

# Multinational Corporations and Business Negotiation Under the Monroe Doctrine: Lord Cowdray and Oil Politics in Colombia

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## *Abstract*

The bargaining power of a multinational corporation negotiating with a poor country in the extractive sector can be determined by the host country's local politics, the relationships between the host country and the multinational's home country, and the power of other countries. This paper explores the negotiations for oil concessions between the British oil firm Pearson and Son (owned by Weetman Pearson –Lord Cowdray) and the Colombian government in 1913. Despite the mutually beneficial terms of the contract negotiated between the company and the government, the negotiations failed. I argue that the collapse of the negotiations was a result of the company's little understanding of Colombia's domestic politics (this was the Pearson's first experience at negotiating in a poor country with strong legal political parties), its underestimation of United States opposition to Pearson's encroachment into "US territory," and a narrow-minded British policy of protection of British investors abroad.

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Multinational Corporations and Business Negotiation Under the Monroe Doctrine:  
Lord Cowdray and Oil Politics in Colombia

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**Abstract**

The bargaining power of a multinational corporation negotiating with a poor country in the extractive sector can be determined by the host country's local politics, the relationships between the host country and the multinational's home country, and the power of other countries. This paper explores the negotiations for oil concessions between the British oil firm Pearson and Son (owned by Weetman Pearson –Lord Cowdray) and the Colombian government in 1913. Despite the mutually beneficial terms of the contract negotiated between the company and the government, the negotiations failed. I argue that the collapse of the negotiations was a result of the company's little understanding of Colombia's domestic politics (this was the Pearson's first experience at negotiating in a poor country with strong legal political parties), its underestimation of United States opposition to Pearson's encroachment into "US territory," and a narrow-minded British policy of protection of British investors abroad.

Keywords: Business History, Colombia, Negotiations, Oil Industry, Political Economy of Foreign Direct Investment, Standard Oil Company (New Jersey), Weetman Pearson

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## Negotiating Business Under the Monroe Doctrine:

### Weetman Pearson and Oil Politics in Colombia<sup>1</sup>

In November 27, 1913, Weetman Pearson, First Viscount Cowdray, announced to the British press in London the withdrawal of his engineering and oil firm, Pearson and Son, from the negotiations over oil concessions with the Colombian government. For several months Pearson (through its main negotiator, Lord Alexander Murray of Elibank) tried with no success to attain an oil concession from the Colombian government. Lord Cowdray told the press that his firm's failure to attain the concession was the result of a series of conspiracies by the American press and the United States government, who did not want a British firm operating in a country considered "theirs" under the Monroe Doctrine. British investors and press were outraged at US interventionism and what they considered American discrimination against British interests in favor of the powerful Standard Oil Company (New Jersey).<sup>2</sup> The US government promptly denied the accusations and some British journalists even remarked that the Pearson's surrender of

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<sup>1</sup> The author wishes to thank the hard work of research assistants Lauren Brooks, Jamie Cheng, and Mario Saraiva. The research for this paper was partially funded by the Center for International Business Education and Research (University of Illinois).

<sup>2</sup> "Lord Cowdray's Oil Interests. The Pan-American Idea: Difficulties with the New Monroe Doctrine," *The London Times*, 28 Nov. 1913, 8; "Cowdray Gives Up Colombian Grant," *The New York Times*, 27 Nov. 1913, 1.

the Colombian oil concession was the “most important incident in Anglo-American politics [since] 1895.”<sup>3</sup>

Business historical studies tend to focus on companies’ successes or failures after building an initially viable model. Projects that failed from the beginning or did not even takeoff are rarely studied. In this paper I show that the study of the failed negotiations between Colombia and Pearson sheds light on the determinants of bargaining power between multinational corporations and poor countries during periods of globalization of markets and limited regulation.

Before World War I, most countries did not have legislation on foreign direct investment. Regulations on capital movement around the world were minimal. Foreign investments were negotiated on a case-by-case basis, so the final outcome of the negotiations depended solely on the negotiating skills and the bargaining power of both parts.<sup>4</sup> The initial conditions under which Pearson initiated negotiations in Colombia give the impression of a company with a high bargaining power, proposing a mutually beneficial agreement to the host government: Colombia was desperate to attract foreign capital to generate economic development and oil resources in its subsoil could not be developed by its own capitalists. In addition, Colombians distrusted American companies and Pearson (a British firm) was one of the most respected oil firms in the world. These conditions, however, were not enough for the negotiations’ success. In this paper I argue that the negotiations failed because of a combination of domestic politics

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<sup>3</sup> “We Barred Oil Deal?” *The New York Times*, 29 Nov. 1913, 1.

<sup>4</sup> Debora L. Spar, “National Policies and Domestic Politics,” in *The Oxford Handbook of International Business*, edited by Alan M. Rugman and Thomas L. Brewer (Oxford, 2001), 213.

and international relations: opposition parties in Colombia were strong, leaving little maneuvering space to the government and the United States was suspicious of Pearson's operations. The company tried to overcome these obstacles by lobbying with the Colombian opposition parties on one hand, and trying to convince the United States that Pearson was not a threat to US interests in the hemisphere, on the other. The strategy failed for the following reasons: First, the Colombian government did not give full support to Pearson when the company tried to convince the opposition parties of the benefits the investment would bring to the country, because it had high political costs: Colombia had felt American imperialism directly with the loss of Panama and the government could not afford to be seen as giving in to British imperialism. Second, the company underestimated the complexities of Colombia's relationship to the United States. After losing Panama, the Colombian government was fighting for reparations from the United States. The extremely unbalanced bargaining power of Colombia vis-à-vis the United States permitted the American government to use the Panama reparations as "hostage" to influence Colombia's relations with other countries or companies. Third, British diplomacy was detrimental for Pearson's negotiations. The defense of the Foreign Office of British investments and subjects in Colombia made the country suspicious of the potential political power of the company.

My findings have several implications for our understanding of the historical expansion of multinational capital. First, before World War I, oil companies operating in poor countries dealt mostly with authoritarian governments who gave them generous concessions.<sup>5</sup> In Colombia, by contrast, the firm was negotiating with a country that was

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<sup>5</sup> Louis Turner, *Oil Companies in the International System* (London, 1983), 68-70

experimenting with a more pluralistic system than those the oil companies (including Pearson) were used to negotiating with. During the negotiation process, the firm learned that it needed to negotiate not only with the government, but also with the opposition parties (Conservative and Liberal), pressure groups (landowners, local oilmen, and the Catholic Church), and the press media. These were factors the company did not have much experience with.

Second, the existence of a more open system and the fact that Colombia was nominally sovereign did not mean the country could have an independent foreign policy and, therefore, the role of a third country (the United States) is relevant. Even though Pearson's home country was the powerful British Empire, the company was entering in an area dominated by another imperial power. The dominant role of the US in that region was unquestionable and Britain was not willing to challenge it. Thus, this case does not show a direct clash of empires, but rather the operations of a company left unsupported by own empire, which underestimated the resolve of the US government and private sector to keep the Western Hemisphere under their control. Pearson negotiated with all the relevant actors in Colombia, but failed to engage in serious negotiations with the United States, a country with which the firm already had problematic relations.

Most studies on Pearson's foreign operations focus on its ventures in Mexico and mention its failure to sign a contract in Colombia as a result of a US defense of the Monroe Doctrine.<sup>6</sup> Although partly true, these studies fail to mention the role of the

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<sup>6</sup> Desmond Young, *Member for Mexico: A Biography of Weetman Pearson, First Viscount Cowdray* (London, 1966), 184-185; John Spender, *Weetman Pearson: First Viscount Cowdray*,

Panama negotiations and the internal dynamics of Colombian domestic politics in determining the outcome of Pearson's maneuvers. Peter Calvert's is the only study that analyzes the Colombian negotiations in detail; however, he only uses sources from the US Department of State and ignores Colombian internal political competition.<sup>7</sup> Focusing on Pearson's internal correspondence regarding the Colombia negotiations, this paper analyzes in the context of the intrigues regarding internal politics and the negotiations on Panama with the United States.

### British and American Capital Expansion in Latin America

The negotiations between Pearson and the Colombian government can only be understood in the context of the economic and political expansion of the United States and Great Britain. In March 23, 1911, two years after leaving office, former US President Theodore Roosevelt gave a speech at the University of California in which he evaluated his previous administration. "I took Panama," he said during that speech referring to the 1903 events in which the US government supported a separatist group of the Colombian province of Panama in creating a new republic that shortly afterwards

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1865-1927 (London, 1930), 209-210; Geoffrey Jones, *The State and the Emergence of British Oil Industry* (London, 1981), 73-74.

<sup>7</sup> Peter Calvert, "The Murray Contract: An Episode in International Finance and Diplomacy," *The Pacific Historical Review*, 35 (May 1966): 203-224.

gave the United States rights to the Panama Canal.<sup>8</sup> The take-over of Panama was just one of the several events that marked the creation of an informal empire in the Western Hemisphere: during the Mexican-American War (1846-1848) the US took over half of the Mexican territory; after the Spanish-American War (1898), the US annexed Cuba temporarily and Puerto Rico permanently. The expanding control of the region continued in the decades to come with military invasions in Honduras (1903, 1907, 1912, 1919, 1924), the Dominican Republic (1903, 1916, 1965), Cuba (re-invaded in 1906, 1912, 1917), Nicaragua (1907, 1909), Panama (1912, 1989), Haiti (1914, 1915), and Guatemala (1920).<sup>9</sup> While attaining control over the politics and economies of Latin American countries, particularly in the Caribbean Basin, the United States officially followed an isolationist policy in the rest of the world (except for the Philippines) and created a highly protectionist economic system. However, with the exception of Cuba and Puerto Rico, the United States did not attempt to create a formal empire in the Western Hemisphere, and all the Latin American countries remained formally sovereign.

US interventionism in Latin America facilitated the expansion of US capital in the hemisphere. During the early twentieth century, American capital experienced what Mira Wilkins defined as the “spill-over” to Mexico and the Caribbean. According to Wilkins, US expansion in the region made many companies comfortable with expanding their operations in the area, which they treated and considered as a “natural extension” of the

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<sup>8</sup> Joseph Bucklin Bishop, *Theodore Roosevelt and His Time Shown in His Own Letters* Vol. 1 (New York, 1920), 308; Nathan Miller, *Theodore Roosevelt: A Life* (New York, 1992), 399.

<sup>9</sup> John Coatsworth, *Central America and the United States: The Clients and the Colossus* (New York, 1994)

United States. Before World War I, the companies repeatedly requested diplomatic and military protection from the American government when threatened by host countries' legislation or by its working class: corporations like the United Fruit Company, the International Railways of Central America, General Asphalt and International Nickel, among others, are the main representatives of the companies that spilled over during that period.<sup>10</sup> Between 1897 and 1914, US investments in Mexico increased from \$200 million to \$587 million, and those in South and Central America from \$59 million to \$413 million.<sup>11</sup>

United States entered the "imperial race" relatively late. Between 1870 and 1914, through the annexation of large amounts of land in different continents and the establishment of protectorates, Great Britain had created a huge formal empire. A country that embraced free trade economics (contrary to the US), Britain opened its doors to foreign goods and opened the economies of sovereign countries (by force or through trade agreements) to British goods and capital. During the times of British expansionism, the world experienced unprecedented integration of the global economy, with goods, capital, and people moving across borders like never before and at levels not seen again until the late 1990s.<sup>12</sup> Between 1870 and 1914, British investments abroad increased

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<sup>10</sup> Mira Wilkins, *The Emergence of Multinational Enterprise* (Cambridge, 1970), 149-172.

<sup>11</sup> Mira Wilkins, *The Emergence*, 110.

<sup>12</sup> This wave of globalization was followed by a long period of protectionism. The creation of a global economy similar to that of 1870-1914 only came until the late 1990s. See, Geoffrey Jones, *Multinationals and Global Capitalism From the Nineteenth Century to the Twenty-First Century* (Oxford, 2005), 16-24.

from \$3.7 billion to \$20 billion, and these investments were spread around the world (by 1870, 20% of these investments were within the British Empire; by 1914 they decreased to 9%).<sup>13</sup> During that period, no country had more companies operating outside of their national borders than Britain, which provided 45% of the world's foreign direct investment.<sup>14</sup> British capitalists started investing abroad mostly through portfolio investments and merchant activities in the second half of the nineteenth century, and by the turn of the century gradually increased their investments in infrastructure projects and foreign direct investment in natural resources.<sup>15</sup>

Most British investments abroad were in the United States and Europe. However, a significant amount of this capital also went to Latin America (11% of the total in 1870 and 18% in 1914),<sup>16</sup> a continent that absorbed 48% of the British investments in

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<sup>13</sup> A. G. Kenwood and A. L. Lougheed, *The Growth of the International Economy, 1820-2000* (London, 1999), 30.

<sup>14</sup> Mira Wilkins, "European and North American Multinationals, 1870-1914: Comparisons and Contrasts," in *The End of Insularity*, edited by R. P. T. Davenport-Hines and Geoffrey Jones (London, 1988): 13-14; Geoffrey Jones, *The Evolution of International Business* (London, 1996), 30.

<sup>15</sup> Geoffrey Jones, *Merchants to Multinationals: British Trading Companies in the Nineteenth and Twentieth Centuries* (Oxford, 2000), 45-83.

<sup>16</sup> Kenwood and Lougheed, *The Growth*, 30; Nicholas Crafts and Anthony J. Venables, "Globalization in History: A Geographical Perspective" in *Globalization in Historical Perspective*, edited by Michael Bordo, Alan Taylor, and Jeffrey Williamson (Chicago, 2003). During this period, the British investments in Latin America represented 48% of the British investments in peripheral countries.

“peripheral economies.”<sup>17</sup> By the late nineteenth century, trade between Latin America and Britain was very active, so most of the early British investors in the continent were merchant houses that arrived to trade in natural resources. These included the Gibbs House with Chilean nitrates and the Johnston House with Brazilian coffee, which were gradually joined by railway companies.<sup>18</sup> Between 1870 and 1914, the largest recipients of British investments in Latin America were Argentina (which received 22% of the total British foreign investment), Brazil (11%), Mexico (5%), and Chile (2%).<sup>19</sup> Before 1914, however, Colombia was not an important recipient of foreign capital. While the level of per-capita foreign investment for Argentina was \$337, \$279, and \$140 for 1900, 1914, and 1929 respectively, it was \$49, \$68, and \$28 in Brazil for the same years, and \$80, \$122, and \$131 for Chile. In contrast, in spite of its wealth in natural resources Colombia’s per-capita foreign investment was a mere \$22 (1900), \$10 (1913), and \$16 (1929).<sup>20</sup> By the late 1913, Colombia was eleventh in Latin America in terms of British investments and before 1919, the only relevant foreign investments in Colombia were

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<sup>17</sup> Alan Taylor, “Foreign Capital Flows” in *The Cambridge Economic History of Latin America*, Vol. 2, edited by Victor Bulmer-Thomas, John Coatsworth, and Roberto Cortés-Conde (Cambridge, 2006), 73. “Peripheral economies” are defined as those not belonging to the United States, Japan, Europe, Canada, and Australia.

<sup>18</sup> Rory Miller, *Britain and Latin America in the Nineteenth and Twentieth Centuries* (London, 1993), 97-105, 120-124.

<sup>19</sup> Taylor, “Foreign Capital Flows”, 73.

<sup>20</sup> Michael Twomney, “Patterns of Foreign Investment in Latin America in the Twentieth Century,” in *Latin America and the World Economy Since 1800* edited by John Coatsworth and Alan Taylor (Cambridge, Mass, 1998), 182-183.

those made by the US banana-producing and -exporting corporation, United Fruit Company, which invested in the Colombian Caribbean Coast.<sup>21</sup> Only until 1919 did Colombia have a second serious foreign investor with Standard Oil Company (New Jersey).<sup>22</sup>

### Colombia at the Turn of the Century: Poverty, Isolationism, and Partisan Politics

The events taking place between 1900 and 1914, defined the particular political path Colombia took during the twentieth century with respect to its Latin American neighbors by becoming a country with electoral politics and free press. However, during this period Colombia also lost the province of Panama in an event still remembered in that country as a humiliating one in which the United States “stole” national territory: primary and high-school textbooks in Colombia still talk of the “steal of Panama” rather than the “separation” or “independence” of Panama.<sup>23</sup>

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<sup>21</sup> Salomón Kalmanovitz, *Economía y Nación* (Bogotá, 1994), 251-252; Marcelo Bucheli, *Bananas and Business: The United Fruit Company in Colombia, 1899-2000* (New York, 2005), 86-92; Fred Rippy, *British Investments in Latin America, 1822-1949: A Case Study in the Operations of Private Enterprise in Retarded Regions* (Minneapolis, 1959), 68.

<sup>22</sup> Fred Rippy, *The Capitalists and Colombia* (New York, 1931), 14.

<sup>23</sup> See, Alvaro Tirado Mejía, *Introducción a la Historia Económica de Colombia* (Bogotá, 1998); Salomón Kalmanovitz, *Economía y Nación: Una Breve Historia de Colombia* (Bogotá, 2004), 290. For early accusations of the role of the US in the “steal” of Panama see, Luis Eduardo Nieto Caballero, *El dolor de Colombia* (Bogotá, 1922), 160; Rafael Galvis, *Los Estados Unidos y su Robo de Panamá* (Bogotá, 1920)

Between 1899 and 1902, the country suffered its most bloody and destructive civil war (the War of the Thousand Days), in which the pro-free trade, federalist, and secular Liberals rebelled against the protectionist, centralist, and pro-Church Conservative government. After defeating the Liberals, the Conservatives organized the country under their principles, but permitted Liberal participation in national politics.

The War of the Thousand Days not only had a high cost in human lives and physical destruction, but also permitted the dismemberment of the Colombian territory. Since the mid-19<sup>th</sup> century, the French, British, and Americans had been interested in building an inter-oceanic canal in the Colombian province of Panama. In 1850, Britain and the US agreed on not build a canal on their own or fortify it. In 1900, however, the two countries signed a new treaty (Hay-Pauncefote), which removed the requirement of building the canal jointly. During the War of the Thousand Days, several Panamanian regional leaders considered the possibility of separating from Colombia to create an independent republic, and started looking for support in the US. In 1902, the United States government warned Colombian President Marroquín that if he did not allow the Americans build the canal soon, they would build it in Nicaragua. In January 1903, Colombia and the United States signed the Herrán-Hay treaty, which gave the US the right to build the canal in Colombian territory with a payment of \$10 million to Colombia. The treaty was ratified by the US congress in March, but was rejected by the Colombian one in August.<sup>24</sup> After Colombia's rejection, the international law expert John Bassett Moore wrote a document saying: "The US now holds out to the world a

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<sup>24</sup> Stephen Randall, *Colombia and the United States: Hegemony and Interdependence* (Athens, Georgia, 1992), 83.

certain prospect of a canal. May Colombia be permitted to stand in the way?" The document was sent to Secretary of State Hay and President Theodore Roosevelt who wrote, "I do not think that the Bogotá lot of Jackrabbits should be allowed permanently to bar one of the future highways of civilization."<sup>25</sup> Just two months later, Roosevelt sent warships to the Pacific and Atlantic coasts of Panama, and in November American forces landed to support the separatist junta that rebelled against the Bogotá government in a bloodless coup.<sup>26</sup>

In 1904, Conservative General Rafael Reyes was elected President of Colombia, and had the difficult task of recovering a destroyed, impoverished, and humiliated country. Reyes' main political goal was to create conditions to avoid new civil wars in the future, which he believed was only possible by including the defeated Liberals in the government, supporting domestic capitalists and attracting foreign capital to generate economic growth, and by re-establishing normal relationships with the United States (broken and damaged after the separation of Panama). Reyes' main role model was Mexican dictator Porfirio Díaz in Mexico, who managed to take the country out of a long period of political chaos, making it a political stable country and the world's largest recipient of foreign investment.<sup>27</sup>

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<sup>25</sup> Randall, *Colombia and the United States*, 85.

<sup>26</sup> Randall, *Colombia and the United States*, 86.

<sup>27</sup> Reyes' policies permitted the take-off of the coffee economy and the development of some incipient industry. See, Jesus Antonio Bejarano, "El despegue cafetero, 1900-1928," in *Historia Económica de Colombia*, edited by José Antonio Ocampo (Bogotá, 1987), 174.

Reyes' impatience at achieving his goals led him to restrict opposition more and more, eventually turning his government into a dictatorship.<sup>28</sup> Those who opposed him not only disagreed with his authoritarian style, but also with his approach to the United States. With the scar of the Panama separation still open, many considered that Reyes' actions to attract US investments and formally accept the separation of Panama equivalent to treason. Following Diaz's example, which settled the differences with the United States and gave incentives to US capital to invest in Mexico in spite of the loss of Mexican territory in American hands, Reyes pushed for a settlement. In 1909 he signed the Cortes-Root treaty, in which Colombia recognized the separation of Panama in exchange for \$2.5 million. This treaty generated uproar in the whole country, and was rejected as humiliating by the Colombian Congress. The opposition to the treaty was so strong that it forced Reyes to resign and exile in France.<sup>29</sup>

The group that led Reyes' overthrow was the Unión Republicana (or Republicans), composed of mostly Conservative urban merchants and industrialists who disliked the authoritarian turn in the Reyes administration. After Reyes' fall the Republicans pressured for and achieved a constitutional reform that replaced the indirect elections for direct ones, limited the president's powers, eased the restrictions on

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<sup>28</sup> Jorge Orlando Melo, "De Carlos E. Restrepo a Marco Fidel Suarez. Republicanismo y gobiernos conservadores," in *Nueva Historia de Colombia*, edited by Alvaro Tirado Mejía (Bogotá, 1989), 220. TOMO?

<sup>29</sup> Alfonso López, "La cuestión del Canal desde la secesión de Panamá hasta el Tratado de Montería," in *Nueva Historia de Colombia* vol. 1, 154-159; Randall, *Colombia and the United States*, 90.

participation in the presidential elections, and stripped members of the Church and the Army of voting rights, pushing these two groups to the opposition.<sup>30</sup>

In 1910, the National Assembly that had approved the constitutional reforms elected Republican Carlos E. Restrepo as president. Even though Restrepo tried to create a national unity government by including both Liberals and Conservatives in his cabinet, from the very beginning he faced the Conservative opposition, who was allied with a powerful Catholic Church.<sup>31</sup>

Restrepo inherited from Reyes a country in a much better economic and social shape than that Reyes received in 1904. Coffee exports started competing in the international markets, the industrial sector of Medellín was growing, and banana exports generated some development in the Caribbean Coast. The coffee and banana exports stimulated railway construction from 593 km in 1898 to 1,143 in 1914.<sup>32</sup>

Colombia, however, was joining the Latin American export boom later than the rest of the continent, leaving it far behind other Latin American countries in other economic indicators: by 1913, Colombia had one of the lowest per-capita export levels in Latin America (only above Haiti), had a GDP per capita of \$45 (compared to \$195 in Uruguay, \$188 in Argentina, \$148 in Cuba, \$140 in Chile, and \$78 in Mexico), and had a literacy level of 41% (compared to 67% in Uruguay, 63% in Argentina, 59% in Cuba,

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<sup>30</sup> Marco Palacios, *Between Legitimacy and Violence: A History of Colombia, 1875-2002* (Durham, 2006), 63-65.

<sup>31</sup> Palacios, *Between Legitimacy*, 65; Melo, "De Carlos E. Restrepo," 226-227.

<sup>32</sup> Bejarano, "El despegue," 182.

and 56% in Chile).<sup>33</sup> Several Republican leaders had benefited from Reyes' policies, but they still had a tremendous task ahead. Even though they had opposed Reyes, Restrepo and the Republicans also believed Colombia was in strong need of foreign capital and a settlement of the Panama issue with the United States. The opposition the government faced and the Panama affair, directly affected the negotiations between the government and Pearson.

### Weetman Pearson and the Oil Industry

The growth of the Samuel Pearson and Son firm is closely tied to the expansion of British capital around the world, the rise of the oil industry, and Latin American economic development. This building contractor firm, established in Britain in 1844 by Samuel Pearson, experienced its most impressive growth after the founder's grandson, Weetman Dickinson Pearson, joined it in 1872. Weetman Pearson led the expansion of the firm to different activities inside Britain, running the company after 1884, and becoming the sole partner in 1894. In 1889, Pearson started major international operations after being awarded with a contract to build a tunnel in the Hudson River to connect New York and New Jersey, and another one with Porfirio Diaz to drain the

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<sup>33</sup> Enrique Cárdenas, José Antonio Ocampo, and Rosemary Thorp, "Introduction. The Export Age: The Latin American Economies in the Late Nineteenth and Early Twentieth Centuries," in *An Economic History of Twentieth Century Latin America* edited by Enrique Cárdenas, José Antonio Ocampo, and Rosemary Thorp (New York, 2000), 26.

plateau where Mexico City is located.<sup>34</sup> The latter contract initiated a close and long relationship between the British firm and the Mexican dictator, for whom he also built the Tehuantepec Railway, which communicated Mexico's Pacific and Atlantic Coast, and the Veracruz harbor.<sup>35</sup> Between 1895 and 1910, he was a member of Parliament for the Liberal Party, and his close relationship with Díaz and the influence of his company in Mexican affairs gave Pearson the nickname "Member for Mexico" in the British parliament.<sup>36</sup>

Pearson started his oil activities in Mexico in 1901, after accidentally discovering an oil field while looking for rock material for the Veracruz harbor. Because of his good relationship with Díaz, he received generous fifty-year concessions in 1902, with no taxes. By 1907, his firm controlled 600,000 acres of land and leased subsoil rights for over one million acres of land.<sup>37</sup> Soon after getting his first concessions, Pearson invested heavily in marketing, refining, and distribution infrastructure to sell and distribute oil in Mexico and Britain. By 1909, he had successfully integrated his firm's operations, but his oil fields were not producing much, so he relied mostly on other

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<sup>34</sup> Geoffrey Jones, 'Pearson, Weetman Dickinson, first Viscount Cowdray (1856–1927)', *Oxford Dictionary of National Biography* (Oxford, 2004)

(<http://www.oxforddnb.com/view/article/35443>, accessed 16 July 2007)

<sup>35</sup> Daniel Yergin, *The Prize* (New York, 1992), 230.

<sup>36</sup> Jones, "Pearson." For a detailed account of Pearson's close business and political relationship with Díaz see Desmond Young, *Member for Mexico: A Biography of Weetman Pearson First Lord Cowdray* (London, 1966), 58-139.

<sup>37</sup> Jonathan Brown, *Oil and Revolution in Mexico* (Berkeley, 1993), 47-55; Jones, *The State*, 66; Jones, *Multinationals*, 53; Spender, 149-162; Young, 124-125.

companies' oil for his refinery and distribution network.<sup>38</sup> Simultaneously, he faced an aggressive price war in Mexico by the Standard Oil (New Jersey) partially owned company Walters-Pierce, a firm who had monopolized the Mexican kerosene market for over a decade.<sup>39</sup> After unsuccessfully trying to reach an agreement with Walters-Pierce, Pearson engaged in a price war, and within fifteen months he controlled 40% of Mexico's international oil trade.<sup>40</sup>

In 1910, Pearson decided to create a Mexican company for his operations (The Mexican Eagle), whose board members included influential Mexicans, including Díaz's son.<sup>41</sup> That year, Pearson's luck in the oil industry radically changed after his engineers discovered the Potrero No. 1 and Potrero No. 4 oil fields, the latter the largest in the world at the time.<sup>42</sup> In that same year, Pearson was raised to baronet as Lord Cowdray.<sup>43</sup> By 1914, Mexico became the world's third-largest oil producer in the world, and Pearson controlled 60% of the output.<sup>44</sup>

Becoming one of the most important oil firms in the world had political costs. When Pearson discovered the Potrero fields in Mexico, his main ally –octogenarian Porfirio Díaz--was about to be ousted in a political rebellion that started the Mexican Revolution (1910-1920). Díaz was replaced with Francisco Madero, a rich white

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<sup>38</sup> Brown, *Oil and Revolution*, 55-56; Jones, *The State*, 67.

<sup>39</sup> Jones, *The State*, 67.

<sup>40</sup> Brown, *Oil and Revolution*, 63-65.

<sup>41</sup> Jones, *The State*, 69.

<sup>42</sup> Yergin, *The Prize*, 231

<sup>43</sup> Jones, "Pearson."

<sup>44</sup> Jones, *The State*, 68-69.

landowner who wanted to create a more open political system than that of Diaz's. Madero's presidency, however, was short-lived. In February 1913, Madero was overthrown by *mestizo* (mixed Spanish and Indian) lower-class General Victoriano Huerta, who legitimized his power with the presidential elections of October 1913, when he ran against no other candidates.<sup>45</sup> Rumors spread that Pearson had supported the Huerta rebellion, especially after Great Britain recognized him as Mexico's legitimate president.<sup>46</sup> In the United States, the new democratic administration of Woodrow Wilson refused to recognize Huerta, whom Wilson considered a "usurper" and anti-democratic (in contrast to Madero). This initiated a tense relationship between Pearson and the Wilson administration, leading many Latin Americans to believe that the war in Mexico was nothing more than a result of the Anglo-American rivalry over oil resources.<sup>47</sup> These perceptions by both the US government and Latin American intellectuals inevitably affected Pearson's attempts to enter Colombia.

#### Oil Discoveries in Colombia at the Turn of the Century

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<sup>45</sup> John Womack, "The Mexican Revolution," in *Mexico Since Independence* (Cambridge, 1991), edited by Leslie Bethell, 125-200.

<sup>46</sup> Brown, *Oil and Revolution*, 182.

<sup>47</sup> One of the hardest critics of Standard Oil's (New Jersey) operations in Latin America and its political power was Argentinean Enrique Mosconi. See, Enrique Mosconi, *Obras*, vol. 1 (Buenos Aires, 1958).

Before Pearson's negotiations in Colombia, some other businessmen had already started some incipient exploration operations. By the time the Liberals and Conservatives signed the peace treaty that ended with the War of the Thousand Days, Colombian entrepreneurs Diego Martínez and Francisco Burgos were already investing heavily in developing a domestic oil industry.<sup>48</sup> In 1905, President Reyes granted Martínez's company, the Cartagena Oil Refining Company, a concession to refine mostly imported oil in the Colombian Caribbean coast with a royalty of 5% of gross production.<sup>49</sup> Concerned about the possibilities of facing the competition of foreign companies in the future, Martínez requested an increase in his exploration territory concession to 600 kilometers from the coast to the interior. The government, however, rejected his request, believing that Martínez was exaggerating the power of the foreign oil multinationals.<sup>50</sup> The government's negative answer rushed Martínez to hire the US company Thompson and Hunter to do explorations around the Sinú River and the Caribbean coast and to contact the German corporation Albingia to explore for possibilities in the Urabá Gulf, close to the border with Panama.<sup>51</sup>

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<sup>48</sup> José Fernando Isaza and Luís Eduardo Salcedo, *Sucedió en la Costa Atlántica: Los albores de la industria petrolera en Colombia* (Bogotá, 1991), 93-106

<sup>49</sup> María Teresa Ripoll, "La actividad empresarial de Diego Martínez Camargo, 1890-1937" *Cuadernos de Historia Económica y Empresarial*, 2 (1999), 30.

<sup>50</sup> René de la Pedraja Tomán, *Historia de la Energía en Colombia* (Bogotá, 1985), 176-177.

<sup>51</sup> Ripoll, "La actividad," 57-59. By that time, Albingia was trying to develop a banana industry in Urabá, but eventually abandoned the project due to financial difficulties and the outbreak of World War I, see Rodrigo García, "El Consorcio Albingia en los inicios de la explotación bananera en Urabá, 1909-1915," *Revista Augura*, 18 (1995), 74-97

Reyes also granted concessions to what became the country's richest oilfields to his friend General Virgilio Barco and his godson Roberto De Mares in 1905.<sup>52</sup> None of them, however, had the capabilities to exploit oil and from the beginning looked for other companies to sell their concessions. The De Mares Concession expired in October 22, 1909, but De Mares tried to re-gain it through a long legal process, while at the same time trying to sell his concession to foreign investors.<sup>53</sup>

In 1907, two Canadian companies, the Colombian Oil and Gas Company and the Atlantic Oil Company studied Colombia's potential as an oil producer and found good prospects.<sup>54</sup> These companies, however, did not start oil exploitation because of financial constraints, leaving the door open to other foreign investors.<sup>55</sup>

#### Pearson's First Approaches to Colombia

In 1912, Lord Cowdray started seriously considering the possibilities of negotiating an oil concession in Colombia. For this task, Cowdray chose a newly hired member of the company, Alexander Murray (1870-1920), who in August became Baron

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<sup>52</sup> Jorge Villegas, *Petróleo, Oligarquía e Imperio* (Bogotá, 1982), 17-18, 29-30; De la Pedraja, *Historia de la Energía*, 177.

<sup>53</sup> De la Pedraja, *Historia de la Energía*, 187-188.

<sup>54</sup> From Coste to Sifton (Atlantic Oil Company), May 14, 1907, Pearson (S.) and Son, Ltd. Collection, Microfilm of Manuscripts in the Science Museum Library (London, England), Film 24,985, Reel 134 (hereafter I refer to this collection simply as PC. Unless stated, all the PC files come from reel 133).

<sup>55</sup> Memo of Interview Lord Cowdray, Mr. Bain, and Mr. Kelly, January 3, 1913, PC.

Lord Alexander Murray of Elibank. With a long experience in political life, he became one of the most valuable members of the company. At forty-two years old, Murray had worked for three years in the Colonial Office (which permitted him to travel to Southern Africa and personally befriend Cecil Rhodes) and had been elected member of the British Parliament in 1900 for the Liberals until 1912, when he resigned to join Pearson's.<sup>56</sup>

Lord Murray was also a confidante of King George V and his two private secretaries, and in 1911, he was sworn for the Privy Council.<sup>57</sup>

Murray and Cowdray's main concern was the possibility of American competition for concessions in Colombia, and hence tried to keep Pearson's interest in Colombian oil a secret from the Americans. With this in mind, Murray chose Martin G. Ribon as his partner for this mission. Ribon had previously worked for Waters-Pierce and at the time worked for the Foreign Office. He also knew Spanish (language Murray did not know). In early October 1912, Murray instructed Ribon to travel to Colombia without disclosing his affiliation with Pearson, but making clear to everyone that he had worked for Waters-Pierce.<sup>58</sup> Murray also contacted Guillermo de Landa, a Pearson's agent in Paris, and put him in charge of contacting former Colombian president Rafael Reyes, living in exile in France.

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<sup>56</sup> John Grigg, "Murray, Alexander William Charles Oliphant, Baron Murray of Elibank (1870–1920)," *Oxford Dictionary of National Biography*, Oxford University Press, 2004 [<http://www.oxforddnb.com/view/article/37797>, accessed 16 July 2007].

<sup>57</sup> From Lord Murray to Lord Cowdray, March 18, 1913, PC; Grigg, "Murray."

<sup>58</sup> From Lord Murray to Ribon, London, October 3, 1912, PC.

The other member of the negotiation team was Arthur Clifford Veatch, an American geographer who previously worked in the United States Geological survey and was appointed by President Theodore Roosevelt to study the administration of public lands in Australia. Upon returning to the US, Veatch organized the Land Classification Board of the US Geological Survey.<sup>59</sup> In 1912, Veatch had advised Pearson not to invest too many resources in Venezuela a country he considered had been already taken over by the American companies in the relevant producing areas.<sup>60</sup>

The first influential Colombia the firm approached was ex-president Rafael Reyes. In October 24 1912, Landa had the first conversations with Reyes in the Majestic Hotel in Paris.<sup>61</sup> With this meeting in mind, Reyes wrote an extensive document, which gave a very optimistic view of the enormous possibilities of Colombia's oil industry and other natural resource sectors. In addition, Reyes argued that the political climate in Colombia was good for Pearson because the Colombian legislation had established that the owner of land surface was also the owner of its subsoil. Moreover, he mentioned the strong anti-American feeling still present after the separation of Panama as something positive for Pearson.<sup>62</sup> Reyes was certainly not exaggerating the latter point. Both in 1911 and 1912, the US ambassadors in Bogotá reported strong anti-American feelings

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<sup>59</sup> William B. Heroy, "Obituary: Arthur Clifford Veatch," *Geographical Review*, 29 (1939), 336-337.

<sup>60</sup> Brian Macbeth, "The Royal Dutch-Shell Group of Companies in Venezuela, 1913-1922" (Mimeo, Caracas), 11.

<sup>61</sup> From Landa to Lord Cowdray, Paris, October 24, 1912, PC.

<sup>62</sup> Rafael Reyes, memorandum relating to petroleum and asphalt deposits in Columbia [Paris, no date], PC.

among Colombians, and warned the US government that the Germans take advantage of it if there was no settlement regarding Panama.<sup>63</sup>

Even though Cowdray sought Reyes's influence in Colombia, he did not wish to be publicly associated with him, fearful of the political consequences of this alliance in Colombia. In his second meeting with Landa, Reyes suggested Landa to contact his close friend and former vice-president General Jorge Holguín to lobby for them and also be Pearson's business partner. Excited about the possibilities of having highly influential people on their side, Landa told Reyes that Ribon was traveling to Bogotá soon.<sup>64</sup>

Landa's accidental disclosure of Ribon's mission forced Murray to change plans.<sup>65</sup> Upset with Landa's mistake, Lord Cowdray told Murray that this forced them to include Reyes and his friends in some way or another. Highly distrustful of Reyes, Cowdray instructed Murray not to offer Reyes any share participation in any enterprise they created in Colombia, just cash.<sup>66</sup> He also instructed Landa to request that Reyes not disclose Ribon's identity to anyone in Colombia: "If the information leaks up it might very possibly mean we might have to give up all the idea of going into Colombia," emphasized Cowdray, who also told Landa not to tell Reyes anything else about the operation.<sup>67</sup> Trusting Reyes, however, was too risky, and after Ribon sailed to South America, Murray sent him a cable telling him to openly mention his affiliation with

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<sup>63</sup> Randall, *Colombia and the United States*, 93-94; Calvert, "Murray Contract," 205.

<sup>64</sup> From Landa to Lord Murray, Paris, October 25, 1912, PC.

<sup>65</sup> Telegram from Lord Murray to Lord Cowdray, October 30, 1912, PC.

<sup>66</sup> Lord Cowdray to Lord Murray, October 31, 1912, PC.

<sup>67</sup> Lord Cowdray to Landa, October 31, 1912, PC.

Pearson when arriving to Bogotá, in case Reyes had already leaked the information to his friends.<sup>68</sup>

The plan Cowdray had to convince the Colombian government of granting them with a concession was to offer not only investments in oil development, but also in the much-needed transportation infrastructure. Sir Clarendon Hyde, the firm's main lawyer, believed that Pearson's previous experience in some railway projects in Colombia had allowed the firm to establish high-ranking contacts and a good reputation in the country.<sup>69</sup> Sir Clarendon was right: the negotiators found a consensus among Colombians that foreign investment in transportation was badly needed. The main problems the negotiation team faced, however, were the politics around the concession.

#### Negotiating in the Andes: Church, Press, and Politics

Contrary to what happened in his business in Mexico, when Pearson negotiated a concession in Colombia it had to deal with a constitutional government who had to constantly negotiate with a hostile and powerful opposition and a press free of censorship. The Pearson team had to learn quickly that they could not get a contract just by negotiating with the government, but they also had to convince other pressure groups including opposition parties and the Catholic Church.

The country's geographical characteristics explain why the Colombian elite was so eager to develop transportation infrastructure. When Ribon, Murray, and Veatch

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<sup>68</sup> Lord Murray to Ribon, London, December 7, 1912, PC.

<sup>69</sup> Sir Clarendon Hyde to Lord Murray, December 24, 1912, PC.

arrived to Bogotá in early 1913, they were visiting one of the most isolated Latin American capital cities. Located at 8,600 feet above the sea, it could take a person three weeks to travel from the Caribbean port of Barranquilla, crossing the country's extremely rugged topography, to get to Bogotá (almost the same amount of time it could take to travel from Barranquilla to Europe). When traveling between both cities, cargo and passengers had to be loaded and unloaded seven times.<sup>70</sup> Colombia's geography made the simplest transportation investments prohibitively expensive. Because of this, no unified national economy existed, but rather an archipelago of regional economies.<sup>71</sup> Land transportation has always been so difficult that in Colombia developing air transportation proved to be cheaper than building roads or railways: in 1919 a group of businessmen established the SCADTA airline, which is still the oldest airline in the Western Hemisphere.<sup>72</sup> In fact, geographic isolation was one of Murray's constant complaints. He once described Colombia as "a huge unexplored country less accessible than Siberia where there is, at any rate, a trunk line"<sup>73</sup> and Bogotá as "the most inaccessible spot I have ever visited with the exception of Matabeland."<sup>74</sup>

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<sup>70</sup> Rippy, *Capitalists*, 32.

<sup>71</sup> The lack of control of the national territory by the Colombian government is still apparent in the first decade of the 21<sup>st</sup> century with the government's inability to defeat left-wing guerrillas or control drug trade.

<sup>72</sup> In 1941, SCADTA changed its name to Avianca.

<sup>73</sup> From Lord Murray to Lord Cowdray, Bogotá, March 13, 1913, PC.

<sup>74</sup> From Lord Murray to Lord Cowdray, Bogotá, March 4, 1913, PC. Matabeland is located in present-day South Western Zimbabwe.

Despite of its isolation, Bogotá prided itself for having a highly cultured and intellectual upper class, something acknowledged by different travelers and by Ribon himself who once described the high level of sophistication of Colombian negotiators.<sup>75</sup> With presidents and ministers who were also poets, translated Virgil and Homer in their spare time, and could engage in long and deep debates about Spanish grammar, the *Bogotanos*, without any irony, nicknamed their city the “Athens of South America.” “In Bogotá more attention is devoted to arts and letters,” wrote Veatch describing the “charm of the culture of Bogotá and the courtesy of her well-dressed people.”<sup>76</sup> Some travelers criticized the educated white upper class of this cold and ever-rainy city for their disdain for knowledge of practical matters, and for their isolationism with respect to the real problems facing the illiterate, poor, and non-white masses.<sup>77</sup>

The existence of a literate upper class, however, permitted the presence of several local newspapers (both Liberal and Conservative), which played an important role during the negotiations. Some of these newspapers had famously critical journalists, who with the freedom of press and no censorship granted to them by the post-Reyes government, kept a close eye on political affairs.<sup>78</sup> Radio journalism also flourished in the post-1910 period, permitting a wider political debate no politician could afford to ignore.<sup>79</sup>

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<sup>75</sup> From Ribon to Lord Cowdray, Bogotá, March 25, 1913, PC; Rippy, *Capitalists*, 34.

<sup>76</sup> A. C. Veatch, *From Quito to Bogotá* (London, 1917), 231.

<sup>77</sup> Rippy, *Capitalists*, 35.

<sup>78</sup> See, Antonio Cagua, *Historia del periodismo colombiano* (Bogotá, 1982).

<sup>79</sup> Eduardo Posada-Carbó, “The Limits of Power: Elections Under The Conservative Hegemony in Colombia, 1886-1930,” *Hispanic American Historical Review*, 77 (1997), 254.

The Pearson team experienced the effects of dealing with a government with political opposition and press scrutiny very early in the negotiations. In February 13, Murray, Veatch, and Ribon visited Simon Araujo, Minister of Public Works, and made him an offer consisting on a three-year exploration contract, ten years of exclusivity to explore half of the country, no taxes, and no import and export duties. In return, Murray offered 25 cents per-ton exported which, according to his calculations, would mean one million dollars a year for Colombia.<sup>80</sup> Four days later, the Minister met Murray and Ribon to inform them that the government could not accept his offer because of the low royalties and monopolistic nature.<sup>81</sup> Murray explained the minister that the oil industry required enormous amounts of initial investment, so the company could not afford to have other companies exploring at the same time in adjacent areas. For the minister, however, the problem was not the technical characteristics of the industry but the potential reaction of the press.<sup>82</sup> This fear was confirmed the day after when Murray visited Colombian President Carlos Restrepo at the presidential palace. The president added to his minister's argument the fact that he had already fought against Diego Martinez's concession in the Caribbean coast for its monopolistic nature, so he could not afford to grant these rights to a foreign company. During the same conversation, Restrepo made a proposition Murray considered bizarre: to build a railway in the

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<sup>80</sup> Memorandum by Lord Murray, "Conference with the Minister of Public Works, Bogotá, 13 February, 1913;" "Lord Murray's Statement to the Minister of Public Works, as Read to Him in Spanish by Mr. Martin Ribon," Bogotá, 13 February, 1913, PC.

<sup>81</sup> From Ribon to Lord Murray, Bogotá, 17 February, 1913, PC.

<sup>82</sup> From Lord Murray to Lord Cowdray, Bogotá, 18 February 1913, PC.

Caribbean region of Magdalena to compete against the railway owned by the United Fruit Company. Murray never considered this proposition seriously and thought this could only generate frictions with the United States.<sup>83</sup>

President Restrepo was in a difficult situation, which did not permit him to be excessively generous towards foreign companies. From the very beginning of his administration he faced constant opposition to his projects from the Conservative Party and its ally, the Catholic Church. Although he appointed some prominent Liberals in the government as a way to create a more inclusive government the Liberals still considered themselves an opposition party. In addition, he was constantly struggling with the Congressional representatives of the Caribbean Coast, who by number of population had veto power, and used this tool as their main bargaining power. The most important characteristic of the Restrepo administration was this constant Congressional opposition.<sup>84</sup>

The existence of a strong opposition to Restrepo led Murray to approach this opposition as a way to give the president more freedom to approve the contract. On February 19, he and Ribon attended a dinner at the French embassy where they met the papal ambassador in Colombia, Monsignor Montaglin. After the conversation Murray realized that having the Church on his side was crucial, given the close relationship of this institution with the Conservative Party.<sup>85</sup> A few days later, he and Ribon talked to Reyes' friend and Conservative leader Jorge Holguín, whom they had avoided before,

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<sup>83</sup> Memorandum by Lord Murray, "Interview with the President," Bogotá, 18 February 1913, PC.

<sup>84</sup> Melo, "De Carlos E. Restrepo," 226-227; Palacios, *Between Legitimacy*, 65.

<sup>85</sup> From Lord Murray to Lord Cowdray, Bogotá, 19 February 1913, PC.

and listened to his business propositions, pretending to be interested but without any intention of engaging in any business with him.<sup>86</sup> Around the same days, Murray received a letter from Diego Martinez, the oilman from the Caribbean currently in conflict with the president, offering to make deals with him.<sup>87</sup> Martínez had close connections with the Caribbean politicians president Restrepo struggled with, and was also negotiating with Standard Oil (New Jersey).<sup>88</sup> After finding out about the different political alliances and competitions, Murray admitted that they were not going to be able to get concessions as generous as those in Mexico.<sup>89</sup>

The president's skepticism with respect the first proposal led Veatch to write a new draft contract with some more generous provisions for Colombia. The contract committed the company to make an initial investment of £200,000, and in return excluded the company from paying taxes and duties, rights for the company over 100,000 square kilometers, and gave the government the right to expropriate lands for Pearson's oil exploitation. In case the company started drilling, the government would hold up 100,000 square kilometers, interrupting the sales for any other investor.<sup>90</sup> After

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<sup>86</sup> Memorandum of Conversation between General Jorge Holguín, Lord Murray, and Mr. Ribon, Bogotá, 24 February 1913, PC.

<sup>87</sup> From Martínez to Murray, Mariquita, February 1913, PC, reel 134.

<sup>88</sup> Isaza and Salcedo, *Sucedió*, 131. A few days later Ribon politely replied Martinez declining the invitation (From Ribon to Martínez, Bogotá, 1<sup>st</sup> March, 1913, PC, reel 134).

<sup>89</sup> Memorandum of Conversation between General Jorge Holguin, Lord Murray, and Mr. Ribon, Bogotá 24 February 1913, PC.

<sup>90</sup> Translation by Mr. Ribon of Sr. Uribe Holguin's Draft Contract based on Dr. Veatch's draft of 20<sup>th</sup> February, 1913, PC.

discussing the draft with their Colombian lawyer, Eduardo Rodríguez Piñeres, the Pearson negotiation team decided to add an unprecedented clause, in which they voluntarily committed not to request any kind of diplomatic aid from the British government.<sup>91</sup> For an industry in which companies used to have the political power of their home countries as a way to pressure weak countries, this was an incredibly big step that favored the host government.

Approaching the opposition meant necessarily to be in good terms with the Catholic Church. In February 26, Ribon decided to pay a visit to Bogotá's Archbishop Bernardo Herrera, in Ribon's words "the most powerful and influential man in the Conservative Party."<sup>92</sup> Ribon was not exaggerating. A respected intellectual, Archbishop Herrera led the Colombian Church during the War of the Thousand Days, when many members of the Church believed that a Liberal triumph would lead to government attacks against them. After the war, Herrera was considered the main arbiter within the Conservative Party, openly debated the writings by Liberal leaders, encouraged Catholics to reject Liberal ideas and the Liberal party, and remained a highly influential man until 1917, when illness debilitated him.<sup>93</sup> Ribon needed to convince the

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<sup>91</sup> Mr. Ribon's translation of the Draft Contract prepared by Sr. Uribe Holguin (on Dr. Veatch's' draft – see 25 February, 1913) as revised after consultation with Dr. Rodríguez Piñeres, Bogotá, 28 February, 1913, PC.

<sup>92</sup> From Ribon to Murray, "Interview with Dr. Herrera, Archbishop of Bogotá," Bogotá, 26 February, 1913, PC.

<sup>93</sup> Juan Botero Restrepo, *Breve historia de la Iglesia colombiana* (Medellín, 1983), 135-136; Humberto Bronx, *Historia Moderna de la Iglesia Colombiana* (Medellín, 1978), 330-331;

Archbishop that a contract with Pearson would be beneficial for the country. During their meeting, Ribon assured Herrera that by signing a contract with Pearson, the Colombian government would not spend a cent in oil development, but would get the benefits of the royalties. After this meeting, Herrera promised Ribon the support of the Catholic Church.

Promising high initial investments and committing not to request British diplomatic protection was not enough to convince the government that the contract would not be perceived as a threat to national sovereignty. When presenting the new draft to Minister Araujo, the minister argued that 100,000 square kilometers square was too large, and that congress and the press would not accept it.<sup>94</sup> Murray assumed that the minister considered this piece of land too large because he knew nothing about the oil industry. A frustrated Murray reported that “throughout our conversation [the minister] was evidently struggling with a situation which he did not quite understand, and which in reality is not of supreme interest to him, became enthusiastic, his face lighting up with interest when he asked us whether we should constraint a six mile railway from the Tequendama Station to the celebrated Colombian falls of the same name... This little scheme is his hobby, and from the number of arguments he adduced in its favor, appears to far transcend in importance in his mind a scheme such as ours for opening out the

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Ricardo Arias, *El episcopado colombiano: intransigencia y laicidad, 1850-2000* (Bogotá, 2003), 63-74.

<sup>94</sup> “Memorandum between the Minister of Public Works, Dr. Miguel Uribe Holguín, Lord Murray, and Mr. Ribon,” Bogotá, 3 March, 1913, PC.

country!”<sup>95</sup> Murray, however, was not considering that Colombia had recently lost Panama to a foreign power, and that giving the impression that the government was ceding national territory again to foreign interests would have been political suicide.

The issue of national sovereignty represented in domestic control of the country’s territory became the biggest issue in the negotiations. The minister proposed and stubbornly insisted on reducing the land size from 100,000 km. sq. to 10,000.<sup>96</sup> Murray and Ribon responded by promising an initial investment of £400,000 instead of the originally proposed £200,000 in exchange for keeping the 100,000 km. sq., which they also argued were not lands Pearson would appropriate, but was the size of public lands the government would withdraw from the market while they did their explorations as a way to protect themselves from competition in the early stages of exploration and production and avoid speculation.<sup>97</sup>

Not able to convince the minister, Murray tried to convince the opposition that 100,000 kilometers was not an outrageous amount of land. In a luncheon offered in his

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<sup>95</sup> From Lord Murray to Lord Cowdray, Conference with the minister of Public Works, Bogotá, 6 March, 1913, PC.

<sup>96</sup> “Memorandum of interview with the minister of public works,” by Ribon, Bogotá, 7 March, 1913, PC.

<sup>97</sup> From Lord Murray to Araujo, 11 March, 1913; “Memorandum by Mr. Ribon of interview with minister of public works,” Bogotá, 10 March 1913; “Memorandum from Lord Murray to his Excellency the Minister of Public Works,” by Lord Murray, Bogotá, 10 March, 1913; “Memorandum on the Colombian Negotiations,” by Veatch, Bogotá, 12 March, 1913; “Memorandum by Mr. Ribon of conference with Dr. Rodríguez Piñeres,” Bogotá, 14 March, 1913, PC.

honor by the influential Conservative journalist, Julio H. Palacio (who Ribon described as “the principal wire puller of the Conservative Party”), Murray explained why his firm needed 100,000 km. sq., something he did again at a dinner he organized and whose guests included the papal ambassador, the diplomatic corps, high-ranking officials of the Catholic Church, the Army, and the Conservative Party.<sup>98</sup> The minister, however, did not change his mind so Ribon and Murray cancelled the negotiation.<sup>99</sup>

The events after the cancellation of the negotiations showed Murray that the problem was not his argument defending the 100,000 kilometers, but domestic politics. On March 17, late at night, journalist Julio H. Palacio visited Murray and Ribon saying that he had a message from the Conservative leadership. Palacio told them that they should resume the negotiations and not worry about Conservative opposition.<sup>100</sup>

Reluctantly, Murray and Ribon resumed the negotiations. A few days later their friend Frank Stapleton (from South African Goldfields exploring Colombia) told them that in a private conversation he had with Archbishop Herrera, the prelate told him that the Conservatives might sabotage the Pearson negotiations to take credit of the contract when they take power after the 1914 elections.<sup>101</sup> Murray chose not to believe Stapleton’s gossip, but admitted it made sense given the political situation. In his report to Cowdray,

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<sup>98</sup> Luncheon at Hotel Uscategui by Sr. Palacio, Bogotá, 10 March, 1913; Report on dinner at Hotel Uscategui (guest list), 11 March, 1913, PC.

<sup>99</sup> “Abstract of Lord Murray’s letters from March 6<sup>th</sup> to March 19<sup>th</sup>,” London, 17 April 1913, PC.

<sup>100</sup> “Memorandum by Mr. Ribon,” 18 March, 1913, PC.

<sup>101</sup> “Memorandum by Dr. Veatch of Interview with Frank Stapleton,” Bogotá, 25 March, 1913, PC.

Murray said: “The political difficulties here are forming the most serious obstacles to our progress. The president and the government are very weak and are terrified of Congress and public opinion. We have been doing a good deal of work among the Conservative party, who are all-powerful and will shortly come into office, and I think that we have their good will. Even that, however, may not be sufficient to restrain them from dealing a blow at the government by rejecting our contract in Congress as they did every law proposed by the president and the executive last year.”<sup>102</sup> Ribon went even further by lamenting the fact that Colombia was not ruled by a dictator: “I have no doubt that you realize that the sort of concession that we are trying to get does not appeal to any government, and that it is very difficult to obtain it in a country enjoying a real parliamentary system; it is in my mind only easy in countries of a one man government like Mexico under Diaz, Venezuela under Gómez, or Colombia under Reyes. Had we come to this country when Reyes was in power, we should have gotten the question in very short time and in better terms.”<sup>103</sup>

As long as the government kept insisting on decreasing the land size to 10,000 kilometers, Murray showed increasing frustration with the fact that they were not doing business with a dictator. The minister claimed to understand Murray’s reasoning for having 100,000 km. sq., but insisted that those terms would not be accepted by congress and would be rejected by the press. “Various parties, with no strong man to guide them, are always ready to be at each other’s throats, using their legislative proposals or measures as a pretext for attack. In fact, unless we are careful, we run the risk of

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<sup>102</sup> From Lord Murray to Lord Cowdray, 25 March, 1913, PC.

<sup>103</sup> From Ribon to Cowdray, Bogotá, 25 March, 1913, PC.

becoming the shuttlecock of contending local politicians,” said Murray describing the political situation.<sup>104</sup> Murray and Ribon continued seeking the support of Conservative leader Abadía, the French ambassador (who had an interest in attracting French investors), and the papal delegate, who continued lobbying with Conservative representatives. “The [Pope] delegate gives much more time and attention to Pearson’s business than that of the Pope!” reported Ribon to Cowdray.<sup>105</sup>

The pressure of the printed media criticizing the negotiations forced the company to give in to the minister’s demands, showing that trying to convince the opposition was not enough if the company did not have the press on its side. By early April 1913, just when Murray, Ribon, and Veatch started feeling that Minister Araujo was beginning to understand their reason to request 100,000 km. sq.,<sup>106</sup> a journalist published an article comparing Pearson to Rockefeller and accused the British firm for being a tool of the British Empire to dominate Colombia and monopolize its natural resources. The publication of this report worried the minister who then went back to insist on the 10,000 kilometers and added a new demand: he did not want the royalties to be paid in a fixed amount of cash but in a percentage of the value of the oil exported. The minister insisted on this point anticipating possible increases in oil prices. This event made Murray aware of the power of the press and the lack of power the government had to go against it and deny the accusations. Murray, however, interpreted the government’s extreme cautious behavior as “weakness of the administration and the timidity of ministers. This factor has

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<sup>104</sup> “Memorandum by Lord Murray,” Bogotá, 4 April, 1913, PC.

<sup>105</sup> From Ribon to Cowdray (Private and Confidential), Bogotá, April 2, 1913, PC.

<sup>106</sup> From Ribon to Cowdray (Private and Confidential), Bogotá, April 2, 1913, PC.

been a continual stumbling block to our work.” He was not surprised that the minister “an honest and courteous man, but narrow and pedantic, like the village school master he is” would believe that article. After discussing the situation with Veatch, they concluded that they had no choice but to accept the 10,000 km. sq.<sup>107</sup> Murray expressed they had been forced to do this because “president and his ministers are small people frightened by large ideas... we have pigmies to deal with afraid of their own shadows.”<sup>108</sup>

In the draft contract the Pearson team submitted to the pressure from the press, the company not only relinquished its ambition of attaining 100,000 kilometers, but also accepted to pay royalties in percentages and not fixed amounts. They committed to pay 20 cents of royalty per ton exported for the first five years, 7% in the sixth year, with increments of 1% a year each subsequent year. The contract also gave the company rights over 10,000 km. sq. and committed the government to suspend sales of public lands for another 10,000 kilometers for two months.<sup>109</sup>

Understanding the power of the media, the Pearson negotiators started to develop strategies to neutralize the journalists’ power. In April 19, a negative article on Pearson was published in the Bogotá newspaper *La Crónica* in April 19. Ribon immediately talked directly to the editor of *La Crónica* and clarify what he considered false information. The editor promised no more articles by the same journalist would be

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<sup>107</sup> Unless stated, the information of this paragraph comes from: From Murray to Cowdray, Bogotá, 9 April, 1913, PC.

<sup>108</sup> “Memorandum by Lord Murray,” Bogotá, 11 April, 1913, PC.

<sup>109</sup> “Translation of drat contract prepared and submitted by the Minister of Public works today,” by Ribon, Bogotá, 12 April, 1913, PC.

published again.<sup>110</sup> After this event, Ribon understood that they needed to keep a close and good relationship with local journalists.

On April 23 1913, Murray, Ribon, and Veatch felt that their efforts had finally bear fruit, when the minister signed the contract, which was also approved by the president and the council of ministers.<sup>111</sup> The signing of the contract filled Murray with optimism: he wrote British ambassador Percy Wyndham telling him that this was the best moment to increase British presence in Colombia, and even suggested to invite King George to mediate between Peru and Colombia to settle the definition of borders and decrease US influence.<sup>112</sup> Although the contract still needed approval in a congress dominated by opposition, Ribon and Murray believed he had made enough powerful friends to have the contract approved.<sup>113</sup>

Lord Murray knew that the contract approval could generate jealousy and hostility from the American oil companies, and he was also aware that they could show Pearson as a threat to US interests in the hemisphere. In order to neutralize any action by the Americans, before leaving Murray visited US ambassador Leland Harrison to disclose his plans. Murray told the ambassador he was more interested in developing railways than oil in Colombia, but oil was a good way to enter the country.<sup>114</sup> This version, however,

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<sup>110</sup> From Lord Murray to Lord Cowdray, Bogotá, April 19, 1913, PC.

<sup>111</sup> “Contrato entre el Gobierno de Colombia y la Sociedad Pearson and Son, Ltd.” Bogotá, 23 April, 1913, PC.

<sup>112</sup> From Lord Murray to Wyndham, Bogotá 23 April 1913, PC.

<sup>113</sup> From Ribon to Lord Cowdray, Mariquita 3 May 1913, PC.

<sup>114</sup> Calvert, “Murray,” 205.

contradicts what Murray, Ribon, and Cowdray had discussed earlier that year, when they thought that the best way to get oil concessions was by promising railways.<sup>115</sup> The ambassador, however, trusted Murray and believed that his operations in Colombia did not represent a threat for the US.<sup>116</sup> Later on, Harrison reported the US Department of State that he did not believe the Pearson contract represented any threat, and that Murray looked like a trustworthy person.<sup>117</sup>

Murray was aware that once the Panama affair was settled between the US and Colombia, diplomatic and economic relations would normalize, something that he perceived as a great business opportunity for his firm.<sup>118</sup>

#### The American Companies' First Offensive Against the Pearson Contract

Murray's concerns regarding opposition by American companies to his contract with the Colombian government proved to be right. Once Minister Araujo signed the contract, Murray left for Ecuador to negotiate other concessions, leaving Ribon in Bogotá. Shortly after leaving he received the first bad news: a man called W. T. S. Doyle from the Caribbean Petroleum Company (from the General Asphalt Company of New

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<sup>115</sup> From Ribon to Lord Murray, Bogotá 10<sup>th</sup> February, 1913, PC.

<sup>116</sup> Richard Lael, *Arrogant Diplomacy: US Policy Toward Colombia, 1903-1922* (Wilmington, 1987), 88.

<sup>117</sup> Calvert, "Murray," 208.

<sup>118</sup> From Murray to Cowdray, Bogotá, 14, April, 1913, PC.

York) was traveling to Bogotá to avoid the contract been approved in Congress.<sup>119</sup>

Before joining General Asphalt, Doyle had worked for the US Senate Department's Latin American division.<sup>120</sup> In June 6, Murray received a telegram in Quito from Ribon, which simply said: "Doyle arrived. Reported representing Standard and other American oil interests."<sup>121</sup>

Both the Americans and the Pearson team were aware of the power of the press media in Colombian politics and prepared themselves to use it. Anticipating Doyle's attacks, Ribon discussed the American's arrival with his friends, Conservative leader Miguel Abadía Méndez and businessman Nemesio Camacho. Both warned him to expect attacks from the press organized by Doyle and also by Diego Martínez, who was beginning to make some deals with Standard Oil (New Jersey). The two men advised Ribon not to counter-attack in the press and not to negotiate with the newspapers, be patient, and trust the government.<sup>122</sup> However, after listening rumors about Doyle beginning an anti-Pearson campaign among journalists, Ribon decided to personally talk to the editors of Bogotá's newspapers *El Tiempo* (Alfonso Villegas) and *El Nuevo Tiempo* (Ismael Arciniegas) and warn them about Doyle's intentions. To Ribon's surprise, Villegas and Arciniegas told him that Doyle had not approached them, but they

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<sup>119</sup> Telegram from Murray to Ribon, Panama 20 May, 1913, PC.

<sup>120</sup> Lael, *Arrogant*, 89.

<sup>121</sup> Telegram from Ribon to Lord Murray, Bogotá, 6 June 1913, PC. The day after, the British Ambassador Wyndham also reported to the Foreign Office Doyle's arrival (Calvert, "Murray," 215).

<sup>122</sup> From Ribon to Lord Murray, 12 June 1913; from Ribon to Lord Cowdray, 12 June 1913, PC.

were willing to publish an article by Ribon.<sup>123</sup> After learning about Ribon's conversations with the newspapers' editors, Abadía warned him not to do this again. According to Abadía, Pearson had a great advantage over Doyle: Pearson was British and Doyle was American. With the strong anti-American feelings in Colombia, Abadía argued, no politician would give preference a US company over a British one.<sup>124</sup>

Attacks from the press started in June 21. A copy of the Pearson contract was leaked to the press and journalist Diego Mendoza published an article in the *Revista Nacional de Colombia* attacking it. The article showed awareness of Doyle's presence and even though they suspected he might work for Standard Oil (New Jersey), it advised the government to consider both companies and not just Pearson. This article was published at the same time lawyer Bonifacio Velez was challenging the contract at the Supreme Court.<sup>125</sup> A counter-attack came a few days later when Conservative politician Jose Vicente Concha published a positive article on Pearson in *El País*.<sup>126</sup>

Despite the press attacks and legal challenges, in June 25 the Supreme Court declared the contract legal. "Won first point versus Doyle," Murray happily reported to Cowdray from Quito after learning about the approval.<sup>127</sup> Murray, however, was aware

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<sup>123</sup> Memorandum by Mr. Ribon, "Interview with the editors of the "Tiempo" 20 June 1913 and "Nuevo Tiempo" 21 June 1913," PC.

<sup>124</sup> Memorandum by Mr. Ribon, "Interview with Dr. Abadía Miguel Mendez, 21 June 1913," PC.

<sup>125</sup> Memorandum by Mr. Ribon, "Translation from "Revista Nacional de Colombia" by Dr. Mendoza," Bogotá, 21 June 1913, PC.

<sup>126</sup> From Ribon to Lord Cowdray, 10 July 1913, PC.

<sup>127</sup> Telegram from Ribon to Lord Murray, Bogotá 25 June 1913; From Lord Murray to Lord Cowdray, Quito 25 June 1913, PC.

that this was not going to be the end of the war with Doyle, and decided to go back to Bogotá.<sup>128</sup> Lord Cowdray advised Murray to stay away from the press in Bogotá and started planning to attack Doyle's company in Venezuela.<sup>129</sup> By July, Doyle had already met with the president and the minister of foreign affairs and promised to bring more engineers to Colombia than Pearson.<sup>130</sup>

Pearson won its second point against Doyle when the contract passed Congress' first reading in July 30, but the American offensive continued. Although more hearings were to come, this was the first successful step with Congressmen. Just one day after, however, Ribon was informed of another American (Chester Thompson) in Bogotá trying to sabotage the Pearson contract. Thompson had met Rafael Reyes' son in New York, who suggested Thompson to create a Canadian company (not an American one) and submit an oil contract to the Colombian government. Thompson was telling people in Bogotá he had a better offer than Pearson's and was buying lands in the Caribbean coast.<sup>131</sup>

Ribon decided that the best way to deal with the Americans' sabotage was by talking to them directly, so he arranged a meeting with Thompson for August 9. Thompson candidly acknowledged that he had campaigned against Pearson, but that he had recently changed his mind when discovering a special law regarding pipelines in Colombia, which would benefit his own business and did not justify going against

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<sup>128</sup> From Lord Murray to Lord Cowdray, Quito, 26 June 1913, PC.

<sup>129</sup> From Lord Cowdray to Lord Murray, London, 27 June 1913, PC.

<sup>130</sup> From Ribon to Lord Cowdray, 10 July 1913, PC.

<sup>131</sup> From Ribon to Lord Murray, 1 August 1913, PC; Calvert, "Murray," 209.

Pearson. Thompson also showed Ribon a letter supposedly written by an American spy in Paris saying that Pearson's real goal was to build an inter-oceanic canal in Colombia for the British government to compete against the Panama Canal. With a wink, Thompson told Ribon that he knew Murray worked for the British government and advised Ribon to be open with the Colombian government about his connections with the British government, before Doyle exploited them with the press. Ribon denied any partnership with the British government and later discussed this conversation with Foreign Minister Urrutia, who thought this was the beginning of a US conspiracy against the Pearson contract.<sup>132</sup> Urrutia's words proved prophetic: soon afterwards the American government would join the opposition to the contract.

#### Using Diplomatic Pressure: US Companies and the Atrato Canal

Since before the construction of the Panama Canal, several engineers and Colombian politicians believed that another canal could be built in Colombia using the Atrato River. The Atrato is a navigable river that runs 250 miles parallel to the Pacific Ocean and communicates the Caribbean coast with the interior and is at a relatively short distance from the Pacific. After the loss of Panama, there was an increased interest in Colombia in developing plans to make the Atrato into a canal that would compete with the one in Panama –plans that found opposition in the United States and no Colombian politician did ever take this possibility seriously.

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<sup>132</sup> From Ribon to Lord Murray, Bogotá, 9 August 1913, PC.

The US companies used Colombia's ambitions to build a second canal to attack Pearson. The day after meeting with Ribon, Thompson visited US ambassador Harrison and told him that the Pearson contract was a British plot to build an inter-oceanic canal in Colombia's Atrato River.<sup>133</sup>

Murray's previous meeting with the ambassador worked on his benefit. The ambassador was skeptical of the information provided by Thompson and Doyle and did not report their rumors to Washington. Thompson, however, anticipated this possibility and after talking to Harrison, sent a letter to President Wilson with the same information.<sup>134</sup>

Doyle also tried to generate concerns about the possibility of having Pearson building a canal. Fearing Pearson sabotage to its operations in other areas of the world, in late August General Asphalt instructed Doyle to try to negotiate with Pearson, but neither Murray nor Cowdray wanted to make deals with Doyle, a person they highly distrusted.<sup>135</sup> However, they accepted a truce instead of risking the whole contract and dropped the plans of attacking his company in Venezuela.<sup>136</sup> In mid-September, Doyle left Bogotá (something Murray and Ribon interpreted as a triumph), but not without first visiting the US ambassador and showing him a line in the Pearson contract that permitted

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<sup>133</sup> Calvert, "Murray, 208.

<sup>134</sup> Calvert, "Murray," 210.

<sup>135</sup> From Lord Murray to Lord Cowdray, Bogotá, 21 August, 1913, PC.

<sup>136</sup> From Lord Cowdray to Lord Murray, London, 26 August, 1913, PC.

the company to build “canals.” Doyle showed this as proof that Pearson was thinking about the Atrato Canal.<sup>137</sup>

In September 2, the contract passed the first hearing in Congress (44 votes for and 33 votes against). The parliamentary commission studying it acknowledged that the contract would give Pearson enormous power, but that the creation of jobs and economic development made it worth it.<sup>138</sup> The main opposition came from some congressmen from the coast (presumably acting in defense of Diego Martinez) and some strong nationalists. Ribon and Murray were not extremely optimistic: the next hearings were the most important ones and they felt American and congressional opposition was overwhelming.<sup>139</sup> In its analysis of the contract, *The Economist* magazine argued that the main uncertainty Pearson faced was not local political instability, but US reaction.<sup>140</sup>

Pearson, Veatch, and Murray knew that the American attacks against them had not ended with Doyle and Thompson’s departure, so in anticipation of more hostility, and despite the positive result in the congressional first hearing, they modified the contract again. The new draft gave the government more freedom to bring other companies. In this way, they wanted to assure the US government that they were not seeking complete control of Colombia’s oil resources.<sup>141</sup>

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<sup>137</sup> Lael, *Arrogant*, 89-90.

<sup>138</sup> “Informe de una Comisión,” *Anales de la Cámara de Representantes (República de Colombia)*, 5 November, 1913, 625-627.

<sup>139</sup> From Ribon to Lord Cowdray, 2 September 1913, PC.

<sup>140</sup> “Messrs Pearson’s Central American Contracts” *The Economist*, 13 September 1913, 609.

The article referred to Colombia and Ecuador as “Central American countries.”

<sup>141</sup> “Changes to the Contract – draft of A.C. Veatch,” Bogotá 16 September 1913, PC.

### Panama Enters in the Equation

In 1912, Democratic candidate Woodrow Wilson was elected new president of the United States taking power in March 1913. Colombian politicians saw this election with optimism because they believed a normalization of diplomatic relations with the US would be easier with the Democrats than with the Republicans, especially after Wilson appointed William Jennings Bryan, an outspoken anti-imperialist, as Secretary of State.<sup>142</sup>

Colombian politicians and foreign investors knew that the negotiations with Wilson would not be in hands of President Restrepo, but in the president winning the coming 1914 presidential elections. In mid-April, Frank Stapleton (Murray's friend from South African Goldmines) visited Conservative leader and possible presidential candidate Marco Fidel Suarez and asked him if a Conservative government would seek for a final settlement and normalization of relations with Panama and Suarez replied that this was going to be a priority if he became president. Later, Stapleton visited Archbishop Herrera ("in strict confidence") and found out that the Conservative Party had the Church's blessing (in both senses) to negotiate reparations with the United States. A friend of Secretary of State Bryan, Stapleton sent him a letter with this information and also informed Murray.<sup>143</sup> For these foreign investors, these were all good news: the

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<sup>142</sup> Randall, *Colombia and the United States*, 95.

<sup>143</sup> From Stapleton to Lord Murray, Bogotá, 12 April, 1913, PC.

reparations would not only normalize the relationship with the US, but also would bring much needed cash to the Colombian economy and the country would benefit from the Panama canal.

Colombians' optimism on Wilson was more realistic than Murray's. The Wilson administration considered Pearson an ally of Mexico's Huerta and highly distrusted his activities in Colombia. In September 24, the Secretary of State Ryan wrote a cable to the newly appointed US ambassador in Bogotá (who replaced Harrison), which said "You will inform President Restrepo discreetly and verbally that the US Government was not indifferent to the proposed concession to Pearson... and that the United States, in principle, does not feel in sympathy with concessions to companies whose close relations to European governments seem to place their activities as much in a political as in a commercial field... In this connection you will further inform the president that the US is most anxious to speedily and satisfactorily arrange all contentious matters between the two governments and would regret to see their settlement delayed by external complications."<sup>144</sup> Before sending the cable in October 1<sup>st</sup>, Ryan changed "European" for "monopolies," but as far as the Pearson contract was concerned the meaning was that the Colombian government should be warned that accepting the Pearson contract could jeopardize the negotiations around reparations for Panama. That same day, the US government offered Colombia \$20 million as reparations for Panama; something the Colombian government said it would accept if the US included a clause in the document expressing regret for what they had done.<sup>145</sup>

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<sup>144</sup> Calvert, "Murray," 211.

<sup>145</sup> Lael, *Arrogant*, 98.

Things were not going well for Pearson back in Britain, where Cowdray himself had to confront the rumors in London that he wanted to build a canal in Colombia.<sup>146</sup> The American press, however, continued reporting that Pearson was working for the British government and wanted to build a competition to the Panama Canal.<sup>147</sup> From this moment, Panama would be inevitably linked to the contract's fait.

### Rejecting the Home Country: Negative Effects of British Diplomacy

The negotiations around the Panama Canal and the opposition of US companies and government to the Pearson contract created a very delicate diplomatic situation in which Britain's actions hurt rather than helped Pearson. The problems started years earlier when during the Reyes' administration, a group of Colombian businessmen established the Great Central Northern Railway of Colombia in London. So even though the company did not have British investors it was formally a British corporation. The company signed a contract with President Reyes, which was declared null by the Restrepo administration because Congress had never approved it. The investors protested and requested the intervention of the Foreign Office, who submitted a formal protest in 1912 and suggested to bring the case to The Hague. After the Colombian government refused to do that, the Foreign Office demanded international arbitration. When Murray

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<sup>146</sup> "No Darien Invasion: Pearson Concession will not violate the Monroe Doctrine," *New York Times*, 24 September, 1913, 4.

<sup>147</sup> "Suggests Rival to Canal: Colombia might cut one with English money, says London paper," *New York Times*, 27 September, 1913, 1.

and Ribon arrived to Colombia, the British embassy was busy dealing with the “Puerto Wilches affair,” as the case was known, and with another more embarrassing and unpopular case.<sup>148</sup> The second case involved a British citizen (some Mr. Hughes), who wounded a Colombian while drunk in a fight. A judge imposed a sentence on him, but the British embassy wanted the Colombian government to repeal it.<sup>149</sup> In the midst of the Pearson negotiations, the British ambassador Wyndham even went to talk directly to Colombian President Restrepo to warn him that the British government would not accept any punishment against Hughes. Restrepo replied, “If you don’t like it, feel free to send the British Navy.”<sup>150</sup>

The disproportionately strong British reaction to protect a company with no British subjects and a drunkard made many (including President Restrepo) worry about the consequences signing a contract with a powerful company like Pearson, which members in the British Parliament.<sup>151</sup> If the British government was willing to use diplomatic pressures in these two cases, what would happen with a company like Pearson with members in Parliament? Restrepo expressed his concerns to Murray, who agreed with the president.<sup>152</sup> Murray immediately cabled London requesting to pressure the Foreign Office to “move cautiously” regarding the Puerto Wilches affair,<sup>153</sup> while some

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<sup>148</sup> Lael, *Arrogant*, 95.

<sup>149</sup> Carlos E. Restrepo, *Orientación Republicana* (Bogotá, 1972), 166-167.

<sup>150</sup> Restrepo, *Orientación*, 167-168.

<sup>151</sup> Restrepo, *Orientación*, 148-149.

<sup>152</sup> Restrepo, *Orientación*, 143-144, 170.

<sup>153</sup> “Telegram from Lord Murray to Lord Cowdray,” Bogotá, 14 October, 1913, PC.

Colombian senators demanded that the government should retaliate British intervention by rejecting the Pearson contract.<sup>154</sup>

Despite Murray's requests to stop supporting the Grand Central Northern Railway and Hughes, Wyndham refused to change his policy. He acknowledged to Foreign Secretary Sir Edward Grey that his actions did not benefit Pearson. However, he believed that his role as ambassador was to protect British interests without discrimination and without sacrificing one company for the benefit of another one.<sup>155</sup> A few days later, Grey cabled Wyndham telling him not to postpone solving the Puerto Wilches affair in order to help Murray.<sup>156</sup>

Murray, Veatch, and Ribon found only one radical solution to deal with the problems generated by the British embassy: to put forward a proposal with which they would be registered as a Colombian company and stripped themselves from any protection right they could get as British citizens.<sup>157</sup> This was even more aggressive than the previous commitment to not seek diplomatic support. After submitting the modifications, Murray told the president that London investors would be furious when they find out that it was he the one who included the most nationalistic clause in the contract, so this was another reason they needed to have the contract approved soon.<sup>158</sup>

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<sup>154</sup> From Lord Murray to Lord Cowdray, Bogotá, 15, October, 1913, PC; Calvert, "Murray," 216.

<sup>155</sup> From Wyndham to Grey, Bogotá, February 4, 1914, in *British Documents on Foreign Affairs*, vol. 9 (Frederick, MD, 1989), edited by Kenneth Bourne and Cameron Watt, 187.

<sup>156</sup> Calvert, "Murray," 217.

<sup>157</sup> From Lord Murray to Restrepo, Bogotá 22 October 1913, PC.

<sup>158</sup> From Lord Murray to Restrepo, Bogotá 24 October 1913, PC.

Then Murray sought new allies: he told General Jorge Holguín that he needed his cooperation for “full discussion” of the contract in congress and contacted Diego Martinez to tell him that now he was willing to discuss business with him.<sup>159</sup> The negotiations over Panama, however, made that changing its corporate citizenship was not enough for Pearson to get the contract.

### Wilson’s Hemispheric Policy and Colombian Oil Politics

In October 27, 1913, just a few days after Murray included the clause that stripped Pearson from British diplomatic protection, recently elected President Wilson gave a speech in Mobile (Alabama), in which he declared his opposition to the concession system in the Americas. Wilson said that his government would oppose any attempt by foreign companies to control the economies and politics of poor countries eager to get capital to modernize their societies.<sup>160</sup> Ironically, he was giving this speech also in times in which American companies like United Fruit were getting generous concessions from the governments of the small Central American republics.

Between October and November, Murray faced an overwhelmingly strong American opposition. In October 31, Archbishop Herrera’s brother told Murray “in strict

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<sup>159</sup> Telegram from Lord Murray to Holguín, Bogotá, 30 October, 1913; from Lord Murray to Martinez, Bogotá, 31 October, 1913, PC.

<sup>160</sup> Woodrow Wilson, “Address before the Southern Commercial Congress in Mobile, Alabama, 27 October, 1913” in *The American Presidency Project* (Santa Barbara, 2007), online version (<http://www.presidency.ucsb.edu/ws/?pid=65373>).

confidence” that the US ambassador had requested his exclusion. The same date, Ribon heard from an “unquestionable source” that Washington had told the Colombian government that the Pearson contract would hurt the negotiations.”<sup>161</sup> That day Murray reported that things were looking worse every time with the American opposition, and that the British press was not helping by saying that Pearson was fighting for Britain as a whole.<sup>162</sup> The day after, Lord Cowdray called for a press conference in London in which he denied any connection with the Huerta dictatorship, as had been published in the *London Morning Post*.<sup>163</sup> The same day, both Wyndham and Murray received new reports saying that the US had told the Colombian government not to give Pearson the contract.<sup>164</sup> It was only until this moment when Foreign Secretary Grey in London knew that Murray had voluntarily renounced to any right to be defended by the British government. Although Grey was unwilling to confront the US for Pearson, he also disliked the fact that the firm was setting a precedent with these kinds of clauses.<sup>165</sup> In the meantime, US Secretary of State Bryan was sending a telegram to all the American embassies, telling them that they should do everything they could against Mexico’s Huerta,<sup>166</sup> while Lord Cowdray found an increasing amount of articles in the American

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<sup>161</sup> “Précis of American opposition to Concession: Colombia,” February 1914, PC, 134.

<sup>162</sup> From Lord Murray to Lord Cowdray, 30 October 1913, PC.

<sup>163</sup> “Précis of American opposition to Concession: Colombia,” February 1914, PC, 134.

<sup>164</sup> Calvert, “Murray,” 217; “Précis of American opposition to Concession: Colombia,” February 1914, PC.

<sup>165</sup> Calvert, “Murray,” 218.

<sup>166</sup> Lael, *Arrogant*, 93.

press saying he and his company wanted to control Colombia.<sup>167</sup> The Americans were attacking from all fronts, and Murray did not seem to have powerful allies in Colombia.

Despite Murray's insistence on pressuring Congress to approve the contract, President Restrepo did not move his political influences to help Murray. In the memoirs he wrote years later, Restrepo said that after realizing the strong US opposition to the Pearson contract, he did not want it to be approved, but he did not want it to be rejected either. According to Restrepo, in late October he decided to use Murray's presence as a way to pressure the United States to start the negotiations on Panama soon and pay Colombia reparations.<sup>168</sup>

During mid-November, the Colombian opposition continued using the Puerto Wilches affair as evidence of what would happen if Pearson operated in Colombia. This led Murray to write desperate telegrams to London pleading the company to request the Foreign Office not to intervene in Pearson's behalf.<sup>169</sup> The Foreign Office told Wyndham that no law could strip a British citizen of protection, but it also informed the Wilson administration that the US could count on Britain in its fight against Huerta.<sup>170</sup>

Given that Pearson's enemies used his activities in Mexico (and his alleged alliance with Huerta) as evidence of how dangerous he was, the Colombian senate decided to request a report on Pearson's Mexican operations. They appointed Lisandro

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<sup>167</sup> "Précis of American opposition to Concession: Colombia," February 1914, PC.

<sup>168</sup> Restrepo, *Orientación*, 162.

<sup>169</sup> From Lord Murray to Lord Cowdray, Bogotá 12 November 1913; From Lord Cowdray to Lord Murray, London 14 November 1913, PC.

<sup>170</sup> Lael, *Arrogant*, 94; Calvert, "Murray," 218.

Maldonado, an official from the Colombian embassy in Mexico, to write a report.

Shortly after his appointment, Maldonado approached Pearson's officials in Mexico and demanded a participation in Pearson's business in exchange for a positive report. The company decided not to give in to Maldonado's threats fearing it could backfire.<sup>171</sup>

By November 21<sup>st</sup>, Murray reported that although there were many in Congress that wanted foreign direct investment, those opposing his contract were the Americans and those who had claimed petroleum rights but have not been able to execute them. During those days Secretary Bryan had cabled the embassy in Bogotá instructing them to "use its strongest efforts in a discreet and unofficial manner to secure the failure of the [Pearson] contract."<sup>172</sup>

In November 23, 1913, convinced that the US would never allow the contract to pass, Murray announced he was walking away from the negotiations: "I today withdrew contract as not in accord with dignity of house that we should be used as pawn in Panama negotiations," he reported to Lord Cowdray.<sup>173</sup> Murray decided to leave Colombia immediately, not without sending a note before leaving to the US ambassador blaming his government for the final outcome of the negotiations.<sup>174</sup>

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<sup>171</sup> From Body to Lord Murray, Mexico, 29 December, 1913, PC.

<sup>172</sup> Lael, *Arrogant*, 94.

<sup>173</sup> "Précis of American opposition to Concession: Colombia," February 1914, PC.

<sup>174</sup> Calvert, "Murray," 221.

## World War I, Panama, and the Arrival of the American Oil Companies

The breakout of World War I forced the postponement of the Panama negotiations between Colombia and the United States. Despite the firmness with which they reported the decision to leave Colombia, Murray and Ribon kept watching closely the Colombian political events in the months to come, still hopeful that a Panama settlement would create better conditions to re-start negotiations.<sup>175</sup> Their failure at getting the contract in 1913, however, determined American control over Colombian oil resources. After the war, the Colombian government wrote a nationalistic oil legislation declaring the subsoil property of the state for both public and private lands. The American oil companies considered the new legislation a potential threat, and the US government decided to postpone the ratification of a Panama settlement treaty until the Colombian government made some changes to its oil laws.<sup>176</sup> A few months later, the Colombian Supreme Court declared the nationalist legislation unconstitutional opening the doors to Standard Oil (New Jersey). Standard needed the relations between Colombia and the United States to go back to normal in order to do business in the South American country, so a company's

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<sup>175</sup> From Ribon to Wyndham, London, March 13, 1914; from Garson to Veatch, Bogotá 17, February, 1914; from Ribon to Garson, London, 28 February, 1914; from Reyes to Lord Murray, Paris, April 8, 1914; from Garson to Ribon, Bogotá, April 1, 1914; from Bernard to Lord Cowdray, Paris, May 30, 1914; from Koppel to Ribon, Bogotá, 28 April, 1914, PC.

<sup>176</sup> Mira Wilkins, "Multinational Oil Companies in South America in the 1920s: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, and Peru," *Business History Review*, 48, (1974), 430; Wilkins, Mira, *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970* (Cambridge, 1974), 27; López, "La cuestión del Canal, 164.

agent, James Flanagan, lobbied at the reluctant Republican senators to have them approve the payment of reparations to Colombia.<sup>177</sup>

In 1921, the US Congress approved a treaty with which Colombia recognized Panama's independence and the United States paid \$25 million in reparations. By that time, ambassador Wyndham reported that British companies had little or no hope of entering the Colombian oil industry: "the consideration of British proposals for operations on a large scale has been indefinitely postponed."<sup>178</sup>

### Conclusion

The negotiations between Pearson and the Colombian government constitute a fascinating case for our understanding of how corporations negotiated the expansion of their operations in sovereign countries during the first globalization (1870-1914). The case brings the simultaneous worldwide expansion of two economic empires together with the complexities of the domestic politics of a poor country experimenting with democratic institutions. Although this company had previously made deals with countries with more solid democracies like Britain or the United States, it had only negotiated oil concessions with repressive governments. The Pearson negotiators came from countries in which opposition was tolerated, and the media had no serious

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<sup>177</sup> Taylor Parks, *Colombia and the United States, 1765-1934* (Durham, 1935), 452-456; De la Pedraja, *Historia de la Energía*, 192.

<sup>178</sup> "Colombia: Annual Report, 1920," *British Documents*, 213.

ensorship. However, they resented the fact that, in Colombia, they had to negotiate with different political interests and had to reckon with a free press.

The negotiators quickly learned that the country's president was not a "strongman," and started a gradual lobbying process with the opposition parties and the Catholic Church. The presence of an influential media and the interests of the local elite (such as those of Diego Martinez) were largely ignored, however, in spite of the weight these non-state actors could have in the formal political parties. Murray, Ribon, and Veatch approached these actors belatedly and clumsily. In any democracy, pressure groups and constituencies are important actors and they were playing a relevant role in Colombia's democratic experiment

Cowdray and Murray were aware that they were encroaching on "US territory." Their perception of what this meant, however, was very limited. They believed that the most important thing for them to do was to disclose information of their activities to the US ambassador. They ignored to take into account the effects of the US expansion in the Colombians' attitude towards foreigners. Not realizing the political cost for a democratic government to cede large amounts of national territory of a country that had recently lost land to the other superpower shows the negotiators' ignorance in these matters. Some in Colombia might have seen Pearson as counterweight to the United States, but this did not change the fact that it was a foreign Anglo-Saxon company, with a reputation for intervening in the host countries' domestic politics, which sought the natural riches of the country: the negotiators did not seem aware of this liability.

What possibilities did the host country have? Colombian negotiators were able to get important concessions from Pearson, such as the reduction of the land size, the

payment of royalties according to the oil price, and higher initial investments. Had not the Americans intervened, Colombia would have signed one of the most favorable oil contracts for the host country in the continent. In the whole process, however, Colombia was weak. It was a poor country with scarce capital trying to recover some of the loss of Panama from an overwhelmingly strong superpower. It could not make British and Americans compete with each other in a way it benefited the country, nor could it do anything against American threats. The sad truth is that the payment of the Panama reparations was not a triumph of Colombian diplomacy, but of US oil corporations' lobbying.