Doing business in a wave of nationalizations: Philipp Brothers and the Bolivian tin experience

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On October 31, 1952, the Bolivian government nationalized all the tin mines owned by the Patiño, Hochschild and Aramayo companies. The holdings of the three "tin barons", which made up three-quarters of the domestic tin industry, were turned over to the state owned *Corporación Minera de Bolivia* (COMIBOL). The act of nationalization was a watershed in modern Bolivian history: it marked the end point of the influence of the previously powerful tin oligarchs in the Bolivian society, and it gave the government direct control over the country's dominant export product. At the time, tin exports made up about 30 per cent of the country's total gross domestic product (and about 80 percent of the total export value).[1] As befits the national importance of the industry, there is an extensive body of work that deal with the development of the Bolivian tin mining industry before and after the nationalization, and there is a still lively debate about the role of the tin barons and the effects of the state ownership of the tin mines.

Less well known is the fact that the nationalization drive did not only concern the three big tin companies but also one smaller operator. In 1952, the Bolivian government also nationalized a tin mine owned by Philipp Brothers, a small US company which had operated in Bolivia since the mid-1920s. On the surface, it was a shattering blow for the American company. During the preceding three decades, Bolivia had been the centre of business for this small multinational company. Seemingly, the act of nationalization was disastrous for Philipp Brothers.

However, the reality was very different. The Philipp Brothers company had itself engineered the state takeover and after the loss of the mine the company's Bolivian operations became more profitable than ever. The reason for this development lay in the special relationship that Philipp Brothers established with the ever-shifting Bolivian governments. During the next couple of decades, the American company became COMIBOL's most important selling agent and financier. More importantly, the business model that Philipp Brothers developed in Bolivia was used with great success in other regions of the world. Soon, the company grew into an international giant. By the late 1970s, the company had become a "$9 billion supertrader", dealing in over 150 different

[1] William Baldwin, *The World Tin Market: Political Pricing and Economic Competition*, Durham, North Carolina 1983, p. 43 (figure for 1955)

industrial raw materials with representatives in virtually every country in the world possessing metals or minerals of commercial quality.[2] The lessons that the company learnt in Bolivia were central to this development.

The story of Philipp Brothers in Bolivia is important in and of itself, but it is also linked to the larger question of the relationship between emerging market economies and multinational companies in the extractive industries in the post-war world. From the 1950s and onwards, resource rich nations became increasingly critical to the way foreign multinational countries dominated the extraction of their natural resources. Foreign ownership over mining and petroleum was particularly regarded as incompatible with national control over such vital resources.[3] Gradually, host governments started to assert control over domestic mines and oil wells, and especially from the late 1960s there was a wave of expropriations of foreign assets. By 1976, virtually all large-scale mining and petroleum ventures in the non-Western world had been nationalized.[4] The nationalization drive in Bolivia was thus in some ways a harbinger of what was to come.

The basic chronology of the international expropriation wave has been well documented, and we know how the acts of nationalization changed the power relations between the (predominantly) Western mining companies and the resource rich host countries. The existing literature has established the firm and industry factors that affected vulnerability to be expropriated, and the pattern of expropriation over time.[5] Yet, the focus of this paper is different. The aim is not to analyse the state takeovers as such, but to study what happened after the acts of expropriation. The host countries could, if they wanted to (and in the 1960s and 1970s they generally did want), take control over their natural resources, but the nationalization wave broke up established chains of vertical integration. The mining multinationals had not only dug the minerals and metals out of the ground, they had also processed and marketed them; after nationalization the host countries therefore had to figure out what to do with the output

[2] ”Inside Philipp Bros., A $9 Billion Supertrader”, *Business Week*, September 3, 1979, p. 106.
[3] Geoffrey Jones, *Multinationals and Global Capitalism*, p. 211.
[4] Stephen. J. Kobrin, ”Expropriations as an attempt to control foreign firms in LDCs: Trends from 1960 to 1979”, *International Studies Quarterly*, vol. 28, no. 3 (Sep., 1984), p. 338.
[5] Kobrin, ”Foreign Enterprise and Forced Divestments in the LDCs”, *International Organization* 34 (1): 65-88 and Kobrin (1984).

of natural resources. In a broad sense, the paper deals with how states dealt with this issue and how it changed the international extractive industries. The relationship between the Bolivian government and Philipp Brothers will be used as a way in to understand international business in an era of state takeovers.

The paper has three parts. The first part gives an outline of the early history of Philipp Brothers and its operations in Bolivia, while the second deals with the Bolivian nationalization of the large tin mines and how the government organised its new holdings and the role that Philipp Brothers assumed in the country. This part also analyses how the American company adopted the business model it developed in Bolivia to its operations in other parts of the world. The third and final part will be a broader discussion of the nationalization wave and how it affected the power relations between host countries in the developing world and multinational companies.

"[T]he only country where interesting money could be made […]": Philipp Brothers and Bolivia

In 1926, Siegfried Ullman travelled by steamer to Brazil, before he went on to Argentina, sailed to Chile and then rode a train to Bolivia. He returned to New York by way of Peru and through the Panama Canal. It was a strenuous journey, but Ullman was not travelling for pleasure: he was a partner in Philipp Brothers Inc., New York, and he was looking for business opportunities for his firm. Of all the countries that he visited, Bolivia appeared to be the most promising and "[…] the only country where interesting money could be made […]".Ullman was especially taken with the possibilities that he found in the mining centres of Potosí and Oruro. Two years later, the company opened up an office in Oruro, soon followed by another one in Potosí.[6]

It is not strange that the mining Eldorado of Bolivia should strike Ullman's fancy, Philipp Brothers was after all a specialized ore and metal trading company. Yet the

[6] Letter from Esteban Felsenstein to Helmut Waszkis, June 9, 1977, and Waszkis' notes from interview with Felsenstein in London, August 23, 1978, both in Philipp Brothers collection, box 1, folder 1, Leo Baeck Institute, New York. The story of Ullman's Bolivian journey is also told in Helmut Waszkis, *Philipp Brothers: The Rise and Fall of a Trading Giant 1901-1990*, Worcester Park, Surrey: Metal Bulletin Books, p. 70-71.

advance into South America was a daring move for the company. Philipp Brothers was a very small operation: apart from the two partners who owned the company, Ullman and Siegfried Bendheim, it employed an office boy, a secretary and a bookkeeper. Ullman and Bendheim bought scrap, residues and metals in the US and exported it to Europe. It was this European link that made it possible for the New York company to take the leap into Bolivia. Philipp Brothers formed part of a small group of European metal trading companies built up by Julius and Oscar Philipp, the brothers commemorated in the New York company's name.

The group's origin went back to 1901 when the young Julius Philipp started a metal trading company in his hometown of Hamburg, Germany. He slowly and carefully expanded his business, and his first recruit was his younger brother, Oscar. In 1909, Oscar Philipp went to London to set up a new company owned jointly by the two brothers. By 1914, the twin companies were moderately successful, trading metal mostly on commission basis, but also making money from arbitrage between firms operating on the metal exchanges in London and Hamburg. The partners in the American offshoot had close links to both of the brothers Philipp. Siegfried Bendheim had joined the London company in 1911 as a partner, but after the outbreak of WWI he had to leave Britain to avoid internment (Oscar Philipp obtained British citizenship in June 1914). He went to New York where he established Philipp Brothers Inc. In 1923, Siegfried Ullman, a second cousin of Bendheim who had previously worked for the two brothers Philipp in Hamburg and London, became a partner in the New York company. The family of companies were further expanded in 1918 when Oscar Philipp set up a new venture in Paris with his French brother-in-law.[7]

It was this group of companies that Ullman turned to when he returned from South America and the Bolivian operations were established as a joint venture between the New York, London and Paris companies. New York were responsible for managing the Bolivian venture, but since nearly all the metal and ores bought in Bolivia were sold in Europe, London handled the contacts with the European smelters and consumers. At first, Ullman himself bought Bolivian ores from his office in New York, but in 1928 the partners decided to send Arthur (Arturo) Gruenebaum to open up an office in Oruro. The 24-year old Gruenebaum had learned the trade first working for Julius Philipp in Hamburg, and then for Oscar Philipp in London and Berlin. Gruenebaum's mandate was

[7] The account is based on Waszkis, p.

to buy ores, minerals and other metallic raw materials and ship them to Europe or the US, depending on demand.

Although the legend of Bolivian metal riches had been built on the silver that poured out of the region during the Spanish reign, by the interwar years the primary mining product of the country had shifted to tin. Tin had always been an important by-product of silver mining, but the transportation costs from the highlands of Bolivia to the industrial centres of Europe and North America had been too high for the Bolivian output to compete with European tin. However, the invention of tin canning and a long range of other industrial processes involving tin led to a dramatic increase in world demand for the metal. In addition, the traditional European mines, primarily in Cornwall, were becoming exhausted, and from the turn of the 20th Century, Bolivia became the second largest tin producer in the world after Malaya.[8]

Unlike what had been the case with the old silver mining industry, local capitalists became the dominant group in control of the industry. This happened despite the fact that Bolivia at the time was open to foreign investments in mining and although several powerful mining groups from Europe, North America and Chile invested in tin mines in the country, local entrepreneurs emerged as the dominant mine owners. Three major leaders controlled the domestic industry. The most powerful was Simon Patiño who had made his fortune when he struck one of the richest tin veins ever found in Bolivia in 1900, in turn making Patiño enormously rich. Allegedly his personal income in 1911 was already greater than that of Bolivia.[9] By 1929, he controlled almost 60 per cent of domestic production. Patiño also integrated downstream by acquiring control of Europe's largest tin smelter, Williams, Harvey in Liverpool.[10]

Patiño's main domestic competitors were the Aramayo-family and Mauricio Hochschild. The Aramayo's began as merchants in Bolivia, but expanded into silver mining in the mid-19th century. When the silver boom receded, the family successfully entered tin mining and built up extensive mine holdings.[11]

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[8] Herbert S. Klein, *A Concise History of Bolivia*, p. 155-156 and John Thoburn, *Tin in the World Economy*, p. 62-63.
[9] Charles Geddes, *Patino, the Tin King*, London 1972, p. 189.
[10] Thoburn, p. 72.
[11] Klein, p. 159 and Helmut Waszkis, *Dr. Moritz (Don Mauricio) Hochschild 1881-1965: The Man and His Companies. A German Jewish Mining Entrepreneur in South America*, Frankfurt am Main 2001, p. 81.

The last of the tin barons was the German Jewish immigrant Moritz (Mauricio) Hochschild. He was educated as a mining engineer and worked for Metallgesellschaft in the years before WWI. Hochschild then struck out on his own and after leading a wandering life he settled in Bolivia in the early 1920s. Hochschild rapidly broke into the industry, mainly because he was able to find an outlet for low-grade and complex Bolivian tin ores which had earlier had no export markets. Through his contacts with the Metallgesellschaft-sphere he was able to convince a German tin smelter to start using low-grade ores. At first, Hochschild purchased the ores from miners, but he soon expanded into mining as well, soon eclipsing the tin mine holdings of Aramayo.[12] By the outbreak of World War II, Patiño produced about 45 per cent of Bolivian tin output, Hochschild 23 per cent and Aramayo 7 per cent.[13]

By virtue of controlling the domestic tin industry, the three big tin owners in effect controlled the national economy. Tin made up 80 per cent of Bolivian exports and provided the state with its only secure tax base and input of foreign exchange.[14] Consequently, policy-making in the 1920s and the early 1930s were effectively in the hands of the tin barons. [15] The mining oligarchs were widely perceived to constitute a state within the state (a *superestado minero* or a mining superstate).[16] Although Patiño, Aramayo and Hochschild did not participate directly in politics, the shifting governments operated primarily according to the interests of the tin barons, a political system commonly known as the *rosca*.[17] The Bolivian organization that the fledgling Philipp Brothers company set up thus had to find its place in an industry totally dominated by three large players and in an unstable political environment where tin was of primary importance.

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[12] Helmut Waszkis, *Dr. Moritz (Don Mauricio) Hochschild 1881-1965: The Man and His Companies. A German Jewish Mining Entrepreneur in South America*, Frankfurt am Main 2001, p. 76-77. According to Waszkis, Hochschild was second cousin to Siegfried Bendheim, see Waszkis, *Philipp Brothers*, p. 77.
[13] John Hillman, "Bolivia and British Tin Policy, 1939-1945", in *Journal of Latin American Studies*, vol. 22, no. 2 (May, 1990), note 9, p. 291-292.
[14] James Dunkerley, *Rebellion in the Veins: Political Struggle in Bolivia, 1952-1982*, London, 1984, p. 6.
[15] Juan Antonio Morales, "Economic Vulnerability in Bolivia", in John Crabtree and Laurence Whitehead (eds.), *Towards Democratic Viability: The Bolivian Experience*, Gordonsville, VA, 2000, p. 42
[16] James Dunkerley, *Rebellion in the Veins: Political Struggle in Bolivia, 1952-1982*, London, 1984, p. 6.
[17] Klein, p. 157. See also Baldwin, p. 26.

When Arturo Gruenebaum arrived in Bolivia, he knew no Spanish, but he apparently very quickly started to purchase ores and metals, mostly tin, but also some tungsten, antimony and bismuth ores, in addition to skins and hides. Gruenebaum focused his attention on the small and medium scale tin miners, fitting them out with mining material, supplies and loans, and in return being allowed to purchase their output.[18] Buying from small-scale miners for resale, generally known as *rescate*, pitted Philipp Brothers directly against Mauricio Hochschild.[19] Hochschild had started out as a *rescatador* in Bolivia, and though he was now also involved in large-scale mining, he continued to purchase production from the smaller mines as well. Gruenebaum went to work and swayed small producers away from his competitors, including Hochschild, by granting larger advances than the other ore buyers. According to company legend, Hochschild actively worked against the newcomer, and through connections in the post office, Hochschild may even have gone as far as to read all telegrams and letters sent to Gruenebaum before they were delivered to him.[20] It was a valuable lesson, and Philipp Brothers soon found a way around the competition having access to its information flow.

The competition with the other *rescatadores* was fierce, but the main challenge quickly turned out to be the general economic situation. The tin markets were by no means immune to the effects of the Great Depression, and from 1929 onwards the tin prices went only one way: downwards. As the demand for tin dissipated, Gruenebaum's large advances soon caused great concern to the partners in the venture. With dropping tin prices, many miners were soon unable to repay their advances and many had to close down. Philipp Brothers suffered substantial losses. In the beginning of 1932, Arturo Gruenebaum was called to London and New York to discuss what to do. The owners seriously considered to close down the Bolivian operations, but in the end decided to

[18] Letter from Esteban Felsenstein to Helmut Waszkis, June 9, 1977, and Waszkis' notes from interview with Felsenstein in London, August 23, 1978, both in Philipp Brothers collection, box 1, folder 1, Leo Baeck Institute, New York.
[19] For a detailed description of the *rescate* business, see Waszkis 2001, p. 66-68.
[20] Waszkis, *Philipp* Brothers, p. 78. According to a letter from 1933 from a manager working for another competitor in Potosi, Duncan Fox Compañia, Hochschild regularly paid off the postal workers in that city to get access to the correspondence of his competitors before it was delivered to them. Quoted in Roberto Querajazu Calvo, *Llallagua: Historia de una Montaña*, second edition, La Paz, 1978, p. 172.

continue. All costs were cut, and Gruenebaum was ordered to stop paying out advances.[21]

The perseverance in Bolivia gradually paid off, and two factors were especially important in this regard. First of all, the large producer nations organized an International Tin Agreement and from 1931 and onwards the large producers drastically reduced the output of tin, first to 65 per cent of total production in the peak year of 1929, and then successively down to 33 per cent towards the end of 1932. The cutbacks in production led to rising prices on the world market, a development which was very noticeable from 1934 and onwards.[22]

While the export quotas led to higher prices, it also meant that mining companies were stuck with tin that they had no takers for. Gruenebaum took advantage of this situation and bought up "un-exportable ores which literally could be had for a song" and stockpiled them until it was possible to ship the tin off to Europe.[23] Unlike the large Bolivian miners, Philipp Brothers apparently did not feel too attached to the export restrictions established by the international tin agreement, and exported more than the Bolivian quota allowed.[24] The tin business soon became very profitable for the Philipp Brothers organization. In 1936, the company handled 4,50 per cent of all Bolivian tin exports.[25]

Yet as the general business conditions were slowly looking up, the Bolivian government was taking an ever-increasing interest in the country's tin exports. Partly this was caused by the precarious state of the Bolivian state finances, and partly it was a reflection of the growing radicalisation of Bolivian politics after the end of the disastrous Chaco-war with Paraguay in 1935. The effects of the Great Depression and the costly war with Paraguay left the Bolivian state in a desperate need of income, and the tin industry was the only significant source of foreign exchange. During the Chaco war the mining companies, as a temporary measure, had to hand over parts of their foreign

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[21] Minutes of meeting between Oscar Philipp, Rene and Edmond Weil, and Arthur Gruenebaum, Paris, January 4, 1932 and meetings between Bendheim, Ullman and Gruenebaum, New York, February 8 and 11, 1932, Philipp Brothers collection, box 1, folder 1.

[22] Roberto Querejazu Calvo, *Llallagua: Historia de una Montaña*, La Paz 1978, p. 167-168.

[23] Letter from Ullman to Josef Hirsch, 9 February 1933 and letter from Ullman to Gruenebaum, 24 March 1933, Philipp Brothers collection, box 1, folder 1.

[24] Querejazu Calvo, p. 171.

[25] León E. Bieber, *Pugna por Influencia y Hegemonia: La rivalidad germano-estadounidense en Bolivia, 1936*-1946, Frankfurt am Main, 2004, p. 16.

earnings to the Central Bank to be converted to local currency at a fixed and lower than open market rate. However, after the end of the war the policy was not removed and from June 1939 the newly installed president German Busch (who had assumed the role of dictator upon ascension to power) ordered that all foreign earnings should be deposited with the state.[26] Due to the political developments in the country in the late 1930s, the shifting Bolivian governments were becoming more and more willing to adopt policies which directly harmed the interests of the tin barons.

In addition, and more importantly for Philipp Brothers, all private companies were forbidden to continue with the *rescate* business, hereafter only the state-owned *Banco Minero* was allowed to purchase ores from the small mines. The two largest *rescatadores*, Hochschild and Philipp Brothers, immediately protested against the decision and tried to summon support among small-scale miners. As a response, Busch had Mauricio Hochschild and Arturo Gruenebaum arrested. He ordered Hochschild executed, and sentenced Gruenebaum to a lengthy prison sentence. Only the intervention of key cabinet ministers saved Hochschild. The volatile Busch soon thereafter committed suicide.[27]

Although Busch was dead and Gruenebaum was set free, the fact of the matter was that Philipp Brothers no longer could purchase tin from the small miners, only from the limited number of medium sized mines. Should the company leave the *rescate* business, like its competitor Duncan Fox now did, or should it continue?[28] The company directors decided to continue, but reorganised the operations in Bolivia to match the new reality. The office in Potosí, which had only bought from small miners, was closed down, while the Oruro office continued to do business with medium mines. More importantly, Gruenebaum now relocated to La Paz, where he opened up an office to be able to purchase from *Banco Minero*.[29] Although the state bank now had a buying monopoly, Gruenebaum recognised that this created new business opportunities.

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[26] Querajazu Calvo, p. 195 and 210 and Klein, *Parties and Political Change in Bolivia, 1880-1952*, p. 314.
[27] Augusto Céspedes, *El Dictador suicida: 40 años de historia de Bolivia*, La Paz 1956, p. 219-221, Waszkis, *Hochschild*, p. 107-111 and Querejazu Calvo, p. 218-225.
[28] Duncan Fox and Compania had been active in the *rescate* business for several decades but decided to leave the business after the Busch decree, see memorandum by Oscar Hirschfeld, "Erz-Produktion in Bolivien", dated December 1947, Hochschild collection, series III: periodicals, subseries 2: other, Leo Baeck Institute.
[29] Letter from Estéban Felsenstein to Helmut Waszkis, October 31, 1978, Philipp Brothers collection, box 1, folder 1.

Instead of dealing with the small miners, Philipp Brothers started to sell on consignment overseas for *Banco Minero* and also to purchase from the bank for sale in Europe. *Banco Minero* might have a monopoly to purchase in Bolivia, but the bank lacked the metal trader's network, customer base and expertise in selling to tin smelters overseas.[30]

Throughout the politically very explosive decade of the 1940s, Philipp Brothers continued to operate successfully in Bolivia, partially through trading the output of the medium mines, but more importantly profiting from its relations with *Banco Minero*.[31] Due to the outbreak of World War II it soon became impossible to sell to customers on the European mainland, instead Philipp Brothers turned to the United States. Already in the late 1930s the US government had started to worry about tin. Although the country was the world's largest consumer of tin it possessed no significant domestic deposits, and no tin smelters. In a war situation, the US could therefore potentially be cut of from all supplies of a material which was absolutely essential for waging war. From the summer of 1940, the US government urgently started to expand its stockpile of tin, and later in the year it also decided to build a tin smelter in Texas.[32] Philipp Brothers secured valuable contracts to supply both the stockpile and the smelter.

At the end of World War II, the US continued to be the most important market for Philipp Brothers' tin trade. During the war the US and British authorities had established a *Combined Tin Committee* in Washington D.C. which exercised almost complete control over the tin markets in the allied nations. The committee continued after the end of the war, and it decided that all Bolivian tin, except for that produced by Patiño, could only be sold in the US.[33] Since the US government was now almost the only customer for tin,

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[30] The Hochschild organisation also developed a brisk business with *Banco Minero*, see Gerhard Goldberg, "The History of the Hochschild Group", unpublished and undated manuscript, Moritz Hochschild collection, Leo Baeck Institute, p. 75. Goldberg worked for Hochschild from the 1930s and until 1965.

[31] Letter from Oskar Mayer to Helmut Waszkis, July 22, 1978, Philipp Brothers collection, box 1, folder 1. Philipp Brothers also had a very active trade in exotic Bolivian hides and skins in this period, see letter from Henry Rothschild to Helmut Waszkis, July 19, 1978, Philipp Brothers collection, box 1, folder 1.

[32] For the US stockpile policy and the tin smelter, see K. E. Knorr, *Tin Under Control*, Stanford, CA: 1945), p. 177-180, for more on the Texas City smelter, see Glenn Dorn, *The Truman Administration and Bolivia*, (University Park, PA: 2011), p. 18-19.

[33] Dorn, p. 23.

Philipp Brothers' directors decided to transfer Arturo Gruenebaum from Bolivia to Washington so that he could handle the negotiations with the US authorities directly.[34]

At the same time, the company was expanding in Bolivia, even taking the step into mining. Since the early 1930s, Philipp Brothers had regularly bought tin concentrates from the *Santa Fé* mine in Oruro, the most important medium scale tin mine in Bolivia. The mine was owned by Gustavo Eickenberg, a German emigrant who had previously worked as an accountant for Mauricio Hochschild. After Bolivia declared war on Germany in April 1943, Eickenberg, as a German citizen, was sent to an internment camp in Argentina. The mine continued to operate under Eickenberg's mining manager, Arthur Dell. The Bolivian government headed by Gualberto Villaroel attempted to expropriate the mine as enemy property, but since Philipp Brothers had extended considerable credit to the mine, Gruenebaum, with the assistance of the US Embassy, was able to stop the process. Eickenberg afterwards transferred a controlling stake in the business to Philipp Brothers, and the US company continued to market the mine's output.[35]

The expansion could not disguise the fact that it was becoming increasingly difficult for foreign mining companies to operate in Bolivia. Growing popular unrest resulted in frequent strikes and regular uprisings, like the one in 1946 that ended with President Villarroel swinging dead from a La Paz lamppost. The unrest was countered by harsh repression. Hostility was also more and more directed towards foreign capital, creating dangerous working conditions for foreign engineers, and Mauricio Hochschild himself, still regarded a foreigner even after several decades in Bolivia, left the country after having narrowly escaped death when he was kidnapped for several weeks in 1944.[36]

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[34] Waszkis, *Philipp Brothers*, p. 99.

[35] The account is based on letter from Max Basch to Helmut Waszkis, July 10, 1978, Philipp Brothers collection, box 1, folder 1; letter from Henry Rothschild to Waszkis, July 6, 1978, Philipp Brothers collection, box 1, folder 1; Waszkis' notes on conversation with Arthur Dell, June 1978, Philipp Brothers collection, box 1, folder 1; and memorandum by Oscar Hirschfeld, "Erz-Produktion in Bolivien", dated December 1947, Hochschild collection, series III: periodicals, subseries 2: other. See also letter from Arturo Gruenebaum to Ernesto Leonardo, August 2, 1949, Philipp Brothers collection, folder 1, box 1.

[36] For the difficult situation for foreign engineers in this period, see for instance Querejazu Calvo, *Llallagua*, p. 338-346 and Waszkis' notes on conversation with Arthur Dell, June 1978, Philipp Brothers collection, box 1, folder 1; Hochschild's kidnapping is

The situation came to a head with the National Revolution of 1952. After a few days of fighting, the radical *Movimiento Nacionalista Revolucionario*(MNR) came to power in April 1952 with Victor Paz Estenssoro as President. During its time in opposition, the MNR leaders had preached the gospel of nationalization of the large tin mines, but it took some months before it finally decided to go through with the policy. At first the new regime in June 1952 decided that all mineral exports from Bolivia should be handled by *Banco Minero*. The large tin mine owners now would have to apply to the government for any foreign exchange and it gave the government the tool to closely monitor and regulate the mines. On October 31, 1952, President Paz Estenssoro finally announced the nationalization of the Patiño, Aramayo and Hochschild mines, which were handed over to the newly established COMIBOL.[37]

The act of nationalization, although hardly unexpected, created waves and immediately drove the former owners to seek compensation. The decision did not affect the small and medium mines which could continue to operate as before. However, Philipp Brothers approached the Bolivian government and offered the Santa Fé mine to COMIBOL. The mine had turned out to be a problematic investment for the US company. The artificial exchange rate that the company had to adhere to made it impossible to make a profit on the mine, but although it was loosing money on the mine, due to the Bolivian social laws and internal politics, Philipp Brothers could not close the mine down. By talking COMIBOL into taking over the mine, Arturo Gruenebaum solved a difficult problem for Philipp Brothers. In return for giving up ownership of the mine, Philipp Brothers was allowed to continue to handle the production.[38]

Nationalization of the large tin mines was a hugely popular move, and it was meant to serve as a signal to the population that the Bolivian state could control its own destiny and that it did not have to rely on the previously powerful tin barons. However, the government soon realised that succeeding on the international tin market was no easy matter. The tin price, which had attained a new high during the Korean War,

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treated in a number of works, but especially compelling is Adolfo Blum's eyewitness account of the affair written a few months after the ordeal. Blum was Hochschild's right hand man and was kidnapped together with his boss, "Bolivian incident", Hochschild collection, series III: periodicals, subseries 2: other, Leo Baeck Institute.

[37] This account mainly builds on Dorn, p. 163-182

[38] Letter from Henry Rothschild to Helmut Waszkis, July 6, 1978, Philipp Brothers collection, box 1, folder 1.

started to stagnate from 1952, not to rise again before 1961.[39] COMIBOL struggled to make a profit, partly because of mismanagement, but also because it struggled to market the output of its tin mines at acceptable prices. COMIBOL's difficult position was mirrored on the national level. The MNR government not only nationalized the large tin mines, but also carried out several ambitious and costly welfare reforms which were financed by printing money. From 1952 to 1956 the country experienced what one historian of Bolivia has characterized as "one of the world's most spectacular records of inflation".[40] Only US aid kept the country from a total economic collapse. Bolivia became the largest single recipient of US foreign aid in Latin America and the highest per capita in the world. In 1958, one third of the Bolivian national budget was paid for directly by US funds.[41]

US aid did not only come in the form of massive input of capital but also as food shipments. The crucial foodstuffs were channelled through the Agricultural Trade Development and Assistance Act passed by Congress in 1954 and popularly known as Public Law 480 (PL480). Due to high support prices given to American farmers, the country was building up huge agricultural surpluses that it was unable to sell, either domestically or internationally and PL480 was meant to aid international sales of agricultural products. The law contained a stipulation which opened up the possibility to barter US agricultural goods for foreign strategic materials. Since the objectives for the regular strategic stockpile had already been met by 1954, Congress created a supplemental stockpile for strategic materials. American corn, cotton and tobacco were bartered for minerals and metals from all over the world. By July 1959, 96 percent of the supplemental stockpile consisted of commodities which had been acquired through the barter program. From 1955 to 1957, the dollar value of the barter exports grew from $125 million to $400 million[42]. As a government official explained in an internal memo at the time: a program designated for and justified by additional exports of agricultural

[39] Dunkersley, p. 59.
[40] Klein p. 216.
[41] Klein, p. 217-218.
[42] Memo from Mann to Secretary of State, 16 July 1959 (National Archives College Park, MD, box 4, RG469 Records of the U.S. Foreign Assistance Agencies, 1948-1961. Dep. Dir. For Ops. Office of Food & Agriculture. Public Law 480 Division. Subject files, 1955-1962. 1955-1959 Surplus – Ad Hoc to Surplus – Press Releases. surplus barter program 1959, bilde 119-121).

commodities had been "guided and directed as a procurement program for materials for which, according to established criteria, we now have no further need."[43]

Philipp Brothers was one of the first private companies to grasp the possibilities that PL480 opened up.[44] Tin was high on the list of materials which could be bartered for agricultural products and from 1954 and onwards the company engaged in a string of barter operations exchanging Bolivian tin purchased from COMIBOL for US foodstuffs. The trade could take the form of one-dimensional barters, but the company also showed great inventiveness by creating triangular and even quadrangular barter operations. In one instance, Philipp Brothers bartered US surplus cotton for Japanese locomotives, which were exchanged with Bolivian tin concentrates. The ores were sent to a tin smelter in Britain before it was sold to the US supplemental stockpile.[45] Significant quantities of tin ended up in the US stockpile through these operations. In 1960 alone the quota for bartered tin was 10,000 long tons, nearly one fifth of total US tin consumption in that year.[46] Philipp Brothers continued to profitably barter Bolivian tin until the Kennedy government transformed PL480 to the "Food for Peace" program in 1963.

Through the PL480 deals Philipp Brothers cemented its special relationship with the Bolivian authorities. In the annual report for 1960 the company proudly emphasized its history in the country: "Operating in La Paz, Bolivia, the company has been closely associated with the Bolivian mining industry for more than three decades and has helped the Bolivian government to dispose of substantial tonnages of non-quota tin ore."[47] That relationship was only strengthened when COMIBOL built a tin smelter in the early 1960s to refine tin concentrates. Although most of the funding for the smelter was secured through loans from the US and Germany, Philipp Brothers also furnished credit to the Bolivian government to modernise the domestic tin industry. In return, Philipp Brothers continued to market large parts of COMIBOL's output.[48] Throughout the 1960s

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[43] Memo by Clarence Palmby, Deputy Administrator of the Commodity Stabilization Service of the Department of Agriculture, 9 July 1959, National Archives, College Park, Maryland. (box 4 surplus barter program 1959, bilde 131-136).
[44] Waszkis, p. 163-164.
[45] Bilde 312, National Archives. NOT COMPLETE REFERENCE!
[46] The US consumed 51,530 long tons of tin in 1960, see Baldwin, p. 47.
[47] Annual report of Minerals & Chemicals Philipp Corporation, 1960.
[48] Thoburn, p. 119 and annual report of Minerals & Chemicals Philipp Corporation 1964: "It also distributes on a world-wide basis the tin metal produced by the Fundición de

and 1970s, Philipp Brothers continued to lend money to the cash strapped and ever shifting Bolivian governments, but the loans were always coupled to marketing arrangements and secured with the mineral wealth of the country as collateral. As the Philipp Brothers directors explained in the few interviews that they gave: there would always be a market for metals and minerals.[49]

Decolonization and metal trading

By nationalising its large tin mines in 1952, Bolivia was in the forefront in implementing a policy that was soon to become a common occurrence. The history of the international natural resource industries between 1960 and 1980 is a history of expropriations and nationalizations, of fragmentation of vertical integration and of decline of intra-firm trade flows.[50] As the European colonial empires were dismantled and their spheres of interest were reduced, the newly independent countries in the global South became increasingly critical to the way that foreign multinational companies dominated the extraction of their natural resources. Gradually, the host governments started to assert control over domestic mines and oil wells, and especially from the mid 1960s there was a wave of expropriations of foreign assets.

The 1950s and the early 1960s was the heyday of large vertically integrated companies in natural resources. For instance: in the aluminium industry, six large companies contributed 90 per cent of total world production in the 1950s, the seven largest copper companies produced 65 per cent of world copper, while in the oil industry, the seven majors accounted for 85 per cent of gross crude oil production.[51] However, In South America, Asia and Africa there was a backlash against foreign ownership of their natural resources, and governments stepped in to take control, either through full nationalization of existing assets, or in some instances national governments invited themselves in as owners and transformed the operations into joint ventures. The wave of nationalizations and expropriations of mines and oil wells

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Estaño smelter of Bolivia, the only large tin smelter in that country where tin represents the principal national product."

[49] Copetas, *Metal Men*, p. 58, and Chris Welles, "The Colossus of Phibro", *Institutional Investor*, December 1981, p. 109.

[50] Geoffrey Jones, *Multinationals and Global Capitalism*, p. 67.

[51] Jones, p. 61 and 64.

changed the structure of the international extractive industries. In 1980, the seven largest copper producers controlled less than 23 per cent of world copper production. In oil the picture was similar. In 1979, the seven majors now owned 24 per cent of world crude production.[52] The large mining multinationals of (mostly) Western origin were pushed to the side by state run companies, and many host countries also took command over the value chain by investing in smelters and refineries to process their mineral wealth domestically, thereby breaking their dependency on Western refiners. Between 1960 and 1980, the balance of power tipped from the foreign multinationals and the consumer nations towards the producer nations.

The result was that the host countries became owners of the domestic production facilities for their natural resources and they were able to exert significant control over production and pricing. However, from a host country perspective there was a problem with the minerals and metals industries: most metals were produced in several steps and traditionally the downstream parts of the production chain took place in or near the largest consumer markets for the products. The acts of nationalization gave the mineral rich countries control over their resources, but they still needed to have them processed, and to do that they either had to construct domestic processing facilities or use the existing refineries or smelters which were usually in Europe or North America and mostly controlled by the very same companies that had just had their mines nationalised or expropriated. The host countries generally also lacked the marketing infrastructure that the multinational companies had built up, so while it was easy to take over domestic mines through nationalization, it was much more challenging to develop the marketing channels necessary to bring the metals and minerals to the prospective industrial customers.

Into this void stepped specialised trading companies who could offer the know-how that the newly established state owned enterprises lacked. Philipp Brothers led the development, and the successful business formula that the company had cultivated in the volatile political environment of Bolivia proved to be possible to transfer to other resource rich states. Whenever a state took control over its natural resources, company representatives would be on hand offering the services of the firm, be it marketing channels, technical advice, or capital. One example that the company itself put forward in its annual reports was the case of Guyana.

[52] Jones, p. 67.

In 1966 the former British colony of British Guiana achieved full independence, in the process changing its name to Guyana. The most important natural resource in the country was bauxite, the raw material from which aluminium is produced, and bauxite exports was the largest foreign currency generator and by far the major source of government revenues. The bauxite mines were owned and operated by foreign multinational aluminium companies, and the new government claimed that the foreign companies were only interested in exporting bauxite ore and not in promoting Guyana's broader economic development through local spinoffs or economic linkages. In 1971, the government nationalized the biggest bauxite operation in the country, the Alcan-owned Demerara Bauxite Company (Demba) which accounted for more than 80 per cent of the Guyanese bauxite production and also produced the intermediate product alumina in Guyana. Demba's assets where now transferred to the newly established state owned Guyana Bauxite Company (Guybau).[53] Immediately after Guybau had been established, two Philipp Brothers executives flew in to Georgetown, Guyana. Guybau appointed Philipp Brothers as worldwide agent for the sale and shipment of bauxite and alumina.[54]

The Guyana case was not an isolated occurrence and during the 1960s and 1970s Philipp Brothers established connections with many of the third world state owned enterprises that were established in that period. Just as had happened in Bolivia after 1952, Philipp Brothers could offer marketing channels and long term contracts to the inexperienced new companies. Frequently the company financed foreign state owned companies lacking capital, in return for a long-term contract for the output of the mines. In 1969, the company established a Swiss bank called Philipp Brothers Bank A.-G. to handle loans and letters of credit to customers and to arrange debt financing for mining projects and other production facilities in return for the right to market the output.[55] The company expanded quickly, building up a worldwide organization. The pre-tax

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[53] The account is mainly based on Robin Gendron, "Canada and the Nationalization of Alcan's Bauxite Operations in Guinea and Guyana", in Robin Gendron, Mats Ingulstad and Espen Storli (eds.), *Aluminum Ore: The Political Economy of the Global Bauxite Industry*, University of British Columbia Press (forthcoming September 2013) and Isaiah A. Litvak and Christopher J. Maule, "Nationalisation in the Caribbean Bauxite Industry", *International Affairs* vol. 51, no. 1, 1975.
[54] See annual reports for Engelhard Minerals & Chemicals Corporation (Philipp Brothers merged with Engelhard in 1967) for 1971 and 1972. The Guyana trade is also described in Waszkis, p. 120.
[55] Annual report 1969.

profits of the company in 1965 were $18,6 million, in 1974 that had increased to $157,7 million.[56] The profits were made on the company's knowledge of raw materials markets, but also through its expertise in ocean and inland transportation, and foreign exchange.

Concluding remarks

After 1960 host countries all over the world started to implement policies which increased national ownership and control over natural resources. In the process the states broke up existing chains of vertical integration which the large producers, which had previously dominated most of the natural resource industries, had developed. The resource rich host countries which nationalized their mines or oil wells, now had to find a way to market their output. The alternative for the countries were to either do it themselves or to rely on the organizations of the established multinational companies. But there also existed a third way: independent trade companies, foremost of whom were Philipp Brothers, which grew to become the world's largest independent marketer of metals and ores in the 1960s and 1970s. Central to the success of the company was the business formula that the company developed in dealing with Bolivia. As the company experienced, it could be profitable to deal with politically volatile countries, it could even be profitable to loan money to countries that regularly defaulted on their foreign loans, as long as those loans were secured through collateral in the mineral wealth of the countries. Philipp Brothers financed new operations for governments desperate in need of cash, and in return received long-term contracts for the sale of the metals and minerals. In a period where existing chains were broken up, the trading companies delivered the service of linking together the different parts of the global value chains that had been broken up by nationalization.

[56] Milton F. Rosenthal, "A Presentation before the New York Society of Security Analysts", July 28, 1975, p. 11, Philipp Brothers Collection, Box 1, folder 15.