



CARL E. SOLBERG

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# Oil and Nationalism in Argentina

*A History*



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## Preface

The rise of nationalistic petroleum policies in the underdeveloped countries is one of the most significant political phenomena of our times. Convinced that rapid, sustained economic growth requires national ownership of oil resources, a growing number of countries in Latin America, as elsewhere in the underdeveloped world, are challenging the international distribution of power and wealth. Although Venezuela's recent decision to nationalize its oil industry has attracted much attention in the United States, it represents only the latest step in a movement of Latin American petroleum nationalism that dates back well over half a century. That movement originated in Argentina, the first country outside the Soviet Union to form a vertically integrated state-owned petroleum industry. Hence, the experience of the Argentine state oil company, *Yacimientos Petrolíferos Fiscales* (YPF), provides a suggestive case study of petroleum development in the context of economic nationalism.

Today the industrializing Argentine economy depends heavily on the republic's oil resources, and Argentina is one of South America's principal petroleum-producing countries. Argentina's major oil resources lie in three regions. The northernmost runs for about 450 kilometers along the densely wooded and sparsely populated eastern foothills of the Andes in the provinces of Salta and Jujuy; the oil-bearing formation extends north across the frontier into southeastern Bolivia. The petroleum from this region is of high quality, but exploration and drilling are difficult and costly because of the rugged terrain. Argentina's second oil region, which today produces about a third of the country's total output, begins about 900 kilometers south of the lower end of the northern region. It, too, parallels the Andes, and extends almost 900 kilometers from a point about 60 kilometers northwest of the city of Mendoza to the vicinity of the Río Negro. The arid and isolated high plains in this region, particularly in Neuquén, long impeded

development of its oil resources. The southernmost of the three principal oil regions, the Patagonian coast in Santa Cruz and Chubut provinces, was long the most famous and productive oil formation in Argentina. Centered at the Atlantic coast city of Comodoro Rivadavia, the fields extend in an arc with a radius of about 150 kilometers. Comodoro Rivadavia's fields no longer supply the majority of the republic's petroleum, as they did for decades, but new fields in Santa Cruz province now produce large amounts, and promising strikes have been made in the island territory of Tierra del Fuego.

But these resources remained largely untapped until 1907, when oil was discovered at Comodoro Rivadavia. Prior to that year, and for many years thereafter, Argentina relied almost totally on coal for fuel. Along with the bulk of the republic's manufactured goods, the coal was imported, chiefly from Great Britain. And the agricultural products of the pampas were exported to pay for these imports, chiefly to Great Britain. The First World War upset this traditional system, however, and the resulting crisis led some prominent figures to challenge the basic premises of Argentina's export-oriented economy. Increasingly, national leaders became convinced that the republic's future prosperity required greater self-sufficiency. These precursors of modern Argentine economic nationalism argued that the republic's dependence on foreign capital, the export trade, and imported fuel left Argentina virtually a pawn in the hands of foreign powers.

The early leaders of YPF, who shared these visions of greater economic independence for Argentina, developed a theme of economic nationalism that this book calls petroleum nationalism. Briefly, the petroleum nationalists emphasized that Argentina's oil resources, if developed by a state monopoly, would enable the country to achieve sustained economic development without interference from the international oil companies or their home governments. By the late 1920's, petroleum nationalism not only had attracted powerful political support but also had become a major ideological force. The emergence of petroleum nationalism within the context of Argentine political and economic history is the subject of this book.

The relationships among ideology, politics, and socioeconomic structures examined in this study pose some basic questions about twentieth-century Argentine development. Which social and economic groups supported petroleum nationalism, and why? How did political parties and leaders attempt to mobilize this support? What was the role of the military in YPF's development? How did regionalism and federalism affect the rise

of petroleum nationalism? What was the impact of petroleum nationalism on government policy formulation? What are the results of the use of petroleum nationalism as a political tool in a dependent economy? Did Argentina's transition from an elite-dominated to a mass-participatory society give further impetus to nationalism in the oil sector?

The book considers each of these problems through historical analysis of Argentine petroleum politics and YPF's development from 1907 to the mid-1970's. Attention, however, focuses on the crucial formative decades of the state oil industry, a period that coincided with Argentina's liberal political experiment between 1916 and 1930. It was during these years that Enrique Mosconi, the guiding genius of YPF, and Hipólito Yrigoyen, the predominant figure in early-twentieth-century Argentine politics, established the institutions and ideologies that have shaped Argentine petroleum affairs during the remainder of the century.

In this study I have used the metric system to express all petroleum measurements. The basic unit is the cubic meter ( $m^3$ ). Historically, the U.S. oil trade has used the barrel (42 U.S. gallons) and the British the ton (the unit of the shipping trade); but since the Argentine government has always employed the metric system to measure both domestic production and imports, I have standardized all the tables and the text to conform to Argentine practice. For conversion purposes, one cubic meter of crude oil equals 6.3 barrels or .93 metric ton.

On monetary matters, too, I have followed standard Argentine practice, which is to quote international financial transactions in gold pesos and domestic transactions in paper pesos. The value of the gold peso from 1899 to 1933 was U.S. \$.9658. During periods of convertibility, the legal value of paper pesos circulating inside Argentina was .44 of the gold peso.

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## The Struggle for State-Owned Oil,

1907-1914

Petroleum altered the course of Argentine political and economic history, but when government drillers struck oil on state land in Patagonia in 1907, the discovery stirred little excitement. The major newspapers in Buenos Aires hardly mentioned the event—an ironic attitude in view of the fact that South America's second-largest country depended almost entirely on imported fuel. Yet Argentina was in the midst of a major export boom, and the powerful landed elite was far more concerned with shipping ever greater quantities of meat and cereals to Europe than with developing an oil field on the remote Patagonian frontier. Free-trade liberalism dominated Argentine economic thought, and it is unlikely that the state would have become involved in the petroleum business as early as it did had oil not been found on government land. Though much of the political elite viewed the state's new oil field with apathy or even with hostility as an infringement on the ideals of laissez-faire capitalism, a few highly placed government officials fought to maintain state ownership and to increase production and extend exploration. This chapter focuses on their ideas and their accomplishments, which laid the foundation for Argentine petroleum nationalism in the 1920's.

### *The Economic Setting*

A brief survey of Argentina's economic structure in the early years of the twentieth century will provide the necessary background for an analysis

of the origins and development of the state petroleum industry. Argentine foreign trade flourished, but the country was essentially an economic colony of Great Britain. Firmly tied to European markets and reliant on foreign, primarily British, capital investment, the economic structure of Argentina was geared toward one basic activity: the production and export of huge quantities of agricultural and cattle products.

When the export boom reached its height in 1913, about eight million people inhabited Argentina's area of slightly over 2.5 million square kilometers stretching from the subtropics bordering Paraguay and Bolivia to the fringes of the Antarctic 3,700 kilometers away. Then as now the population was concentrated in the pampas, immense grasslands that contain some of the world's richest soil and that fan out for some 500–600 kilometers from Buenos Aires, the capital. Almost uncultivated as late as 1870, the pampas were subsequently transformed in response to the rapidly rising demand for cereals and meat in Europe. As the export boom accelerated, a few thousand large landowners, who enjoyed near-monopoly ownership of the country's best farming and cattle-raising land, profited enormously. This landed class consolidated its position by continuing to buy up the increasingly valuable pampas farther from Buenos Aires and bringing them into production. The effect of this development was an expansion of the area under cultivation from about 500,000 hectares in 1870 to 24.1 million hectares by 1913. To work the land, a huge new labor force was needed, and into this labor vacuum swept a flood of poor Europeans. Between 1870 and 1914, about 3.5 million immigrants, primarily Italians and Spaniards, settled in Argentina. Most became tenant farmers or sharecroppers, but many of the newcomers, frustrated by the difficulty of actually acquiring land, remained in or returned to the cities, particularly Buenos Aires, where they formed a large segment both of the urban workers and of the nascent middle classes.<sup>1</sup>

The transformation brought about by immigrant labor and agricultural expansion led to a spectacular growth in Argentine exports—from a value of 22 million gold pesos in 1862 to a value of 519 million in 1913. At least 30 percent of national production was shipped abroad each year; by 1927, when exports absorbed 42 percent of the country's production, Argentine agricultural exports were second only to those of the United States.<sup>2</sup> Argentina had become the world's leading exporter of linseed and corn, the third or fourth largest exporter of wheat, and by far the prime source of beef for the British market. These products, along with one or

two other staples, accounted for at least 90 percent of the republic's foreign exchange earnings.<sup>3</sup>

To function efficiently, the export trade required a modern transport system to carry agricultural products to exporting points and to distribute imported goods throughout the country, and by the First World War Argentina had acquired one of the world's most extensive railway networks. The development of this network—which boasted 33,219 kilometers of track in 1913, one of the world's larger railway systems—required immense capital investments that totaled 1.4 billion gold pesos by 1914. British companies, which had invested over one billion gold pesos in Argentine railways, controlled the lion's share of the republic's rail network. The remainder was owned by French concerns and by the Argentine State Railways, which had built a series of feeder and connecting lines, primarily in remote provinces.<sup>4</sup> However, about 65 percent of all track was located in the three principal pampas provinces of Buenos Aires, Córdoba, and Santa Fe; this meant that most provinces outside the pampas, as well as the more remote regions, lacked adequate transport facilities. The diversity of gauges—there were three major ones—further impeded integrated economic development.<sup>5</sup>

The railways were only the most visible symbol of the predominant role foreign capital had attained in the prewar Argentine economy. By 1913, foreign investments reached a total of 3.25 billion gold pesos and financed about 50 percent of Argentina's fixed capital assets. Foreigners owned most of the utilities and communications networks, the major port facilities, the largest private banks, scores of large commercial enterprises, most of the meat-packing plants, and many of the big cattle and sheep ranches. Service charges on foreign investments absorbed about 35 percent of Argentina's total export earnings each year. In addition to the direct investments, foreigners held much of the Argentine public debt and an estimated 500 million gold pesos in private mortgages (in 1918). As they were with the railways, the British were the leading investors in most other enterprises. In 1913, total British investments in Argentina reached 1.928 billion gold pesos, compared to French investments of 475 million and German investments of 250 million. (By contrast, U.S. holdings amounted to only 40 million.)<sup>6</sup> The dominant position Great Britain enjoyed in the prewar Argentine economy extended far beyond its investments, however: the bulk of Argentine trade moved in British ships; and Great Britain consistently purchased more of Argentina's exports, and supplied more of her imports,

than did any other country. As E. J. Hobsbawm has put it, Britain's economic power made Argentina a "British informal colony," and an "honorary dominion."<sup>7</sup>

Few manufacturing industries were able to prosper in this export economy, for nineteenth-century Argentine governments, dominated by the rural elite, had kept tariffs low and had designed them to produce revenue rather than stimulate industrialization. Most of the factories that did exist—notably meat-packing plants—processed or refined rural products for export. Industries that produced primarily for the national market achieved significant tariff protection only in exceptional cases—the wine industry of Mendoza province and the sugar industry of Tucumán being prime examples. Although manufacturing of some basic consumer goods grew during the First World War and in the immediate postwar years, the industrial sector remained on the whole small and weak, and imported goods continued to provision the Argentine market.<sup>8</sup> By way of example, as late as 1929 imports supplied 92 percent of the republic's total consumption of cotton textiles.<sup>9</sup>

Fascinated by the export boom, the massive immigration, the formation of a large urban middle class, and the glittering façade of material prosperity in the great metropolis of Buenos Aires, contemporary observers convinced themselves that Argentina was rapidly emerging as a modern, developed nation. Already Latin America's most prosperous country by 1913, Argentina's Gross Domestic Product per capita in that year exceeded those of France, Italy, and Sweden.<sup>10</sup> But such comparisons are misleading, for Argentine prosperity was built on shaky foundations that were defenseless against changing international political and economic circumstances. Moreover, whole regions and social classes never enjoyed the benefits of the export boom, which were concentrated primarily in the capital and the pampas region. Unable to compete with European imported goods, the domestic industries of several northern and western provinces long had been in a state of decline that left the inhabitants of much of the interior in increasing poverty. Plagued by high rates of unemployment, illegitimacy, and disease, the Argentine northwestern provinces resembled the underdeveloped regions of neighboring South American countries more than the flourishing pampas region or the capital.<sup>11</sup>

The superficial opulence of Buenos Aires, a city of 1.5 million people in 1914, concealed the bleak living standards that much of the urban working class endured. Prices of most products in Buenos Aires were considera-

bly higher than in Western Europe, a fact often overlooked by analysts impressed by the country's aggregate growth during this period. In 1910, a loaf of bread cost more in the capital of wheat-exporting Argentina than in London, Paris, or New York. Contemporary observers bitterly criticized the high prices of consumption goods: "Everything is expensive. A man needs three times the salary in Buenos Aires to live the same way he would live in London," complained one British writer in 1913.<sup>12</sup> Housing was notoriously scarce and dear. "The price of housing was . . . so high that the only manner of meeting it was to reduce the habitation to the minimum size, to one room. . . . Eighty of every hundred families occupied a single room," wrote economist Alejandro E. Bunge.<sup>13</sup>

Near-total reliance on imported fuel was another structural weakness of the Argentine economy during the export boom. Copious supplies of wood and a trickle of oil made up the republic's entire fuel production as late as 1913. The wood, produced in the heavily forested northern provinces and used primarily for locomotive fuel, supplied only about 15 percent of Argentina's energy and yielded far less energy per ton than did coal, which supplied the bulk of the country's energy.<sup>14</sup> And for decades it had been the coalfields of South Wales that had fueled the Argentine economy. Favored by the British shipping industry, which offered low freight rates for coal on otherwise partly empty ships bound for Argentina, Welsh coal enjoyed advantages other coal producers could not match and provided 90 percent of Argentina's coal imports.<sup>15</sup> Moreover, the large British-owned coal-consuming enterprises—particularly the railways, which consumed over 70 percent of the coal imports—relied on British coal as a matter of policy.<sup>16</sup> Largely because of the railways' thriving demand, coal imports grew enormously; by the eve of the First World War, Argentine consumption of Welsh coal was four times what it had been only a decade earlier.

Despite recognition of the dangers of reliance on imported coal, before the First World War neither the government nor private investors directed much attention to developing Argentina's own coal resources. During the 1870's and 1880's, prospectors made promising discoveries in Mendoza and San Juan provinces and in Patagonia, but no one had any real idea of the extent of Argentina's coal resources until 1902, when Wenceslao Escalante, Minister of Agriculture under President Julio Roca (1898–1904), commissioned Enrique Hermitte, a government mining engineer, to survey and test national coal deposits. Impressed by the high quality of much of the coal he examined, Hermitte reported that some was as good as

Welsh coal and urged the state to promote mining development.<sup>17</sup> President Roca took a small step in that direction in 1904 by creating a Bureau of Mines, Geology, and Water Resources in the Ministry of Agriculture and appointing Hermitte to head it; however, the new agency suffered from lack of funds and was unable to map the republic's mineral resources adequately.<sup>18</sup> The government, assured a steady supply of cheap imported coal, took no further action to develop Argentine coal resources.\*

Petroleum, still something of a novelty among Argentine consumers, supplied less than 5 percent of Argentina's energy on the eve of the First World War. In the absence of significant internal production, petroleum products were imported by a few foreign-owned companies, the largest of which was The West India Oil Company (WICO). A subsidiary of Standard Oil of New Jersey, WICO had been organized in 1902 to market petroleum products throughout Latin America. In 1911, WICO, already a large importer of fuel oil, went into the refinery business in Argentina when it purchased control of the *Compañía Nacional de Petróleos, Limitada* (CNP), an Argentine firm. Organized in 1905, CNP had built a small refinery at Campana, near Buenos Aires, to produce kerosene and gasoline behind the protection of a tariff wall. WICO made major investments in its new subsidiary—which continued to operate under its own name, though Argentine participation in it henceforth was limited to 35 percent of the stock—and greatly expanded the Campana refinery's capacity.<sup>19</sup> As a result, by 1917 WICO (through CNP) supplied 95 percent of Argentina's kerosene and 80 percent of its gasoline. Its commanding position in the market, and its high profits (which between 1912 and 1915 averaged 21.2 percent of invested capital annually<sup>20</sup>), brought Jersey Standard under severe Argentine criticism during the First World War, as we shall see in the next chapter.

The Anglo-Mexican Petroleum Products Company Limited, a subsidiary of Royal Dutch Shell, became Jersey Standard's principal competitor in importing petroleum products into Argentina. Anglo-Mexican, which marketed products of Shell's Mexican Eagle Oil Company, did not open its first office in Buenos Aires until 1913, but prospered rapidly after the outbreak of war disrupted coal shipments. By 1915, it was importing over

\* Indeed, systematic exploration of coal deposits did not begin until the Second World War, when detailed study of the Río Turbio fields, originally discovered in 1887 and located 260 kilometers west of Río Gallegos in Santa Cruz, began. The estimated reserves there are 450 million tons of subbituminous coal. Production, which started in 1946, reached about 625,000 tons annually by the mid-1970's.



10,000 cubic meters of Mexican oil per month. To serve its major customers, which included British meat-packing plants and railways, Anglo-Mexican built major storage facilities at Buenos Aires and Bahía Blanca. Though it competed with WICO as a major importer of fuel oil, Anglo-Mexican did not deal in kerosene or gasoline until after the war.<sup>21</sup>

### *Early Exploration for Oil in Argentina and the 1907 Discovery*

Before the discovery of oil in Patagonia in 1907, the Argentine government displayed the same lack of concern about the location and development of petroleum deposits that it did about coal resources. The existence of petroleum in Argentina had been confirmed as early as the mid-seventeenth century, when a Franciscan friar described visible oil pools in Salta, a province in the northern Andean foothills near Argentina's present borders with Chile and Bolivia; but until the twentieth century the republic's petroleum resources attracted little more than occasional scientific curiosity. The First National Census of 1869, which reported important oil deposits 70 leagues (some 350 kilometers) south of Mendoza, an Andean foothill city almost due west of Buenos Aires, failed to spark the interest of either the government or private investors.<sup>22</sup> During the 1870's, sporadic private explorations were made in Salta and Jujuy provinces, but these projects soon failed. The sole success story of Argentine oil production before the 1907 Patagonian strike began when the Compañía Mendocina de Petróleo drilled 20 wells, four of which proved productive, near Mendoza in 1887. The company built a small pipeline to ship petroleum to Mendoza, and produced some 8,600 cubic meters of oil between 1887 and 1891. It abandoned operations in 1897, though, after losing money in an unsuccessful venture in Jujuy and having its shallow Mendoza wells run dry.<sup>23</sup>

For a decade after the Mendoza company failed, Argentina produced no oil, and no significant exploration took place. In fact, when Patagonian oil finally was discovered in 1907, a search for water, not petroleum, was the ostensible reason for the drilling expedition. Comodoro Rivadavia, the site of the search, was located on a bleak fringe of Argentine civilization. A coastal village of 50 permanent families founded in 1899, Comodoro Rivadavia had an economy centered on the export of wool, the main product of Chubut, then a national territory. Its port was primitive and unprotected by breakwaters, and a narrow-gauge state-owned railway, still under construction in 1907, reached inland only as far as agricultural settlements at Colonia Sarmiento, 120 kilometers away.<sup>24</sup> The environment