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Mexico's Vast Oil Resources: For Debt Or Development?

MEXICO

There are few places in the world — and none in Latin America — where oil discovery and production expansion are proceeding as fast as in Mexico. In the past six months, a reevaluation of Mexico's oil reserves has doubled that figure from 6.5 billion barrels to over 14 billion barrels. No doubts have been raised in international oil circles about the estimate of Petroleos Mexicanos (PEMEX) head Jorge Diaz Serrano that Mexico's probable reserves surpass 60 billion barrels. This places likely Mexican reserves at twice continental U.S. figures and among the four or five largest in the world.

PEMEX's pumping and refining plans are not lagging behind exploration. Despite the austerity program imposed on Mexico by the International Monetary Fund (IMF) since the end of 1976, PEMEX plans a hefty $15.5 billion capital investment program in the 1977-1982 period. Crude production is slated to double, petrochemical plant capacity to triple, and refining capacity to increase 93 percent (see Table 1).

There is relatively little debate over whether PEMEX should undertake such an ambitious expansion program. But there is bitter debate — touching on the most crucial issues of Mexican development and Mexico's international alliances — over how to finance the oil development and what to do with oil export earnings.

Government projections (see Graph 1) show that the lion's share of the PEMEX expansion will go to exports — fully 1.2 billion bpd by 1982, as much as all domestic consumption. At current oil prices, Mexico's income from such exports would rise rapidly from its estimated 1977 level of $800 million to over $5 billion by 1982.

The crux of the issue is whether to use the oil earnings to pay Mexico's $30 billion-plus foreign debt — one of the largest in the Third World — or for domestic development through imports of capital goods and technology.

Rockefeller interests are heading up the drive to put debt repayment before development. As revealed in London's *Financial Times* June 16, fully 60 percent of Mexico's outstanding $18 billion debt to private banks in the Group of Ten industrialized capitalist countries is owed to U.S. banks; 47 percent of this — some $5 billion — is due this year.

David Rockefeller arrived in Mexico June 21 to apply maximum pressure to Mexican President José López Portillo to hand over oil for debt payment — the only thing which stands between Rockefeller interests and a devastating Mexican default which would collapse their entire $200 billion-plus Third World debt bubble. Over the preceding months a string of Rockefeller publications and spokesmen had made the oil-for-debt demand clear, in Nelson Rockefeller's Commission on Critical Choices Report on Latin America released in March.

High-level sources in Mexico report that the U.S. has also offered to lighten demands on debt payments if Mexico agrees to keep its oil at the U.S.'s disposal in case of "emergency" — including a strategic reserve. A congressional report prepared by former Exxon executive Conant at the beginning of this year, calls for a "hemispheric" oil policy that would essentially pull Canada, Mexico, Ecuador, and Venezuela into an anti-OPEC formation controlled by the United States.

The new U.S. ambassador to Mexico, former Wisconsin governor Patrick J. Lucey, on May 22 stated that the White House is willing to "exert its influence" on Wall Street and international financing agencies to help Mexico "increase exports to the U.S." Similar pressure came several days later from Texas Senator Lloyd Bentsen when he called on Mexico to lower the price of oil exports to the U.S. "in exchange for" a reduction of tariff barriers for Mexican goods.

Bentsen's proposal was denounced and rejected by the Mexican press. An editorial in the *Diario de Mexico* noted that Bentsen was not representative of the U.S. population but rather of "the House of Rockefeller," while the official government daily *El Nacional* charac-

Table 1

Pemex' capital expenditures (1977-1982)

Industry division	Amount budgeted, $ billion	% of total	Main goals
Exploration	1.240	8	Survey 1 million sq km
Drilling-production	7.130	46	increase oil output to 2.2 million b/d by 1982
Refining	2.330	15	Increase crude capacity to 1.67 million b/d
Petrochemicals	2.640	17	Increase prod. to 18.6 million tons/year
Transportation	2.000	13	Expand pipeline network and terminals
Others	.185	1	—
Total	15.525	100	

Source: *The Oil and Gas Journal*

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terized Bentsen's statements as "a diplomatic blunder."

Following a meeting with President López Portillo, Natural Resources and Financing Minister Andres de Oteyza declared that "Mexico is not willing to commit its oil to the U.S. in exchange for financing received through the good graces of that country." The Minister added that Mexico plans to use the development of its oil — and specifically its export revenues — for a broad development policy of the entire economy.

The Expansion Plans

PEMEX grew slowly in the period after the 1938 oil expropriation, due in large part to international reprisals organized by the Rockefeller oil companies. Then, after steady but unspectacular growth for a quarter of a century, production took off during the six-year term (1970-76) of Mexican President Luis Echeverria: crude output jumped to almost 1 million bpd, and for the first time in decades Mexico became a significant oil exporter (Graph 2). Current production levels have surpassed 1,060,000 bpd with exports divided 150,000 bpd for the U.S. and 20,000 for Israel.

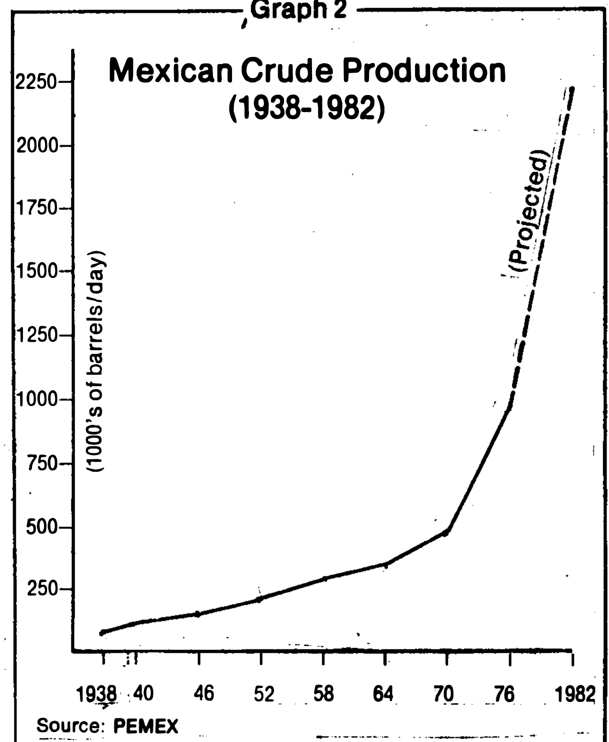
During this period PEMEX built up a cadre force of trained technicians unique in the Third World, and today Mexico is providing oil technology and expertise to Jamaica, Ecuador, Venezuela, and Nigeria.

The $15 billion that PEMEX has budgeted for capital expenditure during the López Portillo administration (1976-1982), one third of an overall budget of $45 billion, is five times the capital outlays of the previous six years. Seventy percent of the $15 billion is expected to come from domestic sources; the remaining $5 billion from foreign ones.

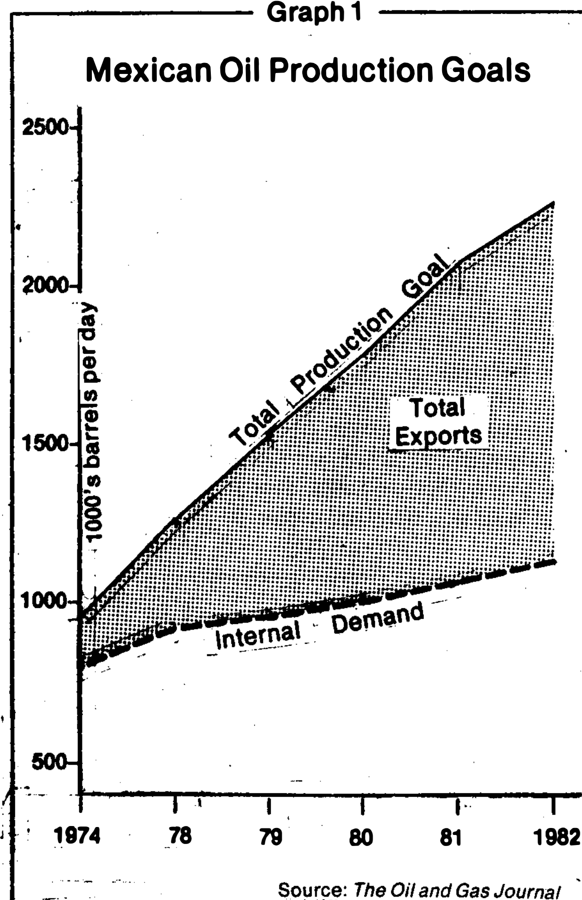
The primary new area of exploration is the Reforma field in the Southeast states of Tabasco and Chiapas (Map 1) and an offshore extension. The strike rate in the area has been a phenomenal 82 percent, with three out of three strikes offshore. The new 14 billion barrel reserve figure announced last week includes only the minority of successful Reforma drill sites which have been fully developed.

The gas to oil ratio in these wells is running an extraordinary 6:1, against a standard 1:1. This has prompted PEMEX to announce plans for an 800-mile natural gas pipeline from Reforma to the U.S. border at McAllen, Texas, which will provide needed additional natural gas to the industries of Monterrey and a large surplus for export to the U.S. Current plans call for the $1 billion pipeline to provide the U.S. with 1 billion cubic feet per day when it goes into operation in 1979 and 2 billion cfd two years later. Other natural gas deposits in Tamaulipas and Baja California are in the preliminary exploratory stage, and California governor Jerry Brown has per-

Graph 2



Graph 1



Source: *The Oil and Gas Journal*

	1977	1978	1979	1980	1981	1982
	(1,000 b/d)					
Production goal	953	1,246	1,522	1,781	2,082	2,242
Internal demand	800	910	954	1,011	1,068	1,137
Available surplus						
Crude exports	153	303	354	563	779	894
Product exports		33	214	207	181	211
Total exports	**153**	**336**	**568**	**770**	**960**	**1,105**

sonally asked Lopez Portillo to speed development of the Baja discoveries.

A program for 103 new refining and petrochemical plants (Tables 2 and 3) includes all major lines of petrochemical production with particular attention on ammonia, a key ingredient in fertilizer. The planned increase in ammonia output from 7,000 tons per day to 13,000 by 1982 will make Mexico a major world fertilizer producer. PEMEX holds a monopoly over refining and primary petrochemical production; private companies have entered the secondary petrochemical field and foreign control approaches the legal limit of 50 percent and there is substantial — though not majority — foreign participation.

Vast as this total PEMEX expansion program is, it will have to be increased significantly further if full-scale domestic development is to resume and exports maintained. The projected increase in domestic consumption (Graph 1) for the next six years averages just 5 percent a year — significantly lower than the 8 percent per year during the past decade and only slightly ahead of Mexico's 3.2 percent population growth. Experts have estimated that in fact energy growth (almost synonymous with production of oil and natural gas in Mexico, where hydrocarbons account for well over 90 percent of all energy generated) will need to spurt to the 15-20 percent per year range in the 1980s to create the conditions for Mexican adoption of fusion nuclear energy technology in the 1990s.

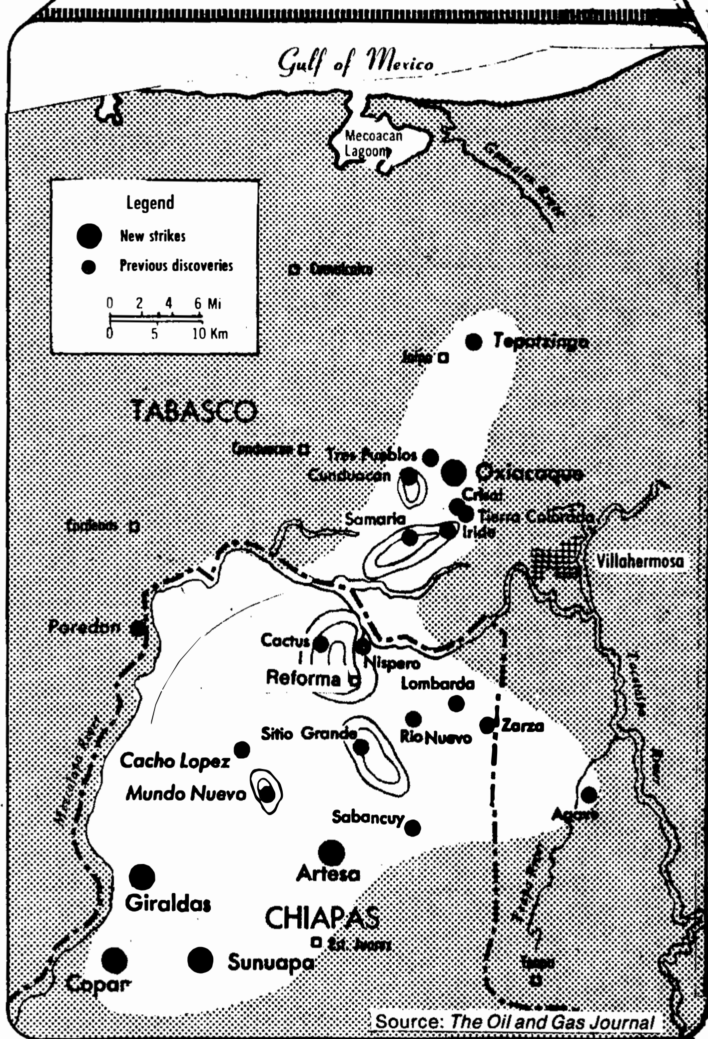
In the expansion of Mexico's oil production for national development the questions of financing, technology and markets are properly viewed as the key fighting issues in the battle for control of oil revenues. Rockefeller interests, aided by the Carter Administration, are seeking to force Mexico to depend on U.S.-controlled sources of outside financing and technology. Once locked into this dependence, Mexico would have little alternative but to hand over its revenues for debt payment. To resist this pressure, the pro-development forces are looking for significant financing, technology, and markets from European and Arab sources.

Financing: The approximately $400 million pulled in by PEMEX so far this year has come from the Rockefeller-dominated Eurodollar market. Knowledgeable bankers and oilmen expect additional funds from the same source to be readily available to cover the rest of this year's borrowing, and thus far there is no public indication of other sources of financing. However official Mexican policy is now to consider paying foreign companies contracted by PEMEX in oil (or natural gas). To the extent non-U.S. companies would enter such deals — and the Japanese have shown interest in providing pumps and compressors for the gas pipeline to McAllen — direct U.S. control will be weakened.

Technology: Mexico produces the bulk of its technology domestically, but depends on imports in crucial areas. It is just beginning production of rigs which can drill to the 4,000 foot and deeper levels of the Reforma deposits and must essentially look outside for most drilling equipment. Refining and petrochemical expansion and certain qualities of piping likewise require heavy import levels.

For obvious reasons of geographic proximity, similar

New Pemex Chiapas-Tabasco strikes



drilling conditions (particularly offshore) and advanced production levels, the U.S. stands in the best position to provide PEMEX with this technology. However Mexico can satisfy many of its requirements without the U.S. if it wishes or is forced to do so. The Japanese pipeline offer indicates the potential; likewise, West German interest providing some lines of technology expressed during the recent extraordinary six-day Mexican visit of West German President Walter Scheel. The *Financial Times* announced last week that a British firm, the Offshore Centre, is negotiating with PEMEX to supply offshore technology — a British forte developed in the North Sea projects.

Marketing: This is the area where Mexico has greatest immediate possibilities of diversifying its international contracts. In addition to the existing contracts with the U.S. and Israel, Mexico is negotiating oil-for-technology deals with Canada and Brazil which, if broadened into a general pattern, would severely undermine Rockefeller's debt collection strategy. Every piece of technology or raw material traded for oil is that much of a contribution to domestic development and that much less hard currency available in the Central Bank for debt payment. Italy is a key country moving strongly in this direction. Italy's ambassador to Mexico, Raffaelle Marras, recently declared that Italy would like to become Mexico's number one customer for oil and particularly refined petrochemical products. A current of important Italian officials and congressional spokesmen have toured Mexico since the first of the year with offers of advanced Italian technology for Mexican industry.

Table 2

Mexico's plant construction program (1977-1982)

Type and location	No. of units
Refining	
Madero, Tamps.	3
Minatitlan, Ver.	5
Salina Cruz, Oax.	14
Caderyta, N.L.	7
La Cangrejera, Ver.	3
Salamanca, Gto.	4
Petrochemical & gas processing	
Allende, Ver.	5
Cactus, Chia.	8
Cosoleacaque, Ver.	2
La Cangrejera, Ver.	12
Pajaritos, Ver.	4
Poza Rica, Ver.	4
Salina Cruz, Oax.	3
San Martin, Pue.	5
Tula, Hgo.	2
Salamanca, Gto.	1
Other locations	21
	103

Source: *The Oil and Gas Journal*

What would wreck the current tilt toward U.S. dependence is indirect or direct OPEC entrance into the Mexican oil picture, and concomitant Mexican moves toward OPEC. Numerous high-level sources have privately indicated that the U.S. has exerted extreme and explicit pressure on Mexico in this regard, and Mexico has up to the present been careful to steer clear of open flirting with OPEC.

But within Mexico, the issue is far from settled. Over the past three weeks the head of PEMEX, Jorge Diaz Serrano, has gone out of his way to facilitate tight U.S.-Mexican oil relations and denounce OPEC. Mexico will not join OPEC, he said to the amusement of observers aware of the gigantic U.S. pressure involved, "because it would lose its freedom and autonomy." Mexico City daily *El Universal* promptly ran a cartoon depicting Diaz Serrano perched atop Uncle Sam's hat with a caption which read "Joining OPEC means loss of freedom and autonomy." An accompanying editorial forcefully explained that OPEC would not be a threat to, but an ally of Mexico's sovereignty.

The López Portillo administration is clearly using the OPEC option as a bargaining chip in its negotiations with the U.S. Interests. Just how far it will go is not clear, but the possibility of a significant shift in response to Rockefeller pressure, particularly in the context of the current European, Arab and Comecon advances toward new monetary arrangements, cannot be underestimated.

An intermediate arrangement toward formal OPEC affiliation was proposed in mid-May by the Venezuelan ambassador to Mexico who suggested that Mexico, Venezuela, and Ecuador coordinate their policies.

There is no doubt that OPEC has looked at the Mexican developments very closely and has put out feelers for substantial indirect or direct financing packages that would pull Mexico away from U.S. dependence. In mid-February, the London-based *Sunday Telegraph* reported that "what has the Americans worried are unconfirmed but persistent reports that the Portillo government is continuing discussions with OPEC officials with an eye to Mexico joining the producers' group. The Mexicans are said to want a $20 billion line of credit from the OPEC ministers... (to) help buy the industrial equipment Mexico needs both for industrialization and for the production of its petroleum for domestic energy needs."

Table 3

Refining: existing and new capacities

Refinery	Atm. distillation Existing	Atm. distillation 1977-82 Construction	Vacuum dist. Existing	Vacuum dist. 1977-82 Construction	Cat cracking Existing	Cat cracking 1977-82 Construction
Azcapotzalco	100,000		48,000		23,000	
Madero	169,000		80,000		32,000	28,000
Minatitlan	258,500		58,000	25,000	45,000	
Poza Rica	27,000					
Reynosa	20,500					
Salamanca	210,000		96,200		40,000	40,000
Tula	150,000	200,000	75,000	100,000	40,000	40,000
Cadereyta		235,000		137,000		40,000
Salina Cruz		*370,000		*175,000		80,000
Total	**935,000**	**805,000**	**357,200**	**677,000**	**180,000**	**228,000**

*Includes 200,000 b/d crude distillation and 100,000 b/d vacuum distillation to be added soon after the new refinery goes on stream.

Source: *The Oil and Gas Journal*

Press accounts indicate discussions may have started as far back as two years ago and at that time included the direct participation of López Portillo, then finance minister.

The visit of the finance minister of Iran to Mexico at the end of this month is expected to bring Mexico-OPEC negotiations to a new level. If recent statements from an OPEC fund representative are any indication, OPEC could be ready to back Mexico in a break on the debt question. In a statement at the Inter-American Development Bank meeting in Guatemala at the beginning of June, the representative of the OPEC Fund, Brahim Shihata, warned Latin America against using its natural resources, especially its oil, to pay its foreign debt in view of the "weakness of the dollar."