

The oil giant next door

Mexico's huge new oil finds are good news for everyone

In the past two weeks, the government of Mexican President José López Portillo has amazed the world economic and political community with the news of two major oil finds totaling an astounding 180 billion barrels of oil and 70 trillion cubic feet of natural gas. A third find of 100 billion barrels was heralded by the Mexican newspaper *Excelsior* on Nov. 19, but has yet to be either confirmed or denied by the Mexican national oil company, Petroleos Mexicanos (Pemex). Added to Mexico's current official figures of 200 billion barrels in potential reserves, the new finds will in all likelihood push Mexico's reserves over the 350 billion barrel level, and possibly into the range of a half trillion barrels of oil! Saudi Arabia, to date the world's oil giant, lists proven reserves of "only" 150 billion barrels.

Regardless of the specific figures finally adopted by Pemex once they have completed their investigations and calculations on the finds, what is clear already is that Mexico is on its way to becoming the world's premier oil power. As President López Portillo recently stated, in all likelihood up to 80 percent of Mexico's national territory contains oil.

As significant as the magnitude of Mexico's new finds is the fact that the Mexican government chose to announce them coupled with unmistakable appeals to the United States to aid in that nation's ambitious oil-based industrialization program. Shock waves

rippled through a Chicago audience of the American Petroleum Institute on Nov. 13 when Jorge Diaz Serrano, the head of Pemex, reported that the first new 100 billion barrel field alone would require drilling 16,000 wells in the next 10 to 13 years—quadrupling the drilling rate prevailing in Mexico since it nationalized its oil industry in 1938. These oil exploitation requirements, coupled with Mexico's firm commitment to industrialize fully in order to become a nuclear-energy-based economy by the 21st century, will make Mexico one of the world's most dynamic capital-goods importers virtually overnight—a point not lost on the gathered American businessmen.

Other Mexican officials took advantage of a *Financial Times*-sponsored conference in Mexico City last week to elaborate this point. "We will double our industrial plant within a period of six to seven years," Minister of National Resources José Andres de Oteyza advised the gathered bankers and businessmen, "and we will grow at an annual rate of 10 percent." De Oteyza added: "I would like to use this forum . . . to invite you to collaborate with us in our development, within the framework established by our laws."

Mexico has also laid out detailed plans for vast industrialization based on the steel, petrochemical, capital goods, and nuclear sectors of its economy. In the words of President López Portillo, "We must begin to construct the cities of

the 21st century."

Mexico is being equally clear, however, that if the U.S. refuses to participate in Mexico's industrial development, and instead adopts the City of London's strategy of making Mexico nothing more than America's "strategic oil reserve," then Mexico will take its business elsewhere. In fact, Mexican Central Bank head Romero Kolbeck has gone so far as to publicly chastise the Carter Administration for adopting high-interest credit policies that are causing a recession in the U.S., collapsing the value of the dollar, and "distorting international trade currents." If this continues, Kolbeck warned, Mexico will take recourse to "the new international capital markets based in West Germany, Japan, and Switzerland" — i.e., the European Monetary System.

Mexico allies with the EMS

Mexico in fact has every intention of joining forces with the EMS, as the last six months of President López Portillo's international diplomacy have made clear. The only open question is whether or not the U.S. will join in the vast task of industrializing Mexico and the rest of the Third World, along the lines established by EMS founders Helmut Schmidt of West Germany and Giscard d'Estaing of France.

Mexico's message to its northern neighbor could not be clearer: "Dump London's defunct international Monetary System,

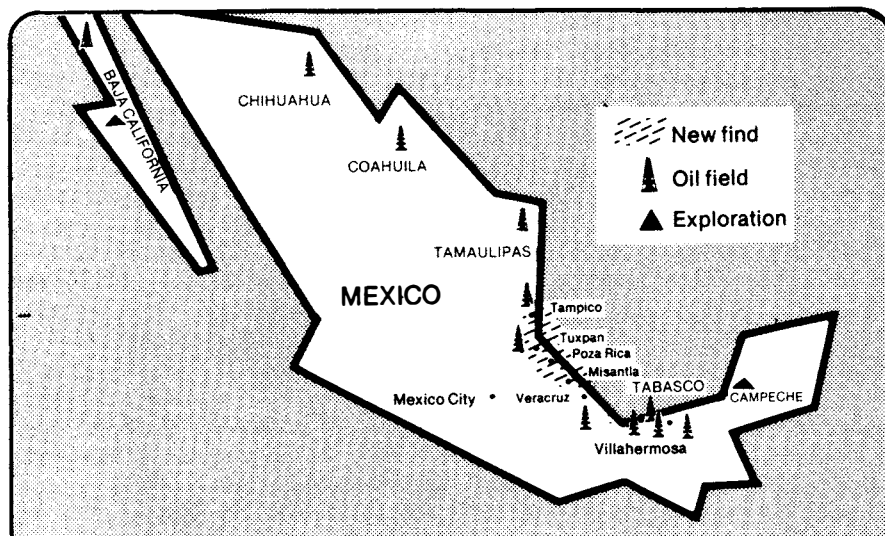
which has kept the developing sector in rural backwardness, and link up with the EMS. This is the way to strengthen the failing dollar, this is the way to revitalize your domestic industry. Mexico is a capital goods market you can scarcely afford to lose."

The big oil grab

If performance to date is a yardstick, then everything indicates that America is going to be left out in the cold. The policy course originally charted by Energy Secretary James Schlesinger, who last year sabotaged Mexican natural gas sales to a half dozen U.S. gas companies, is still hegemonic in Washington.

The dominant response in the U.S. press to Mexico's new oil finds has been one of glee at the prospect of somehow seizing the oil as America's "strategic reserve," and using it to break up the Organization of Petroleum Exporting Countries (OPEC). But the fact of the matter is that, although Mexico is not now a member of OPEC and has no immediate plans to join, President López Portillo has stated time and again that "neither now nor in the future will we be scabs" against OPEC.

Similarly, schemes such as Senator Edward Kennedy's calls for World Bank participation in Mexican oil activities ignore the fundamental reality that Mexico's oil industry has been nationalized for over 40 years, and is as jealously guarded as that nation's



How much oil does Mexico really have?

Based on rapid development of the prolific Reforma fields in the Southeast states of Tabasco and Chiapas, President Lopez Portillo announced startling new official oil reserves statistics in his State of the Union address three months ago. He revealed proven reserves of 20 billion barrels, probable of 37 billion, and potential of 200 billion.

Entirely *outside* these estimates, the state oil company Pemex, noted for its conservative handling of oil statistics, revealed the following new discoveries in back-to-back announcements last week:

- 100 billion potential oil reserves plus 40 trillion cubic feet of gas in a field, called "Chicontepec," stretching 75 miles long and 17 miles wide in northern Veracruz state. The formation involved, a vast area of oil-bearing pockets with little porosity, is found at shallower levels than previously exploited, deeper oil in the same region. Pemex director Diaz Serrano announced that up to 16,000 individual wells will be drilled in a 13 year program, to begin immediately.
- 80 billion potential oil reserves plus 30 trillion cubic feet of gas in deposits offshore from the Chicontepec field, in a basin of tertiary formations called "Bejuco-La Baja." The estimated depth of the field is 1,800 meters below sea level, and its full extension remains to be fully explored.

How quickly will "potential" turn to "probable" and then "proven"? The "transition rate" is picking up fast. The "proven" category is largely a function of putting new fields into production — and Pemex is doing this with astonishing speed. The original 1982 production goal of 2.2 million barrels per day will now be met in early 1980 (current production is close to 1.5 million per day).

What must be emphasized is that all the Mexican figures are *conservative*, and can only be revised upwards as more information becomes available. Though potential reserves represent the total oil estimated to exist in known fields, only part of which is recoverable, Mexico's recovery rates are running a very respectable 40 to 50 percent. This is somewhat higher than the international average. According to informed oil sources in Mexico, new Soviet technology may soon boost recovery rates in some Mexican fields as high as 80 percent.

territorial sovereignty itself.

For its part, the Carter Administration itself has also adopted a provocative approach to Mexico. Scarcely 24 hours after Mexico reported its new oil finds, President Carter announced that he would visit Mexico in mid-February. Informed Washington sources report that Carter will take with him a script by National Security Adviser Zbigniew Brzezinski that calls for: upstaging French President Giscard's scheduled trip to Mexico in late February, which is widely expected to consolidate Mexico's links to the EMS; and delivering to the Mexican government a series of ultimatums, including the threat

of closing the U.S.-Mexican border to migrant Mexican labor to arm-twist Mexico into abandoning its industrialization plans.

Mexican press and governmental sources fear even more direct action by Brzezinski to attempt to seize control over Mexico's vast oil deposits. Last week, Brzezinski gave a briefing to a secret, closed-door meeting of U.S. businessmen where he argued that the U.S. has the right to intervene in nations which "threaten world economic stability"—and then made explicit reference to Mexico.

More far-sighted sectors of the U.S. business and political community, who recognize that the

Schlesinger-Brzezinski strategy is leading to a major foreign-policy fiasco, have so far kept out of the public limelight, giving the British faction inside the U.S. a field day. One of the few salutary exceptions to the current suicidal drift of U.S.-Mexican relations was a recent editorial in the *Washington Star*, which hailed Mexico's new oil discoveries. "Mexico has the opportunity," the *Star* wrote, "to use its oil wealth for the most serious effort yet to bring its economy into the 20th (and the 21st) century. . . . Mexico's augmented oil wealth—bolstering the planet's exhaustible supplies—is good news for everyone."

—Dennis Small

1. Mexico links the EMS and Third World

In the first two years of the López Portillo Administration, Mexico has begun to serve as the bridge linking the new European Monetary System to the entire Third World.

The primary theme of Mexico's international organizing in recent years has been the explicit rejection of the small, labor-intensive projects promoted for the Third World by the World Bank and the International Monetary Fund, to demand instead "grand" projects for industrialization through the transfer of advanced technology to the Third World. For the most far-sighted and outspoken Mexican leaders, this has meant explicit support for the EMS as well.

For example, Mexican Congressman Julio Zamora Batiz told a Nov. 5 forum of the governmental party, the Institutional Revolutionary Party, that

"a new interplay of world politics is being set up. And it is an interplay in which Mexico, for the first time in many years, is playing a protagonist role on an international scale — with President López Portillo's proposal for unity in the Pacific Rim region, with the development of the European Monetary Fund, with the contacts Mexico has made with the Soviet Union, and with our closer relations with France."

Similarly, in a September interview with this journal, Finance Minister David Ibarra endorsed the EMS as "moving toward a more fair and more permanent economic order." Ibarra had earlier called for the creation of a \$15 billion fund to finance capital goods production in both the advanced sector and the Third World.

For Mexico, the content of such a new international economic order is the transfer of advanced technology to the Third World. In its own case Mexico presents this as the exchange of oil for nuclear and other advanced technology.

This strategy was laid out most clearly by President López Portillo during his recent trip to China and Japan: "We did not come to simply sell our oil, but rather to associate ourselves in a grand enterprise with the Japanese who have financing, technology, and markets so that we can do great things together. . . . We want to overcome the simple stage of commercialization of oil to enter into a stage of integration with much greater perspectives, and in which the important thing is the general scope of the projects which we are capable of conceiving and carrying out." In brief, this is what López Portillo has described on various occasions as the need to "think big."

President López Portillo has taken personal responsibility for carrying out this policy through intense diplomatic organizing which in the past year has taken him to Spain, the Soviet Union, Bulgaria, China, and Japan. In addition, his Foreign Minister Santiago Roel has directly coordinated policy with France and West Germany, the architects of the EMS. Spanish King Juan Carlos's current visit to Mexico, combined with the upcoming visit of French President Giscard d'Estaing in late February, is expected to fully solidify Mexico's role in this joint international organizing.

All these diplomatic efforts have intersected the key organizing efforts for the European Monetary System.