The oil multinationals launch economic warfare against Mexico

by Timothy Rush

The Socialist International's François Mitterrand, the great "friend of the Third World," declared economic warfare on Mexico this week.

On July 2, the French government-controlled oil company, Compagnie Française des Petroles, announced that it was suspending the entirety of its contracts with Mexico, 100,000 barrels per day. The pretext for the move was Mexico's attempt to reinstate $2 of a $4 price drop that had gone into effect a month before.

The French move was part of a flurry of oil-contract cancellations, the most prominent among them the Rockefeller family's Exxon Corporation, which totaled 550,000 barrels per day—fully 40 percent of all Mexican oil exports.

But Mexico took Mitterrand by surprise by declaring the *entirety* of the extensive French-Mexico oil-for-technology deals null and void by CFP's action. Deals in auto, nuclear, and subway construction worth $1 billion are involved. Faced with a highly embarrassing blowout of relations with a nation which has become the symbol of the 'South" in global negotiations, Mitterrand moved quickly to give the order for CFP to reinitiate negotiations with Pemex and accept Mexico's price framework.

But despite this success, Mexico faces a drastic cut in projected oil revenues over at least the next quarter and possibly for some time after that. If current cuts hold, $6 to 7 billion will be lost over the next year. The cuts imperil vital sections of Mexico's world pacesetting industrialization projects.

The contract cancellations—amounting to a boycott—have simultaneously served as the signal for heightened flight-capital operations out of Mexico and demands for the largest Mexican peso devaluation in history (see accompanying article).

The strategy of such firms as Exxon in leading the boycott is precisely the "shoot yourself in the foot" policy that earned former Energy Secretary James Schlesinger such opprobrium in the Carter administration. Schlesinger used the pretext of price to rip up already negotiated natural-gas contracts in late 1977 and derail U.S.-Mexican economic cooperation for over two years. His real policy, as stated privately, had nothing to do with price; it was to prevent the emergence of "a new Japan south of the border."

What will economic warfare by the Rockefeller-led multis mean for the United States this time around? It must be remembered that every dollar Mexico doesn't get for its oil is a dollar Mexico doesn't spend in acquiring capital goods and other imports abroad. U.S.-Mexico trade has been soaring in recent years, virtually the only bright spot in a bleak foreign trade panorama. Increases of up to 50 percent *per year* have raised total trade value to $22 billion in 1980 and Mexico to the rank of America's third largest trade partner anywhere.

Even more important, breaking Mexico's industrialization momentum is a prescription for creating conditions of social unrest along the lines of the "Iranization" scenarios peddled by enemies of industrial growth both in Mexico and the United States.

And the threat of this economic crisis could not come at a more delicate political moment. President López Portillo's successor will be chosen by the ruling PRI party sometime before the end of the year, and López Portillo will be attempting to steer the choice toward someone who will maintain his own commitment to rapid industrial growth. The economic warfare launched against Mexico constitutes nothing less than a "coup" attempt against the Mexican president.

In the words of George Ball, one of Rockefeller's top collaborators in the Trilateral Commission, last week, "undesirably rapid rates of industrial growth" in the Third World must be stopped.

How the showdown took shape

Mexico first gave indications it would seek to revalue its oil after Jorge Díaz Serrano fell from the directorship of the state oil company Pemex on June 6, 1981. Díaz Serrano had just put through a $4 a barrel cut, under multinational oil company pressure. Highly placed government sources have told *EIR* that Mexico sounded out its clients on a $2 per barrel increase in the last days of June, and received affirmative replies from all but a few. France was among those who agreed to the increase. The French nod was conveyed to Mexico by Industry Minister Pierre Dreyfus.

As July 1, the day for announcing the $2 per barrel boost approached, Mexico found itself swamped with international wires datelined Europe, Japan, and the United States, containing "unofficial" reports of massive contract cancellations.

On July 1 Pemex announced that it was officially renegotiating its contracts to incorporate the price increase. The next day, to resolve uncertainty, López Portillo met with the board of directors of Pemex, and a short statement was issued. The statement denounced an "information war launched through cables," in which Mexico "was officially informed [only] later" of its clients' decisions. Pemex stated that as of that time, four U.S. companies—Exxon (175,000 barrels per day, the largest individual contract), Ashland, Charter, and Clark Oil—and five country-to-country contracts had been canceled. Among the latter: Mitterrand's France.

On July 4, Mexico's Industry Ministry responded with a terse 87-word announcement stating that, due to the French action, Mexico was declaring French bidding off limits to major Mexican development projects.

EIR's sources state that France was singled out not just because it had so patently double-crossed Mexico at the last moment. The root issue was that Mexico's sales of oil to France were embedded in an oil-for-technology framework that had been negotiated state to state. One portion of the deal could not be canceled without the rest tumbling down as well. The original deal, negotiated by former French President Giscard with López Portillo in March 1979, was a model of North-South relations based on transfer of industrial technology.

The Mexican response carried an unmistakable overtone of the 1938 confrontation that occurred when Mexico nationalized its oil rather than submit to Rockefeller and British oil company dictates, and outlasted a four-year international boycott.

The vehemence of the Mexican move caught Mitterrand and his ministers off guard, according to reports in both France and Mexico. Despite Mitterrand's adherence to the Brandt Commission Report, which prescribes policies that would lead to widespread genocide in the Third World, Mitterrand has carefully cultivated an image of friendship for the developing nations. The Mexican action exposed this posturing in a highly embarrassing way.

Mitterrand's friends in Mexico, coordinated by Foreign Minister Jorge Castañada, immediately mobilized to let Mitterrand off the hook. The Foreign Ministry

The campaign for a sharp peso devaluation

The Wall Street, Rockefeller and Mitterrand "joint wrecking command" against the Mexican economy has an important "peso scare" component.

The in-house daily of the lower Manhattan financiers, the *Wall Street Journal*, published a call for a massive devaluation of the peso July 2 which sent shock waves through responsible business and government leaders both in Mexico and the U.S.

The position of the Mexican government, repeated by President López Portillo in mid-June, is that a peso devaluation is not appropriate and will in fact seriously impede Mexican efforts to combat inflation and develop the economy.

To artificially stampede a run on the peso, *Wall Street Journal* staff scribbler George Getschow prominently played up predictions from Chicago Prof. John Bilson and currency trader Lyle Pai that the Mexican peso was irremediably overvalued and that a devaluation was imminent. Getschow presented Bilson and Pai as impartial experts on the Mexican economy.

However in exclusive interviews with *EIR* this week, both Bilson and Pai indicated that they are personally committed to *forcing* through a peso devaluation, and seek to do this by manipulation of a media scare. The two are regarded by a knowledgeable insider as currency speculators who have based their reputations on "short" positions in peso futures contracts. Getschow had been in touch with them for months planning the story.

But the sordid affair goes even further. Bilson, currently a fellow at the Hoover Institution of Palo Alto, California, together with Hoover colleague Melvyn Krauss, are fervent supporters of a plan to wreck Mexico's industry-based economy and substitute one based on drugs, tourism, and sweatshops—what they call the Hong Kong model. The chief exponent of this model is, of course, Milton Friedman—a fellow traveler of Bilson's from Chicago to Hoover over the past year. No such concentrated process of economic dissolution would be tolerated in Mexico without imposition of some form of fascist regime, and both Friedman and Krauss are staunch defenders of the "success" of Pinochet's Chile as a model for the region.

In the words of these gentlemen, attempting to force a devaluation is above all an attempt to stop Mexico's industrialization.

released a statement saying that "no final action" had been taken. Several leading newspapers took up the theme, suggesting that Industry Minister José Andrés De Oteyza had been "precipitous" in his action—the word used by López Portillo in describing Díaz Serrano's decision to lower prices just before Díaz Serrano got the boot.

Mexico's leading environmentalist radical, Heberto Castillo, nervous that the oil-for-technology accord would be reinstated, praised the French action as the prerogative of a "private company."

It is known that Castañeda was particularly alarmed, because he is the co-conspirator with Mitterrand and West Germany's Willy Brandt to turn the North-South summit in Mexico, set for late October, into an attack on North-South industrial cooperation.

But the pressure was just too great. On July 7 French Foreign Minister Claude Cheysson, in a meeting with Mexican Ambassador Horacio Florense de la Peña in Paris, assured Mexico that France wanted to renegotiate the issue. At least three top-level French ministers are now scheduled to be traveling to Mexico over the next 10 days to further patch up the rift.

The reinstatement of the French contract would help Mexico out, but only lifts a fraction of the weight of the boycott and related economic warfare measures. Mexico has made it clear, however, that it is not going to take the Rockefeller-Trilateral offensive lying down. The events of the first week of July are only the curtain-raiser on a protracted battle.

'Government is helpless'

On July 2, Wall Street Journal *staff reporter George Getschow released a highly elaborated scare story on the Mexican economy. The basic message: a drastic peso devaluation of up to 100 percent is imminent. The article was reprinted throughout the Mexican press the next day, and caused shock and consternation in many business and government circles. Excerpts follow.*

Try as they might . . . Mexican officials have been unable to subdue speculation that the peso will be sharply devaluated. In fact, what President López Portillo calls a "devaluation psychosis" has already engulfed the country.

Consequently, some Mexican and foreign investors are already starting to hedge their bets; they're converting pesos to dollars, taking capital out of the country and buying U.S. real estate.

"I'm looking for a 50 percent devaluation before year's end," says Lyle Pai, a foreign-exchange specialist with Thomson McKinnon Securities, Inc. in Chicago.

"Taking inflation into account, I'd say the parity should be about 55 pesos to the dollar," says John Bilson, a University of Chicago economist.

Eugene Latham, international vice-president of Banca Metropolitania . . . fears that "*all it would take is a few bad articles or 'misstatements' by* politicians and suddenly you could end up with a lot of people at the bank trying to convert pesos to dollars" [emphasis added].

That's what happened during the peso devaluations of 1956 and 1976. . . .

The government is again insisting that a sharp peso devaluation isn't in the cards. . . .

But recalling previous government promises, many bankers and businessmen aren't convinced. . . .

In any event, people's perception of the peso poses a bigger problem, Mr. Bilson says. "If everyone is expecting a devaluation, you'll see a huge flight of capital. And then there's very little the government can do to head it off. It becomes a self-fulfilling prophecy."

'Force a run into dollars'

In exclusive comments to EIR, *Lyle Pai, one of the "experts" on the Mexican economy cited in the* Wall Street Journal *article, revealed how the article was put together.*

Pai: The Mexicans have two options: either they devalue or cut back on spending.

EIR: Which way do you think they will go?
Pai: They are going to devalue.

EIR: Is this like 1976?
Pai: No, it's going to be worse. We are betting on a devaluation of up to 55 pesos per dollar. That's more than 100 percent. The question is how long the government can support the peso.

The article is already having an effect. George [Getschow] has gotten some calls from Mexican bankers who say they are already changing pesos to dollars.

EIR: So the idea is to force flight capital, which in turn forces a devaluation?
Pai: That's correct. You see, if everybody starts doing it, then the central bank will run out of dollars, and then the government would be forced to do it. Look, the government has been spending too much.

EIR: How long have you been saying this?
Pai: John Bilson and I predicted this in an article in *Money Manager* in the February issue. We have been in touch with George [Getschow] for several months. Actually, George has gotten some calls from Mexican

officials who have been complaining that this could create panic [laugh]. Well, of course the government would not want to devalue. This would double the foreign debt. But the central bank is going to run out of dollars.

EIR: When will that be?
Pai: Hmm. Before September.

'The Hong Kong model'

One of the experts cited in the July 2 Wall Street Journal *article is University of Chicago professor John Bilson, who is also a fellow at the Hoover Institution. Bilson apparently specializes in talking the peso down in his conversations with journalists, as his* Journal, *and the following remarks to* EIR *make clear.*

Bilson: The supply of pesos is increasing at a very rapid rate—about 30 percent per year—while the supply of dollars is increasing at a low rate of about 5 percent per year. That's the main reason I have been arguing that the peso is overvalued relative to the dollar.

One way of saying that is in terms of inflation rates. The Mexican inflation rate is about 30 percent, relative to a U.S. inflation rate of, say, 10 percent. So you have a 20 percent inflation rate differential. And that has been continuing for about three years. . . .

The Mexican government is spending a lot of money. Mexico is spending, I believe, $1 billion on an oil refinery. At a time when the demand for oil in the world is declining, why waste money building an oil refinery? That's no way to run a country. . . .

People from Mexico have been calling me up and saying, "What we are doing is wrong; what should we be doing?" And I've been working a little on that. . . .

EIR: What about industry, or heavy industry?
Bilson: No, definitely not. I think that those areas are far better handled by the free market. . . . The models that I think of for Mexico are countries like Singapore, Hong Kong, South Korea. There the government tends to leave the private sector to be responsible for the creation of jobs and industrial development. And those have been the most successful countries in the world. . . . In other respects, the political system in Mexico is not that greatly different from the political systems in the countries I just mentioned—Hong Kong, Singapore, and Korea. . . .

The Mexican government, it appears to me, is taking a very deviant development strategy. . . .

We're seeing a lot of nervousness in the market, that the *Wall Street Journal* article was covering. The discount has gotten very great on the peso. As far as I can see, it [a devaluation] could happen any time. I don't think we'll make it to October. In fact, the current cancellation of the oil contracts could do it. I wait every day, particularly over the weekends. . . .

I think what we did is to make people go back and look at the statistics. Once they started looking at the statistics, they realized things were not as rosy in Mexico as they thought they were. And now the *Journal*'s coming out made a lot more people nervous about Mexico.

'A case of personal profit'

The following is part of an interview by Executive Intelligence Review *with a senior currency analyst of a leading Chicago trading firm.*

EIR: Are you familiar with a *Wall Street Journal* article on July 2, talking about a possible peso devaluation?
A: Yes. The article was designed to create panic. John Bilson, one of the persons quoted in that article, has been pushing for the devaluation of the Mexican peso since January. Around that time, he wrote a major piece calling for the devaluation of the peso. Ever since, he has been saying that the devaluation is "imminent" and that it can happen any minute. The problem now is that he is getting much better press. Bilson works closely with Lyle Pai from Thomson McKinnon Securities. However, is no capital flight from Mexico as far as we know.

EIR: Does your firm agree with their analysis?
A: While it is true that the peso is overvalued, we do not think that a devaluation of as much as 50 percent is needed as Bilson says. The problem with both of them, especially with Bilson, is that they ignore the political situation in Mexico and do not know how Mexican politics work.

EIR: In your opinion when would it happen?
A: The devaluation of the peso will most likely not happen before December of this year. Furthermore, we think that the second half of 1982 is even more realistic. And a more realistic figure would be a 20 to 25 percent.

EIR: Then why is it that Bilson is calling for a 50 percent devaluation?
A: Both Bilson and Pai have taken up short positions. Both of them, but especially Bilson, have already sold a number of future contracts, so if the peso is not devalued by the time they are predicting, they will lose credibility and money. What concerns Bilson is being able to make personal profit out of this one.