Ibero-American oil targeted in U.S. raw materials grab

by Peter Rush

The Bush administration has seized on the pretext of a supposed shortage of oil caused by the Middle East crisis, to push even harder for a long-standing policy goal: the denationalization of the national oil companies of Mexico and Venezuela, Pemex and PDVSA, respectively. More broadly, the goal is the recapture by the U.S. oil multinationals of the oil reserves of *all* countries of Ibero-America, including those of Argentina, Colombia, Peru, and Ecuador, among others.

This is much as then-Secretary of State Henry Kissinger envisaged in 1974 when he proposed a worldwide "Resources Bank" to remove raw materials from the sovereign control of national governments. It is also what participants at the infamous 1982 conference in Vail, Colorado, where Kissinger was a featured speaker, called for as they plotted to force the "privatization" of state sector industries throughout the Third World.

While the demand that the U.S. oil multinationals be allowed to buy up Pemex, in particular, and control Mexico's extremely rich oil fields, has been public since at least the beginning of the Reagan administration in 1981, it has only been with the 1989 accession to the presidency of Mexico of Carlos Salinas de Gortari, who privately agrees with the U.S. position, that the U.S. has had any chance of achieving its goal. The election two years ago of Carlos Andrés Pérez in Venezuela has also made possible the denationalization of PDVSA as well.

However, there is domestic opposition to undoing the nationalization measures, which most people in both countries consider to be central assertions of national sovereignty against foreign domination of their economies. Both Salinas and Pérez have tied their moves to privatize oil and other industries to their overall embrace of the "free market" dogma of the Reagan-Bush administrations. So far, the results of their economic policies have been dismal, with real incomes continuing to fall. The success of their efforts to denationalize oil depends on their ability to make the "free market" policies stick, an increasingly unlikely eventuality as not only their own economies, but also the U.S. economy, head into a deep recession.

'Your oil is our oil'

Since the outbreak of the Middle East crisis, the Bush administration has made it clear that it regards the vast oil reserves of Mexico and Venezuela as the strategic reserve of the United States. This view was most clearly presented in a commentary by Norman Bailey, a former National Security Council official whose views are known to coincide with those of the Bush administration, in an article published in the Aug. 19 *Los Angeles Times*. "If opened to full production, the energy supplies of Latin America could become the bulwark of the industrialized world," Bailey and co-author L. Ronald Scheman wrote. They proposed the formation of an "Inter-American Energy Community," which they described as "a natural complement to President Bush's proposals for a broad program of free trade zones, significant reductions in official bilateral debt owed to the U.S. and new mechanisms to encourage investment in Latin America."

However, as reported Sept. 7 in a feature story on Pemex in the weekly magazine *La Jornada*, the same view was presented as long ago as 1980 in a Rand Corp. study by Ronfeldt, Nohring, and Gandara, which stated that "it would be in the interest of the United States that Mexico should have an excess oil production capacity that could be used to rapidly increase exports during any sudden scarcity in the supply of oil." As noted by *La Jornada*, this study was key in the formulation of the U.S. oil policy toward Mexico.

Since the Iraqi invasion of Kuwait in early August, the U.S. has been strongly pressuring Mexico and Venezuela to increase their oil production to compensate for the supposed world oil shortfall. Since the Middle East producers, especially Saudi Arabia, already have the ability to fill the gap, it was clear from the beginning that the U.S. had an ulterior purpose in making its demands on Mexico and Venezuela.

In fact, the U.S. demands, especially on Mexico, have nothing to do with the present crisis. It is well known that any substantial increase in Mexico's oil production, given current rates of investment, would damage the oil wells. Nonetheless, Mexico initially offered to export an additional 100,000 barrels per day (bpd), allocated from its own consumption. But this was not good enough for the U.S., as manifested Aug. 28 when U.S. Commerce Secretary Robert Mosbacher effectively rejected Mexico's offer, calling the proffered 100,000 bpd "important, but not sufficient . . . it is not much." U.S. pressure is geared toward one goal only: forcing Mexico to permit the U.S. oil multis to invest directly in Pemex, even though any foreign investment in primary oil extraction is forbidden by the Mexican Constitution.

Brawl in Mexico

The U.S. pressure has provoked a behind-the-scenes battle inside the Mexican government. *La Jornada* reported Sept. 7, in an article entitled "The Battle for Pemex," that "sources we have consulted maintain that a silent political-bureaucratic battle has broken out concerning the advantage of pushing for the privatization of Pemex. . . . It is possible that this bureaucratic warfare will conclude with the announcement that the tendency to privatize Pemex will be intensified." The same article reported that plans already exist for the splitting up of Pemex into five subsidiaries, and opening up most of them to foreign investment, despite official denials. On May 22, the head of Pemex's petrochemicals division had told *El Economista* that he couldn't rule out "the intervention of the private sector into the strategic areas of the oil industry, such as exploration, exploitation, refining and basic petrochemicals," the presently constitutionally guaranteed preserve of Pemex.

President Salinas de Gortari continues to deny that he favors the privatization of Pemex, most recently in an interview in the Sept. 10 issue of *Business Week*. But this denial is not to be believed. Since the beginning of the Mideast crisis, Salinas has bent over backwards to try to accommodate the demands of the U.S. Just hours after Mosbacher's swipe at Mexico, Salinas called an emergency meeting of his economic cabinet to try to meet Mosbacher's demand for more oil. Out of the meeting emerged an offer to increase Mexican oil exports by 200,000 bpd, although where this oil was to come from was never made clear. According to one report, Mexico intended to "save" the oil by cutting back electricity usage—and hence the consumption of oil used for power generation—by 15-25%, an astounding reduction of energy use, if it comes about.

Moreover, since 1982, Pemex, which produces an enormous operating surplus from its export of oil, has been bled dry by the Mexican government, which has systematically taxed all of its profits and left it less than one-quarter of the funds for investment that it had before 1982. The Mexican government continues to use the looted revenue to pay interest on Mexico's foreign debt. Since Salinas has no intention of permitting Pemex to retain the several billions of dollars annually it would need to begin expanding production, and given Salinas's mad drive to privatize everything, including most recently highways around Mexico City, there is no doubt that he is orchestrating a move to get the Congress to amend the Constitution at the earliest opportunity to permit the foreign takeover of Pemex.

This likelihood was confirmed by the revelation in an article in *El Financiero* of Sept. 8 that, according to a private report from a company called Petroleum Finance, the Mexican government "has begun internal discussions toward permitting foreign participation in the oil industry," despite the fact that to do so would carry "a substantial political cost."

Venezuela lobbies for investment

From the beginning of the Mideast crisis, Venezuela has offered to increase production by 500,000 bpd. However, Venezuelan President Carlos Andrés Pérez announced that Venezuela was seeking massive foreign investment in the oil industry to be able to double production by the year 2000. Then, on Aug. 30, in an off-the-cuff speech celebrating the 15th anniversary of the creation of PDVSA, Pérez said he would shortly be presenting to the Venezuelan Congress arguments in favor of revising the law which nationalized PDVSA, in order to permit the participation of foreign capital to facilitate new exploration. In the same speech, according to *Diario de Caracas*, Pérez announced the inauguration of the "hemispheric strategic petroleum reserve."

Responding to intense criticism a day later, Pérez "rewrote" his remarks and claimed he hadn't called for changing the nationalization law, but the investment law. His backtracking didn't satisfy the Venezuelan press, which had a field day attacking his intention to denationalize the oil industry which, ironically, he himself nationalized during his first term of office with broad popular support.

And U.S. chargé d'affaires in Venezuela, Kenneth Skoug, immediately jumped on Pérez's affirmation, telling the *Diario de Caracas* that Pérez's decision to change the nationalization law was "necessary and satisfactory." "At this point, Pérez's policy coincides with our own," he said. "I believe it [denationalization] is necessary and good for our countries, because the U.S. has the technology and experience you need." Asked whether denationalization wasn't a step backward, Skoug replied, "No . . . all intelligent persons try to learn from their own mistakes."