

(González Chemical) at Guánica, P.R., with an initially estimated total plant cost of slightly in excess of \$12 million. As a consequence of production and marketing difficulties which need not be detailed here these government investments in González Chemical subsequently had to be written off as a total loss. However, the plant continues to be operated under different management (1960) primarily as a consequence of government intervention directed at keeping the plant in production.

B. Great expectation and crises (1956-60)

The beginning of the second half of the decade of the 1950's was one of great expectations in government circles in the matters of growth both of petroleum refining and petrochemicals production (for a concrete expression of these expectations see the annexed paper (1957) titled: "Puerto Rico's Industrial Future"). Both refineries were "on stream;" the fertilizer plant of González Chemical was under construction; Commonwealth Oil was engaged in the doubling of its facilities based primarily upon a long-term (20 years) supply contract with the Union Carbide and Carbon Corporation.

A series of events demolished these expectations. In chronological order these events were as follows:

First, Commonwealth Oil experienced severe start-up difficulties (1956-57) with consequent heavy financial losses.

Second, González Chemical experienced severe start-up difficulties (1957-58) with consequent heavy financial losses.

Third, the U.S. Government instituted mandatory oil import controls (1959).

Fourth, Union Carbide's investment at Peñuelas, P.R., was jeopardized because of the fact that Commonwealth Oil was able to supply only a fraction of the feedstock required by Carbide (1959).

Government's responses to these several developments were as follows:

First, the Government Development Bank and the Puerto Rico Industrial Development Company extended three lines of credit aggregating \$3¼ million in an effort to prevent the threatened insolvency of the Commonwealth Oil Refining Company.

Second, the Government Development Bank and the Puerto Rico Industrial Development Company waived their rights as bondholders in González Chemical so that emergency financing could be obtained to keep the plant in operation.

Third, in the matter of mandatory oil import controls the Commonwealth Government sought recognition of the fact that, both for reasons of geography and a lack of indigenous natural resources, Puerto Rico should be established as a wholly separate importing district.

In summary, the second half of the 1950's which began as a period of great expectations in fact turned out to be a "salvage operation" by government so far as petroleum refining and petrochemicals production were concerned.

C. Laying a foundation for growth (1961-65)

During the first half of 1961 three things became apparent.

First, Commonwealth Oil's financial solvency was assured.

Second, continued operation (though only marginally attractive financially) of the fertilizer plant (now known as Caribe Nitrogen under W. R. Grace management) at Guánica, P.R., was assured.

Third, with the active cooperation of the Interior Department's Oil Import Administration, a "permanent" solution to Carbide's feedstock problem was in sight: creation of a foreign trade sub-zone which would enable Carbide to execute the necessary long-term supply contracts for importation of naphtha from the foreign Caribbean area.

With these problems resolved and/or in process of resolution the Commonwealth Government (second quarter of 1961) began to work actively in an effort to realize, at least partially, the great expectations of five years earlier. This effort became known, colloquially, within the Commonwealth Government as the "third refinery project." That is, Puerto Rico's economic growth could be greatly stimulated if the ban on entry of new refiners into Puerto Rico could be eliminated.

Specifically, the effort, which lasted some 2½ years, was concentrated on identifying someone prepared to invest in an unconventional refinery—one which would maximize the output of basic petrochemical streams. Discussions were held with representatives of many companies, oil and chemical, culminating in early 1964 with the formal endorsement by the Commonwealth Government of the project of the Phillips Petroleum Company.