Committee for Reciprocity Information file summary of the United States-Venezuela Trade Agreement, November 6, 1938; and Department of State Press Release, November 6, 1939, pp. 1-2 and 7-9.

crisis and the rapid conclusion of the trade negotiations, Dr. Uslar-Pietri smiled. Yes, Foreign Minister Esteban Gil Borges had very carefully assessed the deteriorating world situation before coming to agreement with the United States.⁷⁹ After all, diplomacy was and is an art of compromise.

Aside from strategic considerations, the Venezuelan tariff concessions were economically sensible. Fearing the outbreak of a European war, the López Contreras government had requested American technical advisory assistance in fiscal, economic, and financial matters early in 1939. In response the U.S. sent a five man American Economic Advisory Mission to Venezuela. From July 26 to November 10, 1939, the Advisory Mission studied ways to streamline customs procedures in order to reduce the high cost of living in Venezuela. The final report stated that much of the high cost of living and marketing inefficiencies in Venezuela were due to excessive tariffs levied against essential import products like food.⁸⁰ Table 14 shows a breakdown of costs for several staple food items expressed as percentages of the final retail prices paid by Venezuelan consumers in October-November, 1939.⁸¹

⁷⁹Personal Interview with Dr. Arturo Uslar-Pietri, Caracas, Venezuela, August 24, 1971.

⁸⁰A. Manuel Fox, Report of the American Advisory Economic Mission to Venezuela (Washington, D.C.: Government Printing Office, February, 1940), pp. 1-2, 6-7, 15, 25-27, 31-32, and 54. This confidential 300 page report was never distributed in the United States or placed in the National Archives. A single copy remains in the Library of the Department of State.

⁸¹Ibid., p. 15.

TABLE 14

COSTS OF MAJOR FOOD ITEMS AS A
PERCENTAGE OF VENEZUELAN MARKET PRICES

Product	Cost at Port of Entry	Duty	Other Landing Costs	Wholesale Margin	Retail Margin
wheat flour	17	44	4	5	30
rice	25	44	5	4	22
rolled oats	29	22	3	6	40
butter	50	29	3	4	14
hog lard	22	48	3	5	22
ham	34	26	3	6	31
potatoes	23	34	6	8	29
crackers	29	40	4	7	20

Source: A. Manuel Fox, Report of the American Advisory Economic Mission to Venezuela (Washington, D.C.: Government Printing Office, 1940), p. 15.

A quick glance at the pre-agreement duty rates shows how significantly the high tariff raised the cost of food in Venezuela. With the outbreak of World War II, the tariff concessions made by Gil Borges in the trade agreement with the United States were well considered. Venezuelan acceptance of the trade pact a month after the hostilities began was a practical example of realistic expediency.

When asked if the detailed tariff negotiations were a part of the United States "Good Neighbor Policy," Paul C. Daniels explained on July 6, 1971, that the discussions he had conducted with Dr. Uslar-Pietri and Ramón Tello had nothing in common with public relations slogans.⁸² U.S. commercial diplomacy was to be conducted in

⁸²Personal Interview with Ambassador Paul C. Daniels, Lakeville, Connecticut, July 6, 1971.

pragmatic self-interest.

From its viewpoint the Department of State successfully accomplished a number of important objectives in the trade agreement. Stable commercial relations were assured between the two countries by formal UMFN provisions. In return for lower tariffs on U.S. export goods, the Department had granted to Venezuela a petroleum import excise tax reduction which mainly benefited Standard Oil Company of New Jersey, Gulf Oil Company, and Royal Dutch Shell Oil Company. But greater reliance on foreign petroleum would enable the U.S. to conserve domestic reserves while paying lower energy prices. When independent petroleum producers in the United States attempted to explain that the cost of this program was monopolization of the U.S. petroleum industry, their complaints fell on deaf ears. The Department of State had determined that the national petroleum policy of the United States was to be far different than that advocated by its petroleum and coal state opposition in the Congress. The wisdom of the Department of State decision to rely on foreign petroleum resources was unquestionable only as long as petroleum corporations loyal to the United States securely controlled foreign petroleum supplies in a world with excess production. If the world of 1939 ever changed, the price to be paid for the Department of State decision would be very high.

CHAPTER 7

SAVING TOMORROW'S OIL: THE EFFECT OF THE VENEZUELAN RECIPROCAL TRADE AGREEMENT ON THE U.S. PETROLEUM INDUSTRY, 1939-1941

An Investigation of Monopoly

As Department of State trade negotiators struggled to conclude the Venezuelan reciprocal trade agreement during the last week of September, 1939, an interesting series of hearings on the U.S. petroleum industry convened on Capitol Hill. With the purported objective of enacting better anti-trust laws, the U.S. Congress had organized the Temporary National Economic Committee (TNEC). This committee was to conduct an extensive investigation to determine if key U.S. industries were controlled by concentrated economic and financial power, and if such monopoly power had hindered government efforts to stimulate economic recovery after 1929. To examine the petroleum industry, the TNEC heard detailed testimony from industry spokesmen and independent economic experts from September 25 to October 25, 1939.¹ At the same time that the TNEC was gathering clear evidence of a petroleum industry monopoly, the Department of State was completing a trade agreement which would further strengthen the power of the major petroleum companies.

¹Ellis W. Hawley, The New Deal and the Problem of Monopoly: A Study in Economic Ambivalence (Princeton: Princeton University Press, 1966), pp. 412 and 419.

After analyzing the TNEC petroleum testimony, Roy C. Cook, an economist in the Anti-Trust Division of the Department of Justice, reported to the TNEC that there was definite evidence that a U.S. petroleum monopoly existed. Table 15 indicates how extensively the 20 major companies dominated the \$15,000,000,000 petroleum industry in the late 1930s:

TABLE 15

PERCENTAGE OWNERSHIP OR CONTROL BY MAJOR COMPANIES

Industrial Segment	No. of Companies	Control	Year
<u>Production</u>			
U.S. proven reserves	22	70.0%	1939
Producing oil wells	20	23.7	1937
Crude oil production	20	52.5	1937
<u>Transportation</u>			
Crude oil gathering pipelines	20	57.4	1936
Crude oil trunk pipelines	14	89.0	1938
Gasoline pipelines	16	96.1	1939
Deadweight tanker tonnage	15	87.2	1938
<u>Refining</u>			
Stocks of refinable crude oil	20	96.5	1937
Crude oil refining capacity	20	75.6	1938
Crude oil cracking capacity	20	85.2	1938
Crude oil run to stills	20	82.6	1937
Production of gasoline	20	83.8	1937
<u>Marketing</u>			
Stocks of finished gasoline	20	90.0	1937
Domestic sales of gasoline	18	80.0	1938

Source: U.S., Congress, Senate, Temporary National Economic Committee, Control of the Petroleum Industry by Major Oil Companies, by Roy C. Cook, Monograph No. 39, Senate Committee Print (Washington: Government Printing Office, 1941), pp. 5 and 10.

In his TNEC report Cook explained how the 20 largest major oil companies functioned as a group monopoly. Together they controlled over 70% of U.S. proven oil reserves and operated the most prolific wells by buying out smaller companies which had taken the initial development risks. In their purchasing activities, the 20 majors had tremendous leverage because they controlled 89% of the pipelines from oil field to refinery to consumer market. In effect, when the Supreme Court dissolved the Standard Oil Trust in 1911, it had merely converted a national petroleum monopoly into a number of regional monopolies.²

If a non-integrated petroleum producer did not desire to sell in the oil field at the posted price set by a pipeline company owned by major oil companies, there were three alternatives: (1) build an expensive, new pipeline, (2) ship by inefficient railroad tank car or tank truck, or (3) ship in the major oil company pipeline subsidiary at an exorbitant rate. During the years between 1929 and 1936, major oil company-controlled crude oil pipelines paid dividends on capital stock which averaged 33.2%.³ This fantastic return on investment

²United States, Congress, Senate, Temporary National Economic Committee, Control of the Petroleum Industry by Major Oil Companies, by Roy C. Cook, Monograph No. 39, Senate Committee Print (Washington, D.C.: Government Printing Office, 1941), pp. xi, 2, 5, 9-11, and 19-28.

³Ibid., pp. 19 and 25. For a defense of the major oil company pipelines, see Arthur M. Johnson, Petroleum Pipelines and Public Policy, 1906-1959 (Cambridge: Harvard University Press, 1967), pp. 270-294. Johnson argues that charges of monopoly were unwarranted. He reveals, however, that a Phillips Oil Company pipeline subsidiary paid a tremendous 89% dividend on capital stock in 1938-1939. Moreover, during the period 1928-1939, Great Lakes Pipeline Company paid out an average 34% per annum and Stanolind Pipe Line Company paid out 36% per annum (p. 289). Furthermore, as of January 8, 1941, Johnson points out that fines assessable for anti-trust and Elkins Act violations were estimated by the Department of Justice to be \$1,600,000,000 and

100-2037-1-10-2-2-1

during the Depression showed how the majors were able to generate monopoly profits. In addition to high shipping charges, minimum shipment tenders averaged over 50,000 barrels.⁴ This large quantity limitation further served to discourage independent shippers from using the interstate crude oil trunk pipelines. Finally, there was little advantage in shipping oil out of the oil field to sell to another major oil company. To maintain a buyer's market for crude oil, major oil company refineries were careful to pay similar posted prices. The independent producer had to find an independent refiner who would pay more for crude oil.

During the late 1920s and early 1930s, independent refineries sprang up near new oil fields where crude oil supplies had not yet been tied up by major oil companies. Because these independent refiners provided unwanted competition, the majors used a variety of tactics to drive their rivals out of business. One technique was to limit the use of modern petroleum cracking methods to a small group of companies. The patents covering cracking and related processes to improve gasoline quality were surrendered to jointly-owned companies which charged high licensing fees and paid dividends to the parent petroleum companies. Another popular technique was to sponsor state and federal conservation

and by industry sources to be \$2,500,000,000 (p. 291). See also American Petroleum Institute, Petroleum Industry Hearings Before the Temporary National Economic Committee (New York: American Petroleum Institute, 1942), pp. 90-95. From 1929 to 1937, 16 major company pipelines each earned 45.8% per year on capital stock, while 6 non-integrated companies earned 9.4% per year during the same period.

⁴U.S., Congress, Senate, Temporary National Economic Committee, Control of the Petroleum Industry by Major Oil Companies, pp. 23-24.

laws to sharply curtail new, independent oil production which would have been available to independent refiners. While major oil companies operated large, modern refineries at 85% of capacity, their less well-equipped competitors struggled to run at 45% of capacity.⁵

An additional method used to snuff out competition was the price squeeze. In East Texas between 1933 and 1937, the posted price for crude oil paid by major companies was raised continuously while the price they charged for gasoline produced at their refineries was reduced. The reduction in price was more than what could be explained as cost efficiencies passed on to consumers. During 1938, nine of the twelve largest major oil companies operated their refineries at a loss. If the independent refiner tried to cut his losses by integrating into the marketing phase of the industry, he found that gasoline prices in his area of operations were mysteriously low. Again using 1938 figures, seven of the top twelve major oil companies lost money in marketing operations. It was obvious that monopolistic pricing practices were being used. As a result, business failure among independent refiners was high. While 74 independents operated in the East Texas area on January 1, 1935, six years later only 3 survived.⁶

The few refiners, who were allowed to stay in operation on the East Texas Gulf Coast, continued to exist only because of two very special considerations. First, as early as mid-1932 major oil companies had made plans to rig tanker rates in order to reap monopoly profits

⁵Ibid., pp. 14-15 and 30-31.

⁶Ibid., pp. 6, 22, 32-33, and 52.

from shipping operations. To give the tanker trade the appearance of a free market with fair pricing, some independents had to ship petroleum to Atlantic Seaboard markets. Simply stated, the plan required the major companies to divide their tanker fleets into two sections: 84% was to be reserved by each company for its own operations and the remaining 16% was to be assigned to the tanker pool. Independents would be required to charter from the tanker pool at a freight rate of \$.42 per barrel. Members of the pool were able to ship 84% of their cargoes on their own ships at cost of \$.17 per barrel and the remaining 16% at the \$.42 per barrel rate. Thus, the majors paid a net rate which averaged \$.21 or half the rate that independent paid.⁷ Supposedly because of publicity, the majors never officially instituted the plan. But by September of 1940, it appeared as if a variation of the pool was in operation.⁸ The real advantage of the tanker pool, however, was not to be gained by bilking the few remaining independents. If the ruse of "competitive, free market" tanker rates could be used in U.S. coastal shipping, it could also be employed on international tanker routes. By overstating tanker charges to foreign governments, the major oil companies could understate petroleum value at point of export and reduce their percentage-based royalty payments.

A second reason why a few independent refiners were allowed to

⁷Ibid., pp. 26-28.

⁸Ibid., and U.S., Congress, Senate, Temporary National Economic Committee, Review and Criticism on Behalf of Standard Oil Co. (New Jersey) and Sun Oil Co. of Monograph No. 39 with Rejoinder by Monograph Author, Monograph No. 39-A, Senate Committee Print (Washington, D.C.: Government Printing Office, 1941), p. 38.

survive was because they were used by the major companies to manipulate both foreign and domestic refined and crude petroleum prices. For example, the New York City bulk product price was the East Texas Gulf Coast independent refinery quote plus tanker transportation charges. Since the East Texas Gulf Coast independent refinery market was very thin and majors had 13 large refineries operating in the area, it was easy for major oil companies to control refined product prices by juggling their buying and selling patterns. This was accomplished through inter-company refined product exchanges and gasoline-buying pools.⁹ The advantage to be derived from this monopolistic maneuvering was that by pegging East Coast petroleum product prices to the small, rigged East Texas Gulf Coast market, the majors could understate real values. For example, when the Venezuelan government was paid its percentage royalty by Standard Oil Company of New Jersey, Royal Dutch Shell Oil Company, and Gulf Oil Company, the export crude petroleum and refined product values were set equal to prices that independents received in New York City less transportation and handling charges.¹⁰ Since these prices did not reflect true value, major oil company petroleum imports were a significant source of monopoly profits.

⁹ U.S., Congress, Senate, Temporary National Economic Committee, Control of the Petroleum Industry by Major Oil Companies, pp. 34 and 35. Nine major oil companies had Texas Gulf Coast refineries with a combined capacity of 901,000 barrels per day. This operating capacity was over 99% of the capacity of all the pipelines extending into the East Texas oil field.

¹⁰ Ibid., pp. 44.

A Storm of Protest

To those knowledgeable about how domestic and international petroleum operations affected the U.S. energy market, the Department of State's action in the Venezuelan reciprocal trade agreement was incredible. The same day that the trade agreement press release appeared (November 6, 1939), J.D. Battle, President of the National Coal Association, bitterly announced that both American workers and oil and coal interests had been sacrificed for the benefit of Standard Oil Company of New Jersey and Gulf Oil Company. The next day the Association vowed to destroy the entire Hull trade agreement program when it came up for extension in early 1940.¹¹ Other almost instantaneous protests were filed by Governor John E. Miles of New Mexico and Governor Leon C. Phillips of Oklahoma. Both men feared that state tax revenues, prorationing controls, and domestic employment would be seriously threatened unless the Department of State eliminated the petroleum excise tax concession.¹²

When Congressman Wesley E. Disney (Dem., Okla.) blasted the State Department on November 13, 1939, his criticisms were crisp and appeared to be carefully researched. He began by stating:

Venezuelan oil is a government monopoly. Its licensees, one or two large companies, have monopoly in the petroleum industry there.... Since these same companies are among the largest

¹¹U.S., National Archives, RG 59, Decimal File 611.3131/485, J.D. Battle to Secretary of State Cordell Hull, November 7, 1939; and Decimal File 611.3131/522, National Coal Association Press Release, November 8, 1939.

¹²U.S., Archives, RG 59, Decimal File 611.3131/485, Governor John E. Miles to Hull, November 9, 1939; and Decimal File 611.3131/496, Governor Leon C. Phillips to Hull, November 9, 1939.

purchasers of domestic crude,...[the petroleum import tax concession] will enable them to still further affect to their own interest the price of crude oil in the United States. Their dominance of the price situation will be nearly perfected through this action.¹³

He continued by describing in detail the legislative background and congressional intent of the 1934 Reciprocal Trade Agreements Act. In 1934 when Cordell Hull had appeared before the House Ways and Means Committee with the list of trade barriers that the Act would affect, excise taxes were conspicuously absent. Both the Ways and Means Committee and the Senate Finance Committee reported the bill out of committee with the clear statement that the President of the United States would not be empowered to reduce import excise taxes. The "clear statement," however, was not drafted into the bill. Nevertheless, Disney claimed that legislators assumed that it was there. By its action to lower the petroleum import excise tax, the Department of State had committed a "serious and substantial breach of faith with the Congress."¹⁴

When Secretary of State Hull answered Congressman Disney on November 29, 1939, his reply was well-drafted from a legalistic standpoint, but his economic argumentation was shabby and grossly underplayed the impact of the Venezuelan trade agreement petroleum tariff concession. Hull stated that the petroleum import excise tax fell under the jurisdiction of the 1934 Reciprocal Trade Agreements Act because of rulings made by the Internal Revenue Service and U.S. Customs Court. In

¹³U.S., Archives, RG 59, Decimal File 611.3131/498, Wesley E. Disney to Hull, November 13, 1939.

¹⁴Ibid.

addition, the Congress had extended the Act in 1937 even after the Cuban and Canadian trade agreements (signed respectively on August 24, 1934 and November 15, 1935) had lowered import excise taxes on lumber. In closing, Hull ventured the opinion that a tariff concession limited to 5% of U.S. refinery runs could cause little adverse effect especially since heavy Venezuelan crude oil principally yielded heavy fuel oil and asphalt.¹⁵

Unfortunately for independent petroleum producers in the United States, Cordell Hull's general statement about Venezuelan crude oil gravities and their refined product yields was no longer true. In the early 1930s practically all of Venezuelan petroleum production came from western Venezuela where heavy crudes such as those in the Lagunillas field were found. In late September, 1937, however, Gulf Oil Company and Standard Oil Company of New Jersey had begun operating a deep-sea tanker terminal at Puerto la Cruz in eastern Venezuela. While the initial flow through was 50,000 barrels a day, the port facility and 16 inch pipeline were capable of handling twice that amount from the Oficina and San Joaquín oil fields.¹⁶

As Gulf Oil Company and Standard Oil Company of New Jersey developed eastern Venezuelan petroleum fields, the characteristics of the oil they shipped to the United States changed. Table 16 shows how much different the newly discovered eastern Venezuelan crude was

¹⁵U.S., Archives, RG 59, Decimal File 611.3131/498, Hull to Disney, November 29, 1939.

¹⁶U.S., Archives, RG 59, Decimal File 831.6363/1156, Major G.S. Beurket to War Department, October 4, 1939.

from the western Venezuelan crude oil that Hull had described.

TABLE 16

A COMPARISON OF VENEZUELAN CRUDE OILS FROM MAJOR FIELDS

Field Name	Discovery	API°*	Straight Gasoline Yield**	Total Gasoline Yield ⁺
Lagunillas	1926	10-18°	0-11.9%	32.7%
Oficina	1937	32.7°	36.1%	61.6%
San Joaquín	1939	45.3°	45.5%	N.A. ⁺⁺
	1939	42.2°	51.9%	70.6%

*American Petroleum Institute gravity

**Straight gasoline yield is the distillate between 80°F. and 450°F.

⁺Total gasoline is natural, straight gasoline plus gasoline from cracking stocks.

⁺⁺Not available

Source: W.L. Nelson, et. al., Petróleos Crudos de Venezuela y Otros Países, segunda edición (Caracas: Ministerio de Minas e Hidrocarburos, 1959), pp. 31, 37, 41, 247, 320, 321, 383, and 390.

More and more of Venezuelan oil was used to produce gasoline rather than heavy fuel oil and asphalt. As this process took place, U.S. independents found their production displaced and crude oil prices fell.

To console domestic petroleum interests since even the American Petroleum Institute had opposed the tariff concession, Standard Oil Company of New Jersey President, W.S. Farish, issued a statement in Platt's Oilgram on November 16, 1939. President Farish reported that the 50% import excise tax concession in the Venezuelan trade agreement

was disadvantageous to American petroleum producers. Since Standard Oil had interests in both the U.S. and other countries, Farish announced publicly that his company had always maintained strict neutrality in discussions about petroleum tariffs. When the Department of State had asked Standard Oil for an opinion, Standard Oil had replied that petroleum tariff binding would be sufficient. On November 21, 1939, Independent Petroleum Association of America (IPPA) lawyer Russell Brown called the news story to the attention of the Department of State. He asked how Standard Oil had presented its case to the Department when there was no public record of Standard's involvement at the Committee for Reciprocity Information hearings. In response, Trade Agreements Department and Committee personnel informed Brown that they could find no record of Standard Oil Company visits. Brown was told to ask Farish what he meant.¹⁷

Instead of contacting President Farish, Brown appealed directly to President Franklin D. Roosevelt. The IPAA counsel asked F.D.R. to delay proclamation of the Venezuelan trade agreement until domestic petroleum interests could ascertain the effect of the petroleum tariff concession, and advise the government of their findings. After his request was ignored, on January 6, 1940, Brown publicly repudiated the State Department's argument that the 5% customs quota tariff concession was insignificant. He pointed out that in October, 1938, crude oil prices suffered a serious collapse which many people attributed to the opening of new, uncontrolled oil fields in Illinois.

¹⁷U.S., Archives, RG 59, Decimal File 611.3131/545, Memo of Woodard, November 21, 1939.

...and the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...

...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...

...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...

...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...

...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...
...the ... of the ...

...the ... of the ...

At the time, Illinois production equaled only 3.6% of domestic refinery runs during the preceding year (1937). Brown contended that reductions in crude oil prices (such as one large importer tried to make in August, 1939) would have meant, if maintained, that marginal stripper wells would become uneconomic and that known U.S. petroleum reserves of 5,500,000,000 barrels would be abandoned. He concluded his argument with a rhetorical question:

It is a well recognized fact that a very small marginal group can, and often does, exert a controlling influence over the majority and, at times, the mere threat of cheap supplies is sufficient to demoralize markets.... It would be interesting to know just what the Department considers to be the percentage of low cost foreign goods necessary to have a serious effect upon domestic producers?¹⁸

Not content to simply denounce the Department of State petroleum tariff concession, Russell Brown launched into an attack about the usefulness of the Hull trade agreement program. It was an impolitic action, but by January 6, 1940, the IPAA lawyer had little reason to expect support from the Roosevelt administration. On January 3, 1940, F.D.R. had requested that Congress extend the Reciprocal Trade Agreement Act for another three years.¹⁹ This time opposition to the entire program was well-organized. After Ways and Means Committee Chairman, Robert L. Doughton, introduced the bill, on January 8, the American Federation of Labor Wage Earners Protective Conference called for repudiation of all existing trade agreements and new import excise taxes to equalize production costs. In addition, on January 11, 1940,

¹⁸U.S., Archives, RG 59, Decimal File 611.3131/579, Russell B. Brown to Harry Hawkins, January 6, 1940.

¹⁹New York Times, January 4, 1940.

the National Association of Manufacturers expressed opposition to extending the trade bill. The Association's consulting economist, Dr. John Lee Coulter, pointed out that there had been little or no increase in export trade due to the Department of State trade negotiations, but only greater foreign imports. With both labor and business organizations, plus protectionist interests, rallying against the Hull program, passage of the trade bill extension was not going to be easy.²⁰

On January 24, 1940, Congressman Disney offered an amendment to the extension bill to specifically exclude all import excise taxes from Department of State trade negotiations.²¹ If the amendment had passed, a major part of Secretary of State Hull's trade agreements program would have been destroyed. Protectionists could have passed import excise taxes to raise rates which the Department of State had lowered. To divide his opposition, on February 8, Hull informed Ways and Means Committee Chairman Doughton that the State Department had drafted a general escape clause "of unusually broad terms" into the Venezuelan trade agreement. If necessary to protect domestic industry, under "special circumstances," Hull promised to invoke the clause to undo any damage the petroleum tariff concession might cause.²² His ruse worked. The next day the Disney amendment was defeated 15-10

²⁰ Ibid., January 8 and January 11, 1940.

²¹ Ibid., January 24, 1940.

²² U.S., Archives, RG 59, Decimal File 611.3131/593A, Hull to House Ways and Means Committee Chairman Robert L. Doughton, February 8, 1940.

in Committee. On February 23, 1940, the entire House defeated the Disney amendment by a narrow 164-155 vote and then passed the extension bill by a 216-168 vote. The Senate also approved the measure on April 5, 1940, by a close 42-37 vote. In both chambers of Congress, Hull's letter of February 8 proved to be a decisive factor. Representatives and Senators cast key swing votes after they had been given clear assurances that escape clauses would be invoked if needed.²³

Throughout the legislative battle, IPAA lawyer Russell Brown continued to criticize the Department of State petroleum tariff concession policy. In a February 25, 1940 memorandum, he questioned the Department's habit of underemphasizing the importance of imported fuel oil in the U.S. petroleum market. The Department always referred to statistics which only counted petroleum imports used for U.S. consumption rather than total petroleum imports. Total petroleum imports equaled imports for domestic consumption plus imports in bond.²⁴ This approach overlooked the fact that bonded bunker fuel oil imports were a significant price determinant in the East and Gulf Coast bunker fuel markets.

Brown also attacked the Department's contention that using refined fuel oil imports to satisfy 20% of East Coast heating fuel demand was more efficient than refining higher quality U.S. crude oils. (Unknown

²³ New York Times, February 9, February 24, and April 6, 1940.

²⁴ Imports in bond are those products used in international trade or for export to another country. Thus, bonded imports are not subject to U.S. import taxes. U.S., Archives, RG 59, Decimal File 611.3131/599, IPAA memorandum of Russell B. Brown, February 15, 1940.

to Brown, the source of this argument had been Standard Oil Company of New Jersey).²⁵ The IPAA lawyer countered this claim by stating that no excess gasoline stocks would be produced from U.S. crude oil if only U.S. refiners would agree to reduce gasoline yield percentages by approximately 0.4%. Thus, U.S. production could serve U.S. demand efficiently, but only with the cooperation of major oil companies which controlled the vast majority of U.S. refinery operations and the entirety of import-export trade. This, however, was an unlikely event. While domestic producers were being limited by proration authorities to maintain a stable U.S. petroleum market, foreign operating major oil companies had no such limitation on the amount that they could import. The IPAA believed that there was no equity in this program. Furthermore, when the Department claimed that U.S. domestic production would not be displaced and then simultaneously argued that with greater importation U.S. crudes could be "reserved" for better use than fuel oil production, it demonstrated the inconsistent logic of its program.²⁶

A Flood Tide of Petroleum Imports

Outbreak of war in Europe had an immediate impact on Venezuelan petroleum production and exports. In early September, 1939, the British government asked the petroleum companies in Venezuela to step up production, but the military offensive which had been expected did not

²⁵U.S., Archives, RG 59, Decimal File 611.003 Petroleum/111, Memo of John Bohanon of Standard Oil Company of New Jersey, February 15, 1937.

²⁶U.S., Archives, RG 59, Decimal File 611.3131/599, Memo of John Bohanon, February 15, 1937.

take place. Instead, civilian petroleum demand fell to 12% of pre-war levels while military demand remained stable.²⁷ Table 17 shows exactly how Venezuelan petroleum operations were affected. Even after production was cut back in November and December, 1939, increasing amounts of petroleum had to be stored in Venezuela rather than be exported as in earlier times. Very quickly petroleum traffic managers sought another major petroleum market which would be able to absorb excess Venezuelan production.

TABLE 17

VENEZUELAN PETROLEUM PRODUCTION AND EXPORT TRADE IN 1939
(In Millions of Metric Tons)

Month	Production	Export*	Percent Exported
January	2.4	2.3	95%
February	2.2	2.1	94
March	2.3	2.3	97
April	2.5	2.4	93
May	2.6	2.5	96
June	2.4	2.5	103
July	2.7	2.6	97
August	2.8	2.5	91
September	2.8	2.5	92
October	2.9	2.6	90
November	2.5	2.1	83
December	2.4	1.9	80

*Rounded to nearest 100,000 metric tons

Source: U.S., Archives, RG 59, Decimal File 611.3131/596, Frank Corrigan (Caracas) to Hull, February 5, 1940.

²⁷ U.S., Archives, RG 59, Decimal File 611.3131/596, Frank P. Corrigan, American Ambassador to Venezuela, (Caracas) to Hull, February 2, 1940.

It was ironic that the petroleum tariff concession, which Venezuelan trade negotiators had depreciated as insignificant during the long negotiations, was of critical importance to the Venezuelan government by February, 1940. After only six months of war, demand for Venezuelan coffee, cacao, and petroleum in Europe had collapsed completely.²⁸ By increasing petroleum exports to the U.S., however, Venezuelan operating major oil companies could offset the effect of reduced demand in Europe. If this were done, Venezuelan government petroleum revenues could sustain the economy in spite of the worldwide economic disruption. When Foreign Minister Esteban Gil Borges presented the trade treaty to the Venezuelan Congress on May 17, 1940, he emphasized how the concession would aid the Venezuelan economy.²⁹

While the redirection of Venezuelan petroleum production from Europe to the U.S. was advantageous for both the Venezuelan government and three major oil companies, it was a costly setback for U.S. petroleum producers. During the first three months of 1940, petroleum imports surged 141% over the rate of importation in the same period one year earlier.³⁰ As crude prices fell, production allowables set by prorationing boards were reduced. Oil and gas producer associations from all over the United States protested to the Department of State.³¹

²⁸ U.S., Archives, RG 59, Decimal File 611.3131/602, Corrigan (Caracas) to Hull, March 4, 1940.

²⁹ U.S., Archives, RG 59, Decimal File 611.3131/617, Winthrop R. Scott (Caracas) to Hull, May 18, 1940.

³⁰ U.S., Archives, RG 59, Decimal File 611.3131/623, D.G. Gray of North Texas Oil and Gas Association letter to Hull, July 6, 1940.

³¹ Ibid., Decimal File 611.3131/620, Congressman Lindley Beckworth to Hull, June 25, 1940; Decimal File 611.3131/688, J.C. Watson to Hull,

By July 17, 1940, imports were averaging 300,000 barrels per day or 200,000 barrels per day more than in 1939. At the same time, the petroleum export market had fallen off more than 150,000 barrels per day. As a result, U.S. crude oil prices fell 6% to 13% from December, 1939, to July, 1940, and reached the lowest price levels recorded since 1935.³²

To save the domestic petroleum industry from further economic damage, on September 17, 1940, the IPAA appealed formally for the Department of State and the Committee for Reciprocity Information to exercise an escape clause in the Venezuelan trade agreement to end the petroleum tariff concession. During the congressional battle for the extension of the Reciprocal Trade Agreement Act, Secretary of State Hull had promised that the Department would protect U.S. producers if "special circumstances" warranted such action. Domestic producers asked the Department to honor the clear commitment that Hull had made in writing to House Ways and Means Chairman Robert L. Doughton on February 8, 1940.³³

This request placed the Department in an extremely awkward position. On August 28, 1940, the Venezuelan Foreign Minister notified the U.S. government that the Venezuelan Congress had ratified

August 2, 1940; and Decimal File 611.3131/670, W.A. Goforth to Hull, August 6, 1940. Gasoline prices had fallen 37%, light fuel oil 12%, and heavy fuel oil 11%. Decimal File 611.3131/731, C.H. Lyons to Senator Allen Ellender, March 14, 1940.

³²U.S., Archives, RG 59, Decimal File 611.3131/626, Winston P. Henry to Hull, July 7, 1940; and Decimal File 611.3131/681, Brown to Committee for Reciprocity Information, September 17, 1940.

³³U.S., Archives, RG 59, Decimal File 611.3131/681, Brown to Committee for Reciprocity Information, September 17, 1940.

the trade treaty. Venezuela was ready to proceed with the exchange of instruments which would convert the temporary modus vivendi to a full trade treaty.³⁴ Yet if the Department honored the Venezuelan request before answering the IPAA appeal, U.S. domestic petroleum producers would have had clear proof that the Department had acted in bad faith against independent producers and that the Committee for Reciprocity Information did not protect domestic interests. Confronted with the dilemma, Harry Hawkins of the Division of Commercial Treaties and Agreements in the Department of State counseled on September 24, that a two or three week delay would be wise while a solution to the problem was worked out.³⁵

Since the IPAA petition filed on September 17, 1940, had produced no immediate result, on October 10 Russell Brown submitted another brief requesting relief from petroleum imports to the Committee for Reciprocity Information. Whereas previous statements made by opponents of the petroleum tariff concession had only hypothesized about the potential danger of a flood of foreign oil, Brown cited extensive statistical evidence compiled during the first seven months of 1940. Taxable petroleum imports for domestic U.S. consumption from Venezuela, the Netherlands West Indies, and Mexico were up 30.2%, 118.2%, and 1,599.9% respectively when compared to similar months in 1939. If the Committee members doubted the IPAA description of the effect of such imports, they were invited to read news headlines and

³⁴U.S., Archives, RG 59, Decimal File 611.3131/692, Memo of Harry Hawkins, September 24, 1940.

³⁵Ibid.

curtailment orders issued by state prorationing boards.³⁶

To discredit arguments which had been presented to support the petroleum tariff concession, Brown stated in rebuttal:

- (1) The petroleum tariff concession was not merely a 50% tax reduction on volume equal to 5% of U.S. refinery runs, but a free license to import unlimited supplies of cheap oil into the U.S.
- (2) Imports of foreign oil did not lead to efficient refinery operations and low gasoline stocks. Major oil companies could by error or design create shortages in any refined product by simply adjusting refinery yields regardless of whether the crude oil used was U.S. or foreign.
- (3) Venezuelan crude oil was not supplemental to higher quality U.S. crude oil. With modern refineries, a "barrel of foreign oil was a barrel of oil" and capable of displacing already prorated U.S. production.
- (4) The importation of foreign oil did not free U.S. proven reserves to be used for better purposes. Foreign imports would lead to the monopolization of the U.S. petroleum industry and eliminate independent exploratory activity and stripper wells.
- (5) The Venezuelan trade agreement did not improve the U.S. balance of trade. In comparison with other Latin American countries, the U.S. export-import balance with Venezuela was actually declining in 1940 as a consequence of the agreement.

He closed his written brief by asking the Committee to assess the effect of Mexican petroleum imports priced at \$.60 per barrel (\$.30 to \$.40 below U.S. production cost) even after \$.21 per barrel duty was paid. To solve this problem, the petroleum tariff concession had to be withdrawn.³⁷

³⁶U.S., Archives, RG 59, Decimal File 611.3131/681, Brown to Committee for Reciprocity Information, September 18, 1940.

³⁷Ibid. and Decimal File 611.3131/687, Brown to Committee for Reciprocity Information, October 10, 1940.

On November 4, 1940, the IPAA petitions of September 17 and October 10 were considered by the Committee. After reviewing all available data, the Committee reported to Harry Hawkins that since the date of the Venezuelan trade agreement (November 6, 1939) no unusual trade developments had occurred except (1) a decline in petroleum export markets, and (2) an increase in crude oil and refined product shipments from Mexico! No specific recommendation was made. In the event that trade agreement action was necessary due to the IPAA request, however, the Committee suggested that imports over the 5% customs quota no longer be bound to existing rates. Thus, Congress could act to prevent uncontrollable imports from reaching the U.S. market. On November 13, 1940, Committee Chairman Oscar B. Ryder advised Russell Brown that the petroleum import situation did not warrant action. The next day, the exchange of instruments of ratification and approval of the Venezuelan trade agreement took place. Meanwhile, Brown asked for a personal hearing before the full Committee.³⁸

³⁸In 1940 the members of the Committee for Reciprocity Information were: Oscar B. Ryder, Chairman, U.S. Tariff Commission; A. Manuel Fox, Vice Chairman, U.S. Tariff Commission; Henry L. Deimel, Trade Agreements Division, U.S. Department of State; Harry D. White, Department of Treasury; George B.L. Arner, Department of Agriculture; James W. Young, Department of Commerce; and John P. Gregg, Secretary. See Committee for Reciprocity Information, Rules of Procedure (Washington, D.C.: Government Printing Office, 1940), p. II. U.S. Archives, RG 59, Decimal File 611.3131/699, Oscar B. Ryder to Harry Hawkins, November 5, 1940; Decimal File 611.3131/704, Brown to Hull, November 27, 1940; and Decimal File 611.3131/703, Memo of Division of Commercial Treaties and Agreements, November 12, 1940.

When he discussed the issue with the Committee on November 22, 1940, Brown discovered that his petitions had been denied because there was non-sufficient evidence to request that the Venezuelan trade agreement be changed. The frustrated IPAA lawyer responded by asking, "Who was supposed to give evidence for the Committee for Reciprocity Information to make changes in U.S. tariff policy?" When no answer was given, Brown announced that he had gone through channels and had reached a dead end. On November 27, 1940, he appealed to Secretary of State Hull to honor his pledge of February 8. Brown also reminded Hull that if five votes in the U.S. House and Senate had changed, the Disney amendment to exclude import excise taxes would have passed into law.³⁹ In reply, a personal response drafted for Cordell Hull's signature by the Division of Commercial Treaties and Agreements was sent to Brown on December 12, 1940. In the letter Hull assured Brown, that after studying and reviewing everything, no action was needed.⁴⁰ What Harry Hawkins had thought would take two to three weeks to solve was finally over. With this rejection, Brown finally realized that reasoning with the Department of State bureaucracy was futile. He wrote no more letters to Hull or the Committee for Reciprocity Information. On November 27, 1940, F.D.R. proclaimed the Venezuelan trade agreement and declared that it would be in force on

³⁹U.S., Archives, RG 59, Decimal File 611.3131/704, Brown to Hull, November 27, 1940.

⁴⁰U.S., Archives, RG 59, Decimal File 611.3131/704, Brown to Hull, December 16, 1940.

December 14, 1940.⁴¹

The Problem of Mexican Oil

While the Department of State handled domestic U.S. opposition to the petroleum tariff concession with ease, the administration of the 5% customs quota between November, 1939, and December, 1941, proved to be a difficult task. Before the trade agreement had been signed, the Department made clear that quota shares would not be allocated. On November 9, 1939, only three days after the agreement was made public, the Mexican government asked if it would be eligible to participate in the tariff concession granted to Venezuela. From Mexico City, the U.S. Ambassador reported that Mexico was ready to fill the entire 5% quota with oil nationalized from U.S. and British petroleum companies.⁴² On November 10, 1939, the Department answered the inquiry by stating that Mexican oil would be included in the quota. However, the President might "suspend application [of the quota] to imports from any country because of its discriminatory treatment of American commerce...". In addition, the reply stated that there was an indication that quota shares would be allocated according to countries of origin.⁴³

The decision of the Department of State to establish quota shares

⁴¹U.S., Archives, RG 59, Decimal File 611.3131/708, Dept. of State Press Release No. 499, November 27, 1940.

⁴²U.S., Archives, RG 59, Decimal File 611.3131/487, Ambassador Josephus Daniels (Mexico City) to Hull, November 9, 1939.

⁴³U.S., Archives, RG 59, Decimal File 611.3131/487, Henry Grady to Daniels, November 10, 1939.

for the petroleum tariff concession was based entirely on the problems created by the Mexican nationalization of U.S. petroleum properties. On March 18, 1938, the Mexican government had expropriated U.S. direct investment valued between \$44,000,000 and \$141,000,000.⁴⁴ As of November, 1939, no compensation settlement had been made. Consequently, the Department of State was reluctant to grant Mexico benefits of the Venezuelan trade agreement. Because the Department was attempting to rally anti-fascist support throughout Latin America and did not wish to be labeled "Yankee Imperialist," a subtle means had to be devised to discriminate against Mexico.⁴⁵ The establishment of quota shares was seen as the solution to this problem. However, the difficult task was to set a base period which looked representative, but was not.

In order to assign quota shares for the tax reduction to petroleum exporting countries, on November 30, 1939, the Venezuelan Country Committee in the Department of State prepared studies of past petroleum shipments to the United States. When the years 1934 to 1938 were averaged as a base, the following quota shares were justified: Venezuela, 66.6%; Netherlands West Indies, 19.0%; Mexico, 11.6%; and Colombia, 2.4%. Because the Department wished to limit benefits to Mexico, a different basis had to be used.⁴⁶ To maximize the benefit

⁴⁴Merrill Rippy, Oil and the Mexican Revolution (Leiden: E.J. Brill, 1972, pp. 299-304.

⁴⁵Ibid., pp. 224 and 240; and Graham Stuart, Latin America and the United States (New York: Appleton-Century-Crofts, 1955), p. 177.

⁴⁶U.S., Archives, RG 59, Decimal File 611.3131/533 1/2, Livingston Satterthwaite to Laurence Duggan in Division of American Republics, November 30, 1939.

of the petroleum tariff concession to Venezuela, the Netherlands West Indies, and Colombia, the quota was allocated on the basis of petroleum shipments made during the first ten months of 1939. During this period, major oil companies had boycotted production from the wells Mexico had nationalized; Mexican shipments to the U.S. were therefore, very small. Thus, quota shares for 1940 were set at: Venezuela, 71.9%; Netherlands West Indies, 20.3%; Colombia, 4.0%; and all others (Mexico), 3.8%.⁴⁷

While Mexico had only been authorized a 3.8% share of the petroleum import tax reduction, there was nothing to prevent larger exports to the U.S. which were fully dutiable. Such shipments became imperative in late 1939 and throughout 1940 as revealed in Table 18.

TABLE 18

MEXICAN PETROLEUM EXPORTS
(Millions of Barrels)

Year	United States	Germany	Italy
1937	7.85	3.93*	.19
1938	3.33	7.15*	.26
1939	5.86	1.49	3.32
1940	12.30	0	3.21

*Includes 11.9 million metric tons of gasoline in 1937 and 40.4 million metric tons of gasoline in 1938 converted at 8 barrels of gasoline per metric ton.

Source: Jesús Silva Herzog, Petróleo Mexicano (Mexico City: Fondo de Cultura Económica, 1941), pp. 210-211; and Merrill Rippy, Oil and the Mexican Revolution (Leiden: E.J. Brill, 1972), p. 254.

⁴⁷U.S., Archives, RG 59, Decimal File 611.3131/541A. Hull to American Embassy (Caracas), December 9, 1939.

Because of the effective U.S. and British boycott of Mexican oil after March, 1938, the Mexican government was forced to find other buyers for its petroleum: Germany, Italy, and Japan. In spite of these shipments, however, Mexico still had a tremendous surplus of crude oil. Once the large German petroleum market was lost in September, 1939, the Mexican national petroleum company, PEMEX, turned to the U.S. petroleum market in near desperation.⁴⁸ To break the boycott, PEMEX sold at bargain prices to whomever would buy.⁴⁹ Because of the outbreak of war in Europe, the Department of State did not take action to block the growing Mexican oil shipments into the United States. By re-establishing friendly trade relations, the Department could greatly offset fascist propaganda and support in Mexico. Meanwhile, the Mexican government had begun serious compensation negotiations with Sinclair Oil Company representatives in October, 1939.⁵⁰ Finally on May 1, 1940, the Mexican government and the Sinclair Refining Company signed a contract which settled 40% of the existing U.S. petroleum claims against Mexico. The agreement called for Mexico to pay \$8,500,000 for the Sinclair properties and for Sinclair to purchase 5,000,000 barrels of crude oil per year for four years.⁵¹ Clearly, the only way Mexico could pay for the

⁴⁸Rippy, Oil and the Mexican Revolution, pp. 253-262.

⁴⁹Ibid., pp. 254 and 278. See also Jesús Silva Herzog, Petróleo Mexicano (Mexico City: Fondo de Cultura Económica, 1941), pp. 206-207.

⁵⁰Rippy, Oil and the Mexican Revolution, p. 297; and U.S., Archives, RG 59, Decimal File 611.3131/615, Memo of Harry Hawkins, March 11, 1940.

⁵¹Rippy, Oil and the Mexican Revolution, p. 298.

expropriated U.S. properties was to sell oil in the U.S. Yet until Mexico reached a financial settlement with the other U.S. petroleum companies, the Department of State planned to limit the Mexican quota share.

In theory, quota shares for the petroleum tariff concession were to be redrawn each year and based on shipments actually made during the preceding twelve months. This procedure was dropped as soon as it became clear that Mexican oil shipments in 1940 were very significantly above 1939 levels. The Sinclair Oil Company settlement alone provided for Mexico to export an additional 5,000,000 barrels of crude oil to the United States.⁵² In its effort to set quota shares for 1941, the Department had the alternatives presented in Table 19.

TABLE 19
POTENTIAL CUSTOMS QUOTA SHARES BY COUNTRY

Exporting Country	Based on Petroleum Shipments in Period		
	1/39-10/39	1/39-1/40	1/40-10/40
Venezuela	71.9%	70.4%	54.6%
Netherlands West Indies	20.3%	21.3%	21.9%
Colombia	4.0%	3.2%	0.8%
Mexico and Others	3.8%	5.1%	22.7%

Source: U.S., Archives, RG 59, Decimal File 611.3131/721, Harry Hawkins to Cordell Hull, December 13, 1940.

⁵²Ibid.

On November 27, 1940, John Bohanon of Standard Oil Company of New Jersey visited the Department of State to point out that the existing quota shares heavily favored Venezuelan crude oil. He stated that a revision of the quota based on 1940 actual shipments would benefit Mexican oil and that such a decision might endanger the entire Hull reciprocal trade agreements program.⁵³ On December 6, 1940, the Venezuelan government notified the U.S. that modification of the existing shares would be detrimental to the spirit of "just reciprocity."⁵⁴ As a result of this pressure and the desire to exclude Mexican petroleum, the Department authorized 1941 petroleum import quota shares to be based on January to December, 1939 shipments rather than the 1940 figures.⁵⁵

While the Department of State was able to manipulate base years to limit Mexican participation in the customs quota during 1940 and 1941, by December 18, 1941, no representative base year could be found for 1942 quota shares which could satisfy the desires of Mexico, Venezuela, and Colombia. The large Mexican shipments in 1940 and 1941 precluded either of those years as a base without reducing Venezuela's quota share (see Table 19). The Department of State had three choices:⁵⁶

⁵³ U.S., Archives, RG 59, Decimal File 611.3131/710, Memo of conversation in Office of the Advisor on International Economic Affairs, November 27, 1940.

⁵⁴ U.S., Archives, RG 59, Decimal File 611.3131/711, Foreign Minister Diógenes Escalante to Hull, December 6, 1940.

⁵⁵ U.S., Archives, RG 59, Decimal File 611.3131/716, Hull to Senator Allen Ellender, February 8, 1941.

⁵⁶ U.S., Archives, RG 59, Decimal File 611.3131/720, Memo of Herbert S. Bursley to Dept. of State, December 18, 1941; and Decimal File 611.3131/749, Memo of Satterthwaite, December 16, 1941.

- (1) Adopt a 1933-1940 base period and anger Venezuela. The Venezuelan reaction could be tempered by revealing that a Mexican trade agreement would raise quotas from 5% to 7.5% of U.S. refinery runs.
- (2) Refuse to grant Mexico the increase justified by actual shipments in 1940. The Mexican government could be calmed by a U.S. promise of aid through a reciprocal trade agreement concession.
- (3) Have the President issue a proclamation that the fixing of new quotas was deferred because of the "changed conditions in the world which have made the former representative period lose much of its meaning." This position would be temporarily inconvenient to Mexico, but a Mexican trade agreement could raise the percentage quota.

The Department considered the last proposal to be the most advantageous.

The status quo was preserved; Venezuela was satisfied; and Mexico could be induced to reach speedy settlement with uncompensated U.S. oil companies. As recommended, this proposal was implemented by Presidential proclamation on December 26, 1941.⁵⁷ Hard-pressed U.S. domestic petroleum producers had no inkling that the Department of State was preparing to establish an even larger customs quota in a Mexican reciprocal trade agreement.

A Mortgage with Balloon Payments

By granting the petroleum tariff concession in the Venezuelan trade agreement, the Department of State acted to increase the monopoly position of major oil companies in the U.S. petroleum industry. Once the import excise tax was bound to existing rates, petroleum importing companies no longer had to fear that Congress would curb imports by imposing prohibitive tariffs. After November, 1939, every major oil

⁵⁷ U.S., Archives, RG 59, Decimal File 611.3131/750, Dept. of State Press Release No. 678, December 16, 1941.

company had a clear incentive to develop foreign petroleum production for import into the U.S. Consequently, the competitive position of the domestic independent petroleum producer, who did the majority of U.S. exploration, was seriously weakened.

Throughout the planning, negotiating, and ratifying states of the Venezuelan trade agreement from 1934 to 1941, the Department of State functioned in a secretive, byzantine manner to deceive domestic petroleum interests and the U.S. Congress. When needed, promises were made by the Secretary of State, but not kept. In the end, informed critics of Department policies were defeated, not by logical, consistent arguments, but by bureaucratic duplicity.

Instead of considering advice from a broad spectrum of petroleum and coal industry experts, the Department ignored arguments and protests which conflicted with its own plans. In return for lower Venezuelan tariffs, U.S. petroleum import taxes were reduced. According to theory, U.S. export trade would be enhanced. Dollar payments for oil imports, which were not captured as profits by U.S. petroleum companies, would expand U.S. export opportunities in Venezuela. At the same time, use of cheaper foreign oil would save U.S. reserves for future use.

Despite Mexican nationalization of U.S. oil properties, PEMEX was allowed to sell petroleum in the U.S. market. With the possibility that the U.S. would become involved in the war in Europe, the Department of State desired to insure that all Latin American countries would cooperate in hemispheric defense measures. Mexican friendship was vitally needed. Later in 1941 the promise of a larger petroleum

tariff quota was used as a "carrot" in negotiations with Mexico concerning compensation for expropriated U.S. petroleum properties. The Department's short-term objectives were to settle the expropriation controversy, to acquire allies in an anti-fascist crusade, and to conclude another reciprocal trade agreement.

CHAPTER 8

CONCLUSIONS

When General Juan Vicente Gómez took power in 1908, Venezuela was a poor, agrarian society in the sleepy backwaters of the Caribbean. The amazing achievement of his regime was simply that it lasted for 27 years. Gómez accomplished this herculean task by combining his Machiavellian political talents with the financial strength which flowed to the Venezuelan state after 1918 from expanding petroleum operations. But by the time he died in 1935, "El Benemérito," The Worthy One, had become an anachronism.

His successor, General Eleazar López Contreras, inherited a national Treasury filled with oil revenues and a nation whose demoralized people suffered from economic destitution. Soon after taking office, the new President acted to ameliorate the effects of world depression, neglect, and corruption by declaring an ambitious national development plan. Once national objectives were set, the reform-minded administration took steps to insure that its plans would be carried out. When it became apparent that ordinary revenues and the treasury surplus could not sustain the financial drain caused by the public employment and agricultural export subsidy programs, alternative programs and sources of funds were developed. Compared with earlier Venezuelan governments, a major miracle had taken place.

Frustrated by the evolutionary nature of the López Contreras administration, young nationalistic reformers advocated expropriation of the petroleum company properties, a policy which would have been suicidal in 1936. Note that after the Mexican expropriation of U.S. and British petroleum properties in 1938, other sectors in the Mexican economy had to heavily subsidize the petroleum industry to keep it going. The Venezuelan government did not have the necessary financial strength to nationalize petroleum production facilities, so it proceeded cautiously. When political agitation proved to be severely disruptive in 1937, the President disbanded the opposition parties and exiled key leaders. Always a general, López Contreras had no intention of ever having to command a retreat due to impractical insubordination or political opposition. Rather than populism, he relied on pragmatic results to show the worth of his programs to the nation he loved.

A review of the political circumstances of the López Contreras and Franklin D. Roosevelt administrations and of the methods which were employed to implement national policies reveals sharp differences. In Venezuela, public participation in official policy-making was nil. Free of electoral responsibility, the López Contreras administration could and did shift national policy abruptly without having to make embarrassing or time-consuming explanations. As a result, Venezuelan planners could adopt measures which transcended the short term viewpoint so characteristic of political campaigns. In the United States, the political situation was almost exactly the opposite. Great emphasis was placed upon maintaining the illusion of popular, democratic government responsible to the will of the people. But no single national

policy could satisfy all interests and reversals of position on important matters of state policy required awkward explanations. When popular support for important government programs was lacking, U.S. officials conducted two simultaneous policies: one in public which was palatable to the electorate and another in secret which responded to the immediate crisis. Confronted with the difficult task of carrying out this duplicity, U.S. politicians and bureaucrats rarely had the time to consider the long-term implications of their decisions.

The short term nature of U.S. national petroleum policies contrasts significantly with those of Venezuela. In the United States the privately owned petroleum industry governed itself. Whenever problems arose, the U.S. government relied heavily on the recommendations of major oil company representatives. This advice was not always reliable or in the U.S. national interest. Private business interests did not desire to promote government-directed economic central planning. As a consequence, oil policies were poorly coordinated among the various agencies, departments, and branches of the U.S. government. Under President Juan Vicente Gómez, the same comment can be made about Venezuelan policy. However, the government of López Contreras instituted important reforms to supervise all phases of petroleum industry operations. Venezuelan officials never trusted representatives of the foreign-owned petroleum companies so the government developed its own corps of petroleum experts. Since national petroleum policy was critical to Venezuelan economic survival, government ministries cooperated to develop and implement a long-term central plan.

The reciprocal trade agreement signed by the United States and Venezuela on November 6, 1939, is illustrative of the Venezuelan government's ability to simultaneously coordinate commercial diplomacy with national petroleum policy. In return for guaranteed access to the U.S. petroleum market with low tariffs, the Venezuelan Foreign Ministry made tariff sacrifices on essential food and manufactured items. This wartime action benefited the Venezuelan economy in two direct ways: it insured government revenues and it reduced the cost of living. At the same time, the Development Ministry used the U.S. petroleum tariff concession to pressure petroleum companies into developing more Venezuelan petroleum refining capacity. In retrospect, the only significant concession the Venezuelan government conceded to the United States was its freedom to conduct commercial trade diplomacy on a limited most-favored-nation basis. But the outbreak of World War II made this concession irrelevant during the time of hostilities.

Long before the actual outbreak of war in Europe, the Department of State began diplomatic initiatives to align anti-fascist support throughout Latin America. Very clearly, commercial trade was not the sole motive behind U.S. trade diplomacy. The Department's major accomplishment in concluding the Venezuelan reciprocal trade agreement was not lower Venezuelan tariffs or Venezuelan acquiescence to unconditional most-favored-nation principles. The value of the agreement was, that by establishing favorable trade relations with Venezuela, that country became a more secure ally when war came against the Axis

powers.

The same anti-fascist diplomatic objective was demonstrated in U.S.-Mexican petroleum trade relations. The United States had no desire to endure border hostilities and German intrigue such as had occurred during World War I. Even though the Mexican government had nationalized U.S. petroleum properties in 1938, the Department of State allowed Mexican produced oil to enter the United States before any compensation had been made to the petroleum companies. Until a formal compensation settlement had been reached, however, a discriminatory quota system was used to deny Mexico the full tariff benefits established in the Venezuelan trade agreement.

While there were immediate economic benefits associated with the Venezuelan reciprocal trade agreement, unfortunately there were also significant short-term costs. Because of the petroleum tariff concession, more cheap, foreign petroleum was imported into the United States. In some marketing areas this resulted in lower consumer prices. But more importantly, foreign imports caused lower crude petroleum prices everywhere in the United States as prorated domestic production was displaced. As a consequence of the Department of State petroleum tariff policy, major international oil company domination of the U.S. petroleum industry was increased.

While the Department of State cannot be blamed for failing to predict the future, between 1935 and 1941 it can be condemned for ignoring numerous signs and warnings about the adverse long-term implications of its policy on the U.S. domestic petroleum industry. In

1. The first step in the process of the scientific method is to make an observation or ask a question. For example, a scientist might observe that a plant grows better in one type of soil than another.

2. Next, the scientist forms a hypothesis, which is a prediction or an educated guess about the outcome of an experiment. For instance, the scientist might hypothesize that the plant will grow taller in soil A than in soil B.

3. The third step is to design an experiment to test the hypothesis. This involves setting up a controlled experiment where the only variable that changes is the type of soil. The scientist would plant the same type of seed in both soils and measure the height of the plants over time.

4. After conducting the experiment, the scientist collects data and analyzes it. If the plants in soil A are consistently taller than the plants in soil B, the data supports the hypothesis.

5. If the data supports the hypothesis, the scientist may draw a conclusion and accept the hypothesis as a theory. However, if the data does not support the hypothesis, the scientist must reject the hypothesis and start over with a new one.

6. The scientific method is a continuous process. Scientists often repeat experiments to verify their results and may modify their hypotheses based on new evidence.

7. It is important to note that the scientific method is not a linear process. Scientists often go back and forth between steps as they refine their hypotheses and experiments.

8. The scientific method is a systematic approach to understanding the natural world. It allows scientists to test their ideas and make discoveries that advance our knowledge of the universe.

9. The scientific method is a key part of the scientific process. It is how scientists make their discoveries and share them with the world.

10. The scientific method is a powerful tool for understanding the world around us. It is the foundation of all scientific research.

perennial testimony, petroleum tariff proponents presented clear evidence against a petroleum import tax reduction and greater oil imports. It should be remembered that in the Venezuelan trade negotiations, the Department of State actually forced Venezuela to request a U.S. tariff concession on petroleum. The initial harmful effect of the Department of State oil import decision was that it decreased incentives for U.S. domestic petroleum exploration and production. Some believed that this saved more oil in the United States for future use. But the real effect of this policy was to transfer U.S. drilling crews, capital, and managerial skills to foreign petroleum exporting countries such as Venezuela. As a result of this transfer of investment, the U.S. domestic petroleum industry was not strengthened.

After 1939, the real controls on U.S. imports of foreign petroleum were the capacity of foreign oil wells and the availability of company tankers. Companies, who were late in expanding overseas, accepted concession contracts with terms much more advantageous to Venezuela. The Venezuelan government was well able to play the new entrants against old established companies in order to increase royalty taxes and local refining capacity. As unregulated U.S. petroleum demand grew and foreign imports increased, the necessary new refining capacity was located, not in the United States, but in Venezuela and other oil producing countries.

In this manner, under the pseudo-leadership of the crisis-oriented Department of State, the United States economy began a thirty year journey into economic bondage to petroleum exporting countries.

APPENDIX

APPENDIX

PROCLAMATION BY THE PRESIDENT OF THE RECIPROCAL TRADE AGREEMENT BETWEEN THE UNITED STATES OF AMERICA AND THE UNITED STATES OF VENEZUELA, SIGNED AT CARACAS, NOVEMBER 6, 1939

WHEREAS it is provided in the Tariff Act of 1930 of the Congress of the United States of America, as amended by the Act of June 12, 1934, entitled "AN ACT To amend the Tariff Act of 1930" (48 Stat. 943), which amending Act was extended by Joint Resolution of Congress, approved March 1, 1937 (50 Stat. 24), as follows:

"Sec. 350. (a) For the purpose of expanding foreign markets for the products of the United States (as a means of assisting in the present emergency in restoring the American standard of living, in overcoming domestic unemployment and the present economic depression, in increasing the purchasing power of the American public, and in establishing and maintaining a better relationship among various branches of American agriculture, industry, mining, and commerce) by regulating the admission of foreign goods into the United States in accordance with the characteristics and needs of various branches of American production so that foreign markets will be made available to those branches of American production which require and are capable of developing such outlets by affording corresponding market opportunities for foreign products in the United States, the President, whenever he finds as a fact that any existing duties or other import restrictions of the United States or any foreign country are unduly burdening and restricting the foreign trade of the United States and that the purpose above declared will be promoted by the means hereinafter specified, is authorized from time to time--

"(1) To enter into foreign trade agreements with foreign governments or instrumentalities thereof; and

"(2) To proclaim such modifications of existing duties and other import restrictions, or such additional import restrictions, or such continuance, and for such minimum periods, of existing customs or excise treatment of any article covered by foreign trade agreements, as are required or appropriate to carry out any foreign trade agreement that the President has entered into hereunder. No proclamation shall be made increasing or decreasing by more than 50 per centum any existing rate of duty or transferring any article between the dutiable and free

lists. The proclaimed duties and other import restrictions shall apply to articles the growth, produce, or manufacture of all foreign countries, whether imported directly, or indirectly. Provided, That the President may suspend the application to articles the growth, produce, or manufacture of any country because of its discriminatory treatment of American commerce or because of other acts or policies which in his opinion tend to defeat the purposes set forth in this section; and the proclaimed duties and other import restrictions shall be in effect from and after such time as is specified in the proclamation. The President may at any time terminate any such proclamation in whole or in part."

WHEREAS I, Franklin D. Roosevelt, President of the United States of America, have found as a fact that certain existing duties and other import restrictions of the United States of America and the United States of Venezuela are unduly burdening and restricting the foreign trade of the United States of America and that the purpose declared in the said Tariff Act of 1930, as amended by the said Act of June 12, 1934, as extended by the said Joint Resolution of Congress, approved March 1, 1937, will be promoted by a foreign trade agreement between the United States of America and the United States of Venezuela;

WHEREAS reasonable public notice of the intention to negotiate such foreign trade agreement was given and the views presented by persons interested in the negotiation of such agreement were received and considered;

WHEREAS, after seeking and obtaining information and advice with respect thereto from the United States Tariff Commission, the Departments of State, Agriculture, and Commerce, and from other sources, I entered into a definitive agreement, including two Schedules annexed thereto, on November 6, 1939, through my duly empowered Plenipotentiary, with the President of the United States of Venezuela, through his duly empowered Plenipotentiary, and, on the same day and in like manner, into a modus vivendi in the form of an exchange of notes, including two Schedules annexed thereto, to be effective on and after December 16, 1939, pending the entry into force of the definitive agreement between the two countries;

WHEREAS the said modus vivendi, including two Schedules annexed thereto, in the English and Spanish languages, is in words and figures as follows:

Embassy of the United States of America
Caracas, November 6, 1939

No. 43

Excellency:

The undersigned, being duly empowered thereto by the President of the United States of America, has the honor to confirm and make of record by this note the following modus vivendi which has been entered

into by our respective Governments for the purpose of regulating the commercial relations between the two countries, pending the entry into force of the Trade Agreement between the United States of America and the United States of Venezuela signed this day:

ARTICLE I

Articles the growth, produce or manufacture of the United States of America, enumerated and described in Schedule I annexed to this Agreement and made a part thereof, shall, on their importation into the United States of Venezuela, be exempt from ordinary customs duties in excess of those set forth in the said Schedule. The said articles shall also be exempt from all other duties, taxes, fees, charges or exactions, imposed on or in connection with importation, in excess of those imposed on the day of the signature of this Agreement or required to be imposed thereafter under laws of the United States of Venezuela in force on the day of the signature of this Agreement.

ARTICLE II

Articles the growth, produce or manufacture of the United States of Venezuela, enumerated and described in Schedule II annexed to this Agreement and made a part thereof, shall, on their importation into the United States of America, be exempt from ordinary customs duties in excess of those set forth and provided for in the said Schedule. The said articles shall also be exempt from all other duties, taxes, fees, charges or exactions, imposed on or in connection with importation, in excess of those imposed on the day of the signature of this Agreement or required to be imposed thereafter under laws of the United States of America in force on the day of the signature of this Agreement.

ARTICLE III

The provisions of Articles I and II of this Agreement shall not prevent the Governments of the Contracting Parties from imposing at any time on the importation of any article a charge equivalent to an internal tax imposed in respect of a like domestic article or in respect of a commodity from which the imported article has been manufactured or produced in whole or in part.

ARTICLE IV

The United States of America and the United States of Venezuela agree that the notes included in Schedules I and II are hereby given force and effect as integral parts of this Agreement.

ARTICLE V

Articles the growth, produce or manufacture of the United States of America or the United States of Venezuela, shall, after importation into the other country, be exempt from all internal taxes, fees, charges or exactions other or higher than those payable on like articles of national or foreign origin.

The provisions of this Article relating to national treatment shall not apply to taxes imposed by the United States of Venezuela on cigarettes, but cigarettes originating in the United States of America

shall, after importation into the United States of Venezuela, be exempt from all internal taxes, fees, charges or exactions other or higher than those in effect on the day of the signature of this Agreement.

The provisions of this Article shall not apply to alcoholic beverages.

ARTICLE VI

Articles the growth, produce or manufacture of the United States of America enumerated and described in Schedule I and articles the growth, produce or manufacture of the United States of Venezuela enumerated and described in Schedule II shall be permitted to be imported into the territory of the other country without quantitative restrictions. Nevertheless, should the Government of one of the Contracting Parties find it necessary because of special circumstances to establish a quantitative restriction on any such article, it shall notify the other Government. If agreement between the two Governments regarding the restriction is not reached, such other Government may terminate this Agreement on thirty days' written notice. No quantitative restriction established under this Article by the Government of either of the Contracting Parties shall be applicable for a period of thirty days after the public notice of such restriction to imports the invoices for which have been certified prior to the date of such public notice by a consular officer of the Government establishing the restriction.

ARTICLE VII

In the event the Government of the United States of America or the Government of the United States of Venezuela regulates imports of any article in which the other country has an interest either as regards the total amount permitted to be imported or as regards the amount permitted to be imported at a specified rate of duty, the Government taking such action shall establish in advance, and give public notice of, the total amount permitted to be imported from all countries during any specified period, which shall not be shorter than three months, and of any increase or decrease in such amount during the period, and if shares are allocated to countries of export, the share allocated to the other country shall be based upon the proportion of the total imports of such article from all foreign countries supplied by the other country in a previous representative period, account being taken in so far as practicable in appropriate cases of any special factors which may have affected or may be affecting the trade in that article.

ARTICLE VIII

In the event that the Government of the United States of America or the Government of the United States of Venezuela establishes or maintains a monopoly for the importation, production or sale of a particular commodity or grants exclusive privileges, formally or in effect, to one or more agencies to import, produce or sell a particular commodity, the Government of the country establishing or maintaining such monopoly, or granting such monopoly privileges, agrees that in

respect of the foreign purchases of much monopoly or agency the commerce of the other country shall receive fair and equitable treatment.

ARTICLE IX

In the event that the Government of the United States of America or the Government of the United States of Venezuela establishes or maintains, directly or indirectly, any form of control of the means of international payment, it shall, in the administration of such control:

(a) Impose no restrictions or delays on the transfer of payment for any imported article the growth, produce or manufacture of the other country, or on the transfer of payments necessary for or incidental to the importation of such article, greater or more onerous than those imposed on the transfer of payment for the importation of any article from any third country.

(b) Accord unconditionally, with respect to rates of exchange and taxes or surcharges on exchange transactions in connection with payments for or payments necessary and incidental to the importation of any article the growth, produce or manufacture of the other country, and with respect to all rules and formalities relative thereto, treatment no less favorable than that accorded in connection with the importation of any article whatsoever the growth, produce or manufacture of any third country.

In the event that the Government of either country shall make representations concerning the application by the Government of the other country of the provisions of this Article, the Government of such other country shall give sympathetic consideration to such representations, and if, within thirty days after the receipt of such representations, a satisfactory adjustment has not been made or an agreement has not been reached with respect to such representations, the Government making them may, within fifteen days after the expiration of the aforesaid period of thirty days, terminate this Agreement in its entirety on thirty days' written notice.

ARTICLE X

With respect to customs duties or charges of any kind imposed on or in connection with importation or exportation, and with respect to the method of levying such duties or charges, and with respect to all rules and formalities in connection with importation or exportation, and with respect to all laws or regulations affecting the sale, taxation or use of imported goods within the country, any advantage, favor, privilege or immunity which has been or may hereafter be granted by the United States of America or the United States of Venezuela to any article originating in or destined for any third country shall be granted immediately and unconditionally to the like article originating in or destined for the United States of Venezuela or the United States of America, respectively.

Neither the United States of America nor the United States of Venezuela shall establish or maintain any import or export prohibition

or restriction on any article originating in or destined for the territory of the other country which is not applied to the like article originating in or destined for any third country. Any abolition of an import or export prohibition or restriction which may be granted even temporarily by either country in favor of an article originating in or destined for a third country shall be applied immediately and unconditionally to the like article originating in or destined for the territory of the other country.

ARTICLE XI

Laws, regulations or administrative authorities and decisions of administrative or judicial authorities of the United States of America and the United States of Venezuela pertaining to the classification of articles for customs purposes or to rates of duty shall be published promptly in such a manner as to enable traders to become acquainted with them. Such laws, regulations and decisions shall be applied uniformly at all ports of the respective country which are open to foreign commerce, except as otherwise specifically provided in laws, regulations, and administrative rulings of the United States of America and the United States of Venezuela.

ARTICLE XII

In the event that the rate of exchange between the currencies of the United States of America and the United States of Venezuela varies considerably from the rate of exchange of the said currencies on the day of the signature of this Agreement, the Government of either Contracting Party, if it considers the change in rate so substantial as to prejudice the industry or commerce of the country, shall be free to propose negotiations for the modification of this Agreement or, upon thirty days' written notice to the Government of the other Contracting Party, to terminate this Agreement in its entirety.

ARTICLE XIII

The Government of each of the Contracting Parties shall accord the most favorable treatment permitted by law in regard to penalties applicable in the case of errors in the documentation for importation of articles the growth, produce or manufacture of the other country, when the nature of the infraction leaves no doubt with respect to good faith or when the errors are evidently clerical in origin.

The Government of each of the Contracting Parties shall accord sympathetic consideration to the representations which the Government of the other country may make with respect to the operation of customs regulations and quantitative restrictions on imports, the observance of customs formalities and the application of sanitary laws and regulations for the protection of human, animal or plant life or health. If there should be disagreement with respect to the application of said sanitary laws and regulations there shall be established, upon the request of either of the Contracting Parties, a committee of experts on which both Governments shall be represented. The committee, after considering the matter, shall submit its report to both Governments.

ARTICLE XIV

The provisions of this Agreement relating to the treatment to be accorded by the United States of America and the United States of Venezuela, respectively, to the commerce of the other country shall apply, on the part of the United States of America, to the continental territory of the United States of America and such of its territories and possessions as are included in its customs territory. The provisions of this Agreement relating to most-favored-nation treatment shall apply to all territories under the sovereignty or authority of the United States of America, other than the Panama Canal Zone.

ARTICLE XV

The provisions of this Agreement do not extend to:

(a) The advantages now accorded or which may hereafter be accorded by the United States of America or the United States of Venezuela to adjacent countries in order to facilitate frontier traffic, or advantages resulting from a customs union to which either the United States of America or the United States of Venezuela may become a party so long as such advantages are not extended to any other country;

(b) The advantages now accorded or which may hereafter be accorded by the United States of America, its territories or possessions or the Panama Canal Zone to one another or to the Republic of Cuba, irrespective of any change in the political status of any of the territories or possessions of the United States of America.

The Government of the United States of Venezuela reserves the right to apply, with respect to articles imported into the United States of Venezuela from the Antilles not included in the customs territory of the United States of America, the special surtax applicable to such articles under existing Venezuelan law.

ARTICLE XVI

Subject to the requirement that, under like circumstances and conditions, there shall be no arbitrary discrimination by either country against the other country in favor of any third country, and without prejudice to the provisions of the second paragraph of Article XIII, the provisions of this Agreement shall not extend to prohibitions or restrictions (1) imposed on moral or humanitarian grounds; (2) designed to protect human, animal or plant life or health; (3) relating to prison-made goods; (4) relating to the enforcement of police or revenue laws.

Nothing in this Agreement shall be construed to prevent the adoption of measures prohibiting or restricting the importation or exportation of gold or silver, or to prevent the adoption of such measures as either Government may see fit with respect to the control of the export or sale for export of arms, ammunition, or implements of war, and in exceptional circumstances, all other military supplies; and nothing in the Agreement shall prevent the adoption or enforcement of measures relating to neutrality.

ARTICLE XVII

In the event that the Government of the United States of America or the Government of the United States of Venezuela adopts any measure which, even though it does not conflict with the terms of this Agreement, is considered by the Government of the other country to have the effect of nullifying or impairing any object of the Agreement, the Government which has adopted any such measure shall consider such representations and proposals as the other Government may make with a view to effecting a mutually satisfactory adjustment of the matter.

ARTICLE XVIII

All differences between the High Contracting Parties relative to the interpretation or execution of this Agreement shall be decided by pacific means recognized in International Law, in conformity with treaties and conventions in force between the Parties.

ARTICLE XIX

The present Agreement shall enter into force on December 16, 1939 and shall supplant the *modus vivendi* between the United States of America and the United States of Venezuela effected by exchange of notes signed May 12, 1938 and extended by exchange of notes dated May 9, 1939, and, subject to the provisions of Articles VI, IX and XII, shall continue in force for a period of one year. It may be extended, upon the expiration of the aforementioned period of one year or upon the expiration of any extension, for further periods of six months. This *modus vivendi* shall terminate upon the entry into force of the Trade Agreement between the United States of America and the United States of Venezuela signed this day.

Accept, Excellency, the renewed assurances of my highest consideration.

FRANK P. CORRIGAN

His Excellency
Dr. E. Gil Borges,
Minister for Foreign Affairs,
Caracas, Venezuela.

SCHEDULE I

NOTE: The provisions of this Schedule will be interpreted as though they had been included in the current Venezuelan tariff law by an amendment to that law.

Description of Article	Rate of Import Duty Per Kilogram
Salmon, canned	Bs0.90
Sardines, canned, in oil (except olive oil), in sauce or in their own juice	0.28
Shellfish, canned	1.50
Hog lard	0.90
Bacon	1.20
Prepared milk, including evaporated, condensed, dried skimmed and dried whole milk	0.50
Apples, pears and grapes, fresh	0.75
Dried fruits, not specified, including raisins, prunes, apricots, peaches, apples, pears and mixed fruits	0.90
Fruits, canned or bottled, in their own juice	0.90
Fruits, canned or bottled, in syrup	1.00
Oats, crushed or rolled	0.20
Wheat flour	0.24
Oat flour	0.40
Hams	1.20
Pork sausages	1.20
Canned pork	1.20
Vegetables, soups, sauces and relishes, canned or bottled	0.80
Special foods for children and for dietary uses, including malted milk and similar milk base preparations not containing cacao or containing not more than 10 per centum of cacao, and also including those with fruit or vegetable bases	0.30
Special foods for children and for dietary uses, including milk base preparations containing more than 10 per centum but not more than 20 per centum of cacao	0.40
Sweets, bon-bons and candies of any kind, including chocolate confectionery	4.50
Crackers and biscuits, unsweetened	1.20
Sterilized fruit juices	0.40
Corsets, elastic garments, garters and similar articles of cotton	15.00
Hosiery of pure silk or mixtures	40.00
Corsets, elastic garments, garters and similar articles of pure silk and mixtures	15.00
Rubber patches for repairing tires and tubes and emergency repair kits consisting of patches, cement and buffer	0.75
Cigarettes	12.00

Description of Article	Rate of Import Duty Per Kilogram
Sawn timber and rough lumber, measuring 25 centimeters or less in thickness at both ends, including pitch pine, Ponderosa pine, sugar pine, yew-leaved fir, Douglas fir, spruce, hemlock, redwood (Sequoia), cedar and Southern cypress	Bs0.15
Writing paper, not lined	0.90
Iron or steel sheets, galvanized	0.20
Tinplate in sheets	0.08
Metal filing cabinets	0.40
Beds of ordinary metals, with or without spring mattresses	1.00
Furniture of ordinary metals, not specified	1.40
Automobile truck and bus chassis, without bodies, but including chassis with cabs	0.09
Passenger automobiles with bodies, not exceeding 800 kilograms in weight	0.55
Passenger automobiles with bodies whose weight exceeds 800 kgs. and is not more than 1400 kgs.	0.60
Passenger automobiles with bodies whose weight exceeds 1400 kgs. and is not more than 1600 kgs.	0.80
Passenger automobiles with bodies whose weight exceeds 1600 kgs. and is not more than 1700 kgs.	1.00
Passenger automobiles with bodies whose weight exceeds 1700 kgs. and is not more than 2000 kgs.	1.40
Passenger automobiles with bodies whose weight exceeds 2000 kgs.	1.60
Wheels for rubber tires	1.00
Rubber tires	1.00
Inner tubes	1.00
Spring seats	1.00
Boxes (trunks) for automobiles	1.00
Automobile tops	1.00
Fenders	1.00
Spare tire holders	1.00
Not specified automobile parts	1.00
Radio, receiving sets, phonographs, weighing up to 10 kgs.	2.00
Radio, receiving sets, phonographs, weighing more than 10 kgs. up to 25 kgs.	3.00
Radio, receiving sets, phonographs, weighing more than 50 kgs.	5.00
Accessories for radio receiving sets, including tubes	0.40
Motion picture film, silent and sound, unprinted	2.00
Motion picture film, silent and sound, printed	2.60
Refrigerators, weighing up to 100 kgs. net each	0.40
Refrigerators, weighing more than 100 kgs. up to 250 kgs. net each	0.50
Radio, receiving sets, phonographs, weighing more than 25 kgs. net each up to 50 kgs.	4.00

Description of Article	Rate of Import Duty Per Kilogram
Refrigerators, weighing more than 250 kgs. up to 500 kgs. net each	Bs0.60
Refrigerators, weighing more than 500 kgs. net each	0.40
Sewing machines	0.20
Lanterns, wick and pressure types	0.80
Typewriters and accessories, including parts, cases, covers and stands	1.00
Calculating machines, including electric ones	2.00
Cash registers	2.00
Internal combustion engines	0.08
Spark plugs	1.20
Parts for agricultural machinery and implements:	
Weighing not more than 1 kg. net each	1.00
more than 1 kg. up to 5 kgs. net each	0.50
more than 5 kgs. up to 10 kgs. net each	0.35
more than 10 kgs. up to 30 kgs. net each	0.30
more than 30 kgs. up to 50 kgs. net each	0.25
more than 50 kgs. up to 100 kgs. net each	0.20
more than 100 kgs. up to 500 kgs. net each	0.15
more than 500 kgs. up to 1000 kgs. net each	0.10
more than 1000 kgs. net each	0.05
Pharmaceutical specialties, not specified	1.95
Absorbent and antiseptic or medicinal cotton	2.00
Pharmaceutical products, not specified	1.95
Note: The Venezuelan Government agrees that it will not impose any certification requirement or any formality for the importation, registration, licensing or sale of pharmaceutical specialties, patent medicines and pharmaceutical products which would be impossible of fulfilment in the United States of America because of the lack of a duly authorized federal agency.	
Dentifrices	2.00
Chewing gum	2.00
Toilet soap, including shaving soap in any form	4.00
Varnishes and lacquers	0.80
Ready mixed paints in oil, liquid	0.50
Paints for varnishing and enamelling	1.20
Industrial preparations for polishing or cleaning	0.60
Industrial preparations for coloring or shining footwear	1.20
Sporting goods, not specified	0.08
Electric batteries (except storage batteries) and parts	0.20
Storage batteries and parts	0.50
Transmission belting	1.20
Pharmaceutical articles, not specified	2.00
Toilet paper	Free

Description of Article	Rate of Import Duty Per Kilogram
Tractors, wheel and tracklaying types	Free
Lumber of white pine, pitch pine and Douglas fir, sawn, measuring more than 25 centimeters in thickness at both ends	Free

SCHEDULE II

NOTE: The provisions of this Schedule shall be construed and given the same effect, and the application of collateral provisions of the customs laws of the United States to the provisions of this Schedule shall be determined, insofar as may be practicable, as if each provision of this Schedule appeared respectively in the statutory provision noted in the column at the left of the respective descriptions of articles.

In the case of any article enumerated in this Schedule, which is subject on the day of the signature of this Agreement to any additional or separate ordinary customs duty, whether or not imposed under the statutory provision noted in the column at the left of the respective description of the article, such separate or additional duty shall continue in force, subject to any reduction indicated in this Schedule or hereafter provided for, until terminated in accordance with law, but shall not be increased.

United States Tariff Act of 1930 Paragraph	Description of Article	Rate of Duty
35	Barbasco or cube root, natural and uncompound- ed, but advanced in value or condition by grinding beyond that essential to proper packing and the prevention of decay or deterioration pending manufacture, whether or not otherwise advanced, and not containing alcohol	5% ad val.
92	Tonka beans	12 1/2¢ per pound
754	Orchid plants	15% ad val.
1653	Cacao or cacao beans, and shells thereof	Free
1654	Coffee, except coffee imported into Puerto Rico and upon which a duty is imposed under the authority of section 319	Free

United States Tariff Act of 1930 Paragraph	Description of Article	Rate of Duty
1670	Dyeing or tanning materials: Divi-divi, whether crude or advanced in value or condition by shredding, grinding, chipping, crushing, or any similar process, and not containing alcohol	Free
1685	Manures	Free
1697	Gutta balata, crude	Free
1722	Barbasco or cube root, crude or unmanufactured, not specially provided for	Free
1733	Oils, mineral: Petroleum, crude, and fuel oil derived from petroleum	Free
1765	Reptile skins, raw	Free
1803(2)	Boxwood in the log	Free
Internal Revenue Code Section	Description of Article	Rate of Import Tax
3422	Crude petroleum and fuel oil derived from petroleum	1/4¢ per gallon
	<u>Provided</u> , That such petroleum and fuel oil entered, or withdrawn from warehouse, for consumption in any calender year in excess of 5 per centum of the total quantity of crude petroleum processed in refineries in continental United States during the preceding calender year, as ascertained by the Secretary of the Interior of the United States, shall not be entitled to a reduction in tax by virtue of this item, but the rate of import tax thereon shall not exceed	1/2¢ per gallon
	<u>Provided further</u> , That if this item becomes effective after the beginning of a calender year the quantity of such petroleum and fuel oil which may be entered or withdrawn from warehouse for consumption at the reduced rate during the remainder of such calender year shall be one-twelfth of the foregoing quantity multiplied by the number of months (treating any part of a month as a full month) during which this item shall be in effect during such calender year.	

Internal Revenue Code Section	Description of Article	Rate of Import Tax
3451	Crude petroleum and fuel oil derived from petroleum; any of the foregoing sold for use as fuel supplies, ships' stores, sea stores, or legitimate equipment on vessels of war of the United States or of any foreign nation, or vessels employed in the fisheries or in the whaling business, or actually engaged in foreign trade or trade between the Atlantic and Pacific ports of the United States and any of its possessions, under regulations prescribed with the approval of the Secretary of the Treasury.	Exempt from taxes imposed by Secs. 3420 and 3422 of the Internal Revenue Code

WHEREAS the provisions of Articles I to XVIII, inclusive, of the said definitive agreement, and the two Schedules annexed thereto, are identical in text and numbering with the corresponding Articles and Schedules of the modus vivendi set forth above, and the preamble, Article XIX and the concluding paragraphs of the said definitive agreement, in the English and Spanish¹ languages, are in words and figures as follows:

The President of the United States of America, and the President of the United States of Venezuela, being desirous of strengthening the traditional bonds of friendship between the two countries, of maintaining the principle of equality of treatment in their commercial relations, and of promoting such relations by granting reciprocal concessions and advantages, have agreed to conclude a reciprocal trade agreement, and have designated for this purpose as their Plenipotentiaries:

The President of the United States of America:

His Excellency Frank P. Corrigan, Ambassador Extraordinary and Plenipotentiary of the United States of America to Venezuela;

The President of the United States of Venezuela:

His Excellency Doctor Esteban Gil Borges, Minister of Foreign Relations of the United States of Venezuela;

Who, having exchanged their full powers, found to be in good and due form, have agreed upon the following Articles:

¹[Spanish text omitted.]

Article XIX

The present Agreement shall be proclaimed by the President of the United States of America and shall be ratified by the Government of the United States of Venezuela in conformity with the laws of the respective countries. It shall enter into full force thirty days after the exchange of the proclamation and the instrument of ratification, which shall take place in the City of Washington as soon as possible, and shall continue in force until December 15, 1942, unless terminated in accordance with the provisions of Articles VI, IX or XII.

Unless at least six months before December 15, 1942, the Government of either country shall have given to the other Government written notice of intention to terminate this Agreement on that date, the Agreement shall remain in force thereafter, subject to the provisions of Articles VI, IX and XII, until six months from such time as the Government of either country shall have given such notice to the other Government.

In witness whereof the respective Plenipotentiaries have signed this Agreement and have affixed their seals thereto.

Done in duplicate, in the English and Spanish languages, both authentic, at the City of Caracas, this sixth day of November, nineteen hundred and thirty nine.

For the President of the United States of America:

(Seal) FRANK P. CORRIGAN

For the President of the United States of Venezuela:

(Seal) E. GIL BORGES

WHEREAS such modifications of existing duties and other import restrictions and such continuance of existing customs and excise treatment as are set forth and provided for in the said modus vivendi and definitive agreement, including the two Schedules annexed to each of them, are required and appropriate to carry out the said modus vivendi and definitive agreement;

WHEREAS it is provided by Article XIX of the said modus vivendi that it shall enter into force on December 16, 1939, and that, subject to the provisions of Articles VI, IX, and XII, it shall continue in force for a period of one year, and that it may be extended, upon the expiration of the aforesaid period of one year or upon the expiration of any extension, for further periods of six months, and that it shall terminate upon the entry into force of the definitive agreement between the United States of American and the United States of Venezuela signed on November 6, 1939;

WHEREAS it is provided in Article XIX of the said definitive agreement that it shall be proclaimed by the President of the United States of America and shall be ratified by the Government of the United States of Venezuela in conformity with the laws of the respective countries, and that the said agreement shall enter into full force thirty days after the exchange of the proclamation and the instrument of ratification;

NOW, THEREFORE, be it known that I, Franklin D. Roosevelt, President of the United States of America, acting under the authority conferred by the said Tariff Act of 1930, as amended by the said Act of June 12, 1934, as extended by the said Joint Resolution of March 1, 1937, do hereby proclaim the said modus vivendi and definitive agreement, including the two Schedules annexed to each of them, to the end that the said modus vivendi and every part thereof may be observed and fulfilled by the United States of America and the citizens thereof on December 16, 1939, and thereafter during its continuance in force and to the end that the said definitive agreement and every part thereof may be observed and fulfilled thirty days after the exchange of this my proclamation for the instrument of ratification of the Government of the United States of Venezuela, as provided for in Article XIX of the said definitive agreement.

PURSUANT to the proviso in Section 350(a)(2) of the said Tariff Act of 1930, as amended by the said Act of June 12, 1934, I shall from time to time notify the Secretary of the Treasury of the countries with respect to which application of the duties herein proclaimed is to be suspended.

IN TESTIMONY WHEREOF, I have hereunto set my hand and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington this sixteenth day of November
 in the year of our Lord one thousand nine hundred
 [SEAL] and thirty-nine and of the Independence of the United
 States of America the one hundred and sixty-fourth.

FRANKLIN D. ROOSEVELT

By the President:

SUMNER WELLES

Acting Secretary of State.

BIBLIOGRAPHICAL ESSAY

BIBLIOGRAPHICAL ESSAY

United States Archival Sources

In the National Archives in Washington, D.C., Department of State documents are superbly organized and cataloged in Record Group 59. For this dissertation the most pertinent files are: 611.003 U.S. Petroleum, 611.0031 Executive Committee on Trade Agreements, 611.006 U.S. Petroleum, 611.3131 Reciprocal Trade Negotiations with Venezuela, 831.00 Venezuelan Political Affairs, 831.01A Foreign Advisors to the Venezuelan Government, and 831.6363 Venezuelan Petroleum. Brief sketches of Venezuelan political and economic affairs are also available in Record Group 84, Correspondence of the American Vice Consul in La Guaira, Venezuela. For detailed descriptions of Venezuelan fiscal and monetary policy, the Economic and Trade Notes and Special Reports of the American Commercial Attaché in Caracas, Venezuela are extremely valuable. Unfortunately, they are found in badly deteriorated form in Record Group 151 listed under the Bureau of Foreign and Domestic Commerce in the Department of Commerce. Record Group 364 contains the reports of the hearings held by the Committee for Reciprocity Information when the Venezuelan trade agreement was in its formative stages. Regretably, the records of the Department of Interior are so unorganized that they are unusable, and the Department of Treasury has never declassified its dusty boxes of records or sent them to the National Archives.

United States Government Publications

For those unable to use the facilities of the National Archives, a brief synopsis of U.S.-Venezuelan diplomatic relations is available in the nearly ubiquitous Papers Relating to the Foreign Relations of the United States (Washington, D.C.: Government Printing Office, various years). To clarify public understanding of the bureaucratic functions involved in trade negotiations, the Committee for Reciprocity Information published Rules and Procedures (Washington, D.C.: Government Printing Office, 1940). The advantage of reducing Venezuelan tariffs on food items is shown in the Report of the American Advisory Economic Mission to Venezuela (Washington, D.C.: Government Printing Office, 1940); the only copy of which is in the safe keeping of the Library of the Department of State. "Venezuela" (Washington, D.C.: unpublished report, 1939) written in the Division of Monetary Research of the U.S. Department of Treasury is inferior to the Commercial Attaché's interpretation of Venezuelan foreign exchange developments during the 1928-1939 period.

Since the key tariff concession made by the Department of State in the Venezuelan trade agreement was on petroleum imports, background examination is necessary to assess the economic impact of this tariff policy. The adverse impact of petroleum imports on U.S. domestic producers is revealed by analyzing data presented in U.S. Congress, House, Report of an Investigation Made by the United States Tariff Commission Relative to the Cost Production of Crude Petroleum, Fuel Oil, and Gasoline and Lubricating Oils Produced in the United States and in Specific Foreign Countries, House Document 195, 72nd Cong., 1st sess, 1932.

Petroleum production and price trends are summarized in the U.S. Bureau

of Mines in annual yearbooks entitled Mineral Resources of the United States, 1920-1941 (Washington, D.C.: Government Printing Office, 1921-1942). Exact statistics for United States export and import trade are found in Foreign Commerce and Navigation of the United States, 1927-1941 (Washington, D.C.: Government Printing Office, 1928-1942). U.S. Congress, Senate, Temporary National Economic Committee, Control of the Petroleum Industry by Major Oil Companies by Roy C. Cook, Monograph No. 39, Senate Committee Print (Washington, D.C.: Government Printing Office, 1941) argues that major oil companies function as a group monopoly. Less convincing is the industry response, U.S. Congress, Senate, Temporary National Economic Committee, Review and Criticism on Behalf of Standard Oil Co. (New Jersey) and Sun Oil Co. of Monograph No. 39 with Rejoinder by Monograph Author, Monograph No. 39-A, Senate Committee Print (Washington, D.C.: Government Printing Office, 1941).

Venezuelan Government Publications

To research petroleum policy and industry development, the Memoria (1930-1941) of the Ministerio de Fomento are most valuable. Descriptive analysis of Venezuelan crude oil characteristics is provided in Petróleos Crudos de Venezuela y Otros Paises by W.L. Nelson, G.T. Fombona, and D.N. Salazar (Caracas: Ministerio de Minas e Hidrocarburos, 1959). The economic development of Venezuela has been delimited in a wealth of basic national statistics compiled by the Dirección General de Estadística in Anuario Estadística de Venezuela (Caracas: Ministerio de Fomento, various years). Analysis of financial conditions in the early Twentieth Century is found in Historical Sketch of the Fiscal Life of Venezuela (Caracas: Ministerio de Hacienda, 1924). For a limited review of

agricultural assistance programs in the late 1920s, Dictámenes de la Consultoría Jurídica (Caracas: Ministerio de Hacienda, 1941) is helpful. The Ministerio de Hacienda, Cuenta (1928-1941) detail the annual budgets of the national government and show the importance of petroleum revenues. After 1936, the Ministerio de Hacienda publishes a journal entitled Revista de Hacienda which is an excellent source of information regarding government, economic, monetary, and tariff policies. The Banco Central de Venezuela has published numerous works describing its foundation and policies. Two superb examples are: Tomás Enrique Carrillo Batalla, Moneda, Crédito y Banca en Venezuela, 2 volumes (Caracas: Banco Central de Venezuela, 1964) and Rafael J. Crazut, El Banco Central de Venezuela: Notas Sobre la Historia y Evolución del Instituto (Caracas: Banco Central de Venezuela, 1970). For generalized exposition of Venezuelan foreign policy and diplomatic relations, the Ministerio de Relaciones Exteriores compiles annual reviews as the Libro Amarillo (Caracas: Tipografía Americana, various years). Finally, the 1936-1941 accomplishments of the Eleazar López Contreras administration are well described in his final Mensaje al Congreso (Caracas: Litografía del Comercio, 1941).

Secondary Sources

Although there is no complete, general political history of Venezuela, several surveys are available which provide useful background information. Venezuela Through its History by Amy L. and William D. Marsland (New York: Thomas Y. Crowell Company, 1954) and Venezuela and Colombia by Harry Bernstein (Englewood Cliffs: Prentice-Hall, Inc., 1964) are readable, but lack footnote documentation. Historia Política de Venezuela by Juan Uslar-Pietri (Madrid: Editorial Mediterráneo, 1970) and Mirador

de la Historia Política de Venezuela (Madrid: Editorial Mediterráneo, 1968) provide conservative sketches of Venezuelan political developments. For specific detail about Nineteenth Century politics, Robert L. Gilmore's Caudillism and Militarism in Venezuela, 1810-1910 (Athens: Ohio University Press, 1964) and George S. Wise's Caudillo: A Portrait of Antonio Guzmán Blanco (New York: Columbia University Press, 1951) are well researched and organized studies. Guillermo Moron's general work Historia de Venezuela, 4th ed. (Caracas: Italgrafica, 1970) concentrates on events before the turn of the Twentieth Century. In Cesarismo Democrático, 4th ed. (Caracas: Tipografía Garrido, 1961), Laureano Vallenilla Lanz justifies authoritarian government in the early 1900s. The post-1899 Andean political elite is analyzed by Domingo Alberto Rangel in Los Andinos en el Poder (Caracas: Talleres Gráficos Universitarios, 1964). In an effort to reform Venezuelan politics and petroleum policies, Rómulo Betancourt strongly condemns the Juan Vicente Gómez and Eleazar López Contreras governments in Venezuela: Política y Petróleo, 3rd ed. (Caracas: Editorial Senderos, 1969). With favorable bias La Generación Venezolana de 1928 (Caracas: Ediciones Ariel, 1967) by María de Laurdes Acedo de Sucre and Carmen Margarita Nones Mendoza, explains the historical role of young, nationalistic idealists. Juan Bautista Fuenmayer in 1928-1948, Veinte Años de Política (Madrid: Editorial Mediterráneo, 1968) describes political and economic developments from a marxist viewpoint. A defense of the last years of Juan Vicente Gómez' dictatorship and the role of the military is documented in Eleazar López Contreras' Páginas para la historia militar de Venezuela (Caracas: Tipografía Americana, 1944) and Proceso Político Social,

1928-1936 (Caracas: Editorial Ancora, 1955). Venezuela y su actual régimen (Baltimore, 1935) by Pedro Manuel Arcaya and Juan Vicente Gómez, Un Fenómeno Telúrico (Caracas: Avila Gráfico, 1951) by José Pareja y Paz Soldan are also sympathetic accounts of the government during this period. Thomas Rourke's unfavorable biographical work, Gómez, Tyrant of the Andes (New York: William Morrow and Co., Inc., 1936) is descriptive of anti-Gómez reaction following the dictator's death.

Winfield J. Burggraft's The Venezuelan Armed Forces in Politics, 1935-1959 (Columbia: University of Missouri Press, 1972) does not provide explanation of why López Contreras practiced autocratic political policies between 1935 and 1941, but it is a useful chronology.

Ideología Bolivariana (Caracas: Editorial Crisol, 1944) by Eduardo Picón Lares and El Pensamiento de Bolívar Libertador (Caracas: Editorial Artes, 1963) by Eleazar López Contreras show the nationalistic symbolism López Contreras tried to promote to counter fascist and communist propaganda. Favorable interpretations of the López Contreras government are made by Avelino Sanchez in Venezuela Republicana, Regime Político-Social, 1936-1940 (Caracas: Impresores Unidos, 1940) and by Santiago Gerardo Suárez in El Régimen de López Contreras (Caracas: Editorial Arte, 1965). Notas Histórico-Económicas: 1928-1963 (Caracas: Editorial Surce, 1963) by Rodolfo Luzardo is the best political history of modern Venezuela and provides an excellent analysis of the accomplishments of López Contreras. Eleazar López Contreras describes his administration in Gobierno y Administración, 1936-1941 (Caracas: Editorial Arte, 1966) which is similar to his earlier works and official accounts. Rómulo Gallegos y Su Tiempo (Caracas: Monte Avila Editores, 1969) by Juan

Liscano briefly describes politics at the end of the López Contreras period as does Edwin Lieuwen in Venezuela (Buenos Aires: Editorial Sudamericana, 1964).

By far the best work describing the Venezuelan oil industry and government policies from 1900-1952 is found in Edwin Lieuwen's masterpiece Petroleum in Venezuela (New York: Russell & Russell, 1967). La Legislación Venezolana sobre Hidrocarburos (Caracas: Bolsa de Comercio de Caracas, 1969) by Daniel Bendahan is an informative description of petroleum laws. In a good economic history replete with numerous maps and charts, Ramón A. Tovar in Venezuela, País Subdesarrollado (Caracas: Universidad Central de Venezuela, 1963) explains how the petroleum sector became the dominant industry in the Venezuelan economy. The effect of the Depression on Venezuelan agriculture markets is seen in Kvar Erneholm's Cacao Production of South America (Göteborg: C.R. Holmqvists Boktryckeri, 1948) and Vernon D. Wickizer's Coffee, Tea and Cacao (Stanford: Food Research Institute, 1951). Domingo Alberto Rangel's El Proceso de Capitalismo Contemporáneo en Venezuela (Caracas: Universidad Central de Venezuela, 1968) and Capital y Desarrollo: Vol. II: El Rey Petróleo (Caracas: Instituto de Investigaciones Económicas y Sociales, 1969-1970) are informative examples of marxist economic historiography, but should be read cautiously. Problemas de la Economía Exterior de Venezuela (Caracas: Universidad Central de Venezuela, 1962) and Venezuela, Una Economía Dependiente (Caracas: Universidad Central de Venezuela, 1964) by D.F. Maza Zavala are superb economic studies of Venezuelan international trade.

For monetary research during the period before 1939, the Banco de

Venezuela Informes Semestrales, 1925-1940 published by the Banco de Venezuela are valuable. For more recent developments El Dólar Petróleo: Un ensayo documental (Caracas: Bolsa de Comercio, 1962) by Carlos Miguel Lollett C. is helpful.

A number of excellent sources are available which describe the Mexican petroleum industry and the expropriation crisis. Merrill Rippy's Oil and the Mexican Revolution (Leiden: E.J. Brill, 1972) is the best discussion of the conflict between foreign oil companies and the Mexican government between 1912 and 1941. Extensive statistics are combined with a well-balanced interpretation of the nationalization controversy in Wendell C. Gordon's The Expropriation of Foreign-Owned Property in Mexico (Washington, D.C.: American Council on Public Affairs, 1941). Harlow S. Person writes a brief, but objective review of the company-government conflict in Mexican Oil (New York: Harper & Brothers Publishers, 1942). Pro-Mexican interpretations of the conflict are found in Jesús Silva Herzog's Petróleo Mexicano (Mexico City: Fondo de Cultura Económica, 1941) and Roscoe B. Gaither's Expropriation in Mexico (New York: William Morrow and Co., 1940). Standard Oil Company of New Jersey presents its counter argument in Present Status of the Mexican Oil "Expropriations", 1940 (New York: Standard Oil Company of New Jersey, 1940) and claims that its assets were confiscated by the Mexican government.

An excellent starting point for study of the U.S. petroleum industry is the two volume work authored by Harold F. Williamson and Arnold R. Dawn entitled The American Petroleum Industry, Vol. I: The Age of Illumination, 1859-1899 (Evanston: Northwestern University Press, 1959)

and Harold F. Williamson et. al., The American Petroleum Industry, Vol. II: The Age of Energy, 1899-1959 (Evanston: Northwestern University Press, 1963). For a general view of petroleum operations, the A.P.I. survey The American Petroleum Industry, 1935 (New York: American Petroleum Institute, 1935) is useful along with its annual publication of Petroleum Facts and Figures (New York: American Petroleum Institute, various years). Another good general review is found in Ronald B. Shuman's The Petroleum Industry (Norman: University of Oklahoma Press, 1940). The National Industrial Conference Board's Oil Conservation and Fuel Oil Supply (New York: National Industrial Conference Board, 1930) is a detailed examination of petroleum production and demand in the U.S. and world energy market.

Gerald P. Nash's United States Oil Policy, 1890-1964 (Pittsburgh: University of Pittsburgh Press, 1968) organizes and explains government activities which were controversial, complicated, and contradictory. An earlier explanation of national policy is available in John Ise's The United States Oil Policy (New Haven: Yale University Press, 1926). Justification for tax incentives to encourage petroleum exploration is made by John H. Lichtblau and Dillard P. Spriggs in The Oil Depletion Issue (New York: Petroleum Industry's Research Foundation, 1959). Arthur M. Johnson's Petroleum Pipelines and Public Policy, 1906-1959 (Cambridge: Harvard University Press, 1967) has a wealth of information, but favors the major oil company position. The New Deal and the Problem of Monopoly: A Study in Economic Ambivalence (Princeton: Princeton University Press, 1966) by Ellis W. Hawley describes the ebb and flow of anti-trust enforcement in the Franklin D. Roosevelt administration.

In response to an anti-trust crusade, the American Petroleum Institute presents the major company positions in Petroleum Industry Hearings before the Temporary National Economic Committee (New York: American Petroleum Institute, 1942).

The best history of the petroleum conservation movement in the United States is Erich W. Zimmerman's Conservation in the Production of Petroleum (New Haven: Yale University Press, 1957). A complete explanation of the economics behind the petroleum prorationing system is found in Economic Aspects of Oil Conservation Regulation (Baltimore: Johns Hopkins University Press, 1967) by Wallace F. Lovejoy and Paul T. Homan. Stephan L. McDonald's Petroleum Conservation in the United States: An Economic Interpretation (Baltimore: Johns Hopkins University Press, 1971) is also valuable. Leonard M. Logan's Stabilization of the Petroleum Industry (Norman: University of Oklahoma Press, 1930) is an early description of how and why prorationing was established. A sharp criticism of the prorationing program appears in Myron W. Watkins' Oil: Stabilization or Conservation (New York: Harper & Brothers, 1937).

The Oil Import Program of the United States (New York: Frederick A. Praeger, 1968) by Edward H. Shaffer provides background information on U.S. petroleum import policies in the 1930s. Sebastian Raciti's The United States Oil Import Problem (New York: Fordham University Press, 1958) is more descriptive.

The myth of U.S. economic imperialism is described by Samuel Flagg Bemis in The Latin American Policy of the United States (New York: Harcourt, Brace and World, 1943), but the Venezuelans never defaulted on debts as did other Latin American countries. Graham Stuart's Latin

America and the United States (New York: Appleton-Century-Crofts, 1955) contains a detailed interpretation of U.S. anti-fascist diplomacy before World War II. Bryce Wood in The Making of the Good Neighbor Policy (New York: Columbia University Press, 1961) argues that the Venezuelan reciprocal trade agreement was representative of the Good Neighbor Policy. Perhaps the most interesting explanation of U.S. Latin American diplomacy and reciprocal trade relations, however, is found in Cordell Hull's Memoirs, 2 vols. (New York: MacMillan, 1948).

Periodical and Newspaper Sources

While articles in the Oil and Gas Journal (1920-1941) rarely provide in depth analysis, they offer an extremely valuable chronological record of major U.S. petroleum policy and market developments. The same comment is true of the New York Times. In Caracas, newspaper coverage is more spotty. At times El Nuevo Diario, La Crítica, El Herald, La Esfera, El Universal, and Ahora are useful in reporting contemporary events, reactions, and opinions.

Personal Interviews

The key negotiators of the 1939 U.S.-Venezuelan reciprocal trade agreement were alive and well in 1971. Because more than thirty years had passed since the negotiations, these men responded to questions with understandable hesitation. In an interesting conversation, Ambassador Paul Clement Daniels explained his role in the trade negotiations on July 6, 1971, in Lakeville, Connecticut. In Caracas, Venezuela, on August 24, 1971, Dr. Arturo Uslar-Pietri discussed Venezuelan negotiating

objectives and his close association with Foreign Minister Esteban Gil Borges. On August 26, 1971, Dr. Ramón Eduardo Tello described Venezuelan foreign exchange policy. Finally on August 30, 1971, Dr. Manuel Egaffa related how the rise of the petroleum export sector had created difficulties for Venezuelan agriculture and how Dr. Alberto Adriani had struggled to solve this problem.

1

MICHIGAN STATE UNIVERSITY LIBRARIES



3 1293 03144 9196