Mexico: will Pemex be sold to multis?

by Timothy Rush

Antonio Sacristán Colas, the respected outgoing president of one of Mexico's best-known think tanks, CIDE, was asked by the press at the beginning of February what would be the political and social cost of the International Monetary Fund measures now ruling the country. His answer: "The destruction of the Mexican political system and the limitation of national sovereignty."

The crisis that brought the IMF into the country was touched off in the summer of 1981, when the oil multinationals exploited the saturation of markets to tell Mexico it had to lower prices or face a cutoff of contracts. The new slide of oil prices will accelerate the process of disintegration Sacristán so succinctly identified (see Dateline Mexico). Few analysts doubt that there could be serious unrest by the second quarter of 1983, unless the IMF is thrown out.

Mexico currently sells its light Isthmus-grade oil at $32.50 a barrel, and its heavy offshore Maya crude at $25.00. The sales mix is slightly over 50-50, weighted on the side of the Maya, for an average price of $28.50. Mexico is exporting 1.7 mbd (of a total production of 2.7 mbd). At these rates, its oil income for the year would top $16 billion.

Each $1 a barrel drop in price means some $600 million revenue loss. A slide of $4 a barrel on the international markets would mean a loss of $2.4 billion; a slide of up to $10 dollars, as advocated by the British, would wipe out an even $6 billion.

Even before the new oil price slide, Mexico's 1983 "foreign-exchange budget," permitted only $11 billion for imports, after interest payments were deducted. That is fully *$6 billion under minimum import requirements* as established in another official study of the same ministry.

With the new declines in oil revenues in the offing, either this grotesquely low level of imports is slashed even further, in an economy whose industry in disproportionately import-dependent, or the debt burden is slashed—and the IMF accords go out the window.

The IMF forces are exploiting the crisis for a further power and resource grab, which will hasten internal upheaval. The consequence of the oil decline may be "a greater role for the IMF in the Mexican economy," declared a State Department official working with Secretary Shultz's "debt watch" team in the Bureau of Economic Affairs. "This would be just fine with the international banks. The bigger the role for the IMF, the better, as far as they are concerned."

The *Economist* of London said in its lead editorial Jan. 29 that "the IMF should . . . lend Mexico more money, under the same strict terms as before. If present international rules make it impossible for the IMF to lend any more money, then those rules should be quickly changed, through an emergency fund." That is, get IMF hooks deeper into Mexico, and at the same time use a renewed Mexican financing crisis to hurry up the U.S. bailout of the IMF.

The other goal of the IMF forces is to pry Pemex, the Mexican state oil company, loose from effective government control—where it could always be harnessed once again to national development needs—and turn it into simply a debt-paying machine, functioning as just another multinational. The Billygate-tainted Charter Oil Company of Florida revealed in December that it was attempting to negotiate a special deal whereby it and three other multis would assume a portion of Mexico's debt obligations, in return for a 10-year supply of oil at below-market prices.

Armand Hammer, who sits on the board of one of Charter's subsidiaries, is making his own move, too. He is offering Mexico up to $1.3 billion investment in his newly acquired (and bankrupt) Cities Service firm, to give Mexico a refining and distribution base inside the United States.

Return of the multis?

Another kind of pressure exists. Mexico is currently lifting at, or close to, its capacity. It would take a number of years and hefty new investments to raise that amount, under Pemex's present monopoly position. For a year State Department circles have been mooting that Mexico might be forced to invite the multis, kicked out in 1938, back in, to at least augment Pemex production and allow Mexico to make up price declines with volume increases.

Voices in Mexico are beginning to break the taboo on discussing such ideas in public. A commentary in *El Heraldo*, a Henry Kissinger-linked daily, expressed the view Jan. 30 that "we could obtain many dollars [for debt payment] if we were to extract sufficient oil. The problem is that we, with our own means, cannot produce more than 3.0 mbd. The obstacle can be overcome by inviting the oil multis in to extract, with their own equipment, sufficient oil for them to pay off our creditors. . . ."

Former oil director Jorge Díaz Serrano, who let on that his "pro-growth" image was a sham with a fervent endorsement of the Club of Rome in mid-January, told the press a week later that the Charter Oil offer was a legitimate one that "should be analyzed . . . with others that the Mexican government is constantly receiving."

For the vast bulk of the population, however, the national oil monopoly remains a sacred political symbol and trust. Tampering with it, under whatever guise, hastens Mexico's internal dissolution.

Venezuela: 'missing piece' in the plan

by Christian Curtis

"Venezuela is very much the missing piece of the puzzle," a European banking representative in New York commented recently, referring to the fact that of Ibero-America's four largest debtors, only Venezuela had not yet signed with the International Monetary Fund. The oil price collapse is designed to "break" Venezuela, to force it to succumb to the Fund and auction off its oil to pay its ballooning debts.

The dollar-figure impact of the price drop will be bad enough: Venezuela's federal budget, which depends on oil for 75 percent of its revenues, is premised on \$16 billion in oil earnings, a 1.6 million barrel per day export rate at an average price of \$27.50 a barrel. A \$3 a barrel drop in price would cost \$1.7 billion, and that does not take into account a likely drop in the volume of exports as well. If exports also drop to 1.4 million bpd—and export volume for January of this year is already below that—Venezuela will wind up with only \$12.5 billion in earnings. That is \$3.5 billion short of the government's projection and a jolting \$5.5 billion less than what the country pulled in during 1981.

However, totally rewriting the budget is a minor problem. The real trouble is the timing. Venezuela has been hit mid-stride while trying to complete sensitive negotiations on the refinancing of some \$8.7 billion in short-term debt due this year—\$3.5 billion of it by the end of March. And the banks are using every opportunity to justify turning down what should technically be one of the soundest credit risks in the world. The busting of OPEC is merely the *coup de grace* of a several-month process to force Venezuela to buckle, and, just like Mexico, Brazil, and Argentina, call at the IMF in Washington, hat in hand.

"We will *impose* an IMF agreement," one financier said. "Politically, they will *accept* an IMF agreement. It's a play of words. They'll come up here and get 60 percent of what they want. Then they'll have to accept an IMF framework. They have no choice."

A tap on the shoulder

As soon as the Mexican debt crisis erupted last August, it became a strategic imperative for the bankers to break Venezuela, as a leading Christian Democrat in Caracas, Hilarión Cardozo, charged in a statement in mid-January. All last fall the country was wracked by capital flight. A study published in the daily *El Universal* said \$13 billion fled the country during 1982, but banking sources "off the record" put the figure at closer to \$15 billion or even \$20 billion. A U.S. West Coast banker in a position to know put the figure at an impressively precise \$143 million a day as of Feb. 1—an annual rate of more than \$35 billion. Venezuela's foreign exchange reserve dove from \$18 billion to under \$10 billion last year.

Venezuela's problems were compounded when the international banks started shutting down credit lines last September, leaving Venezuela holding the bag of close to \$10 billion in short-term obligations. At that point, central bank chief Leopoldo Díaz Bruzual went after what the IMF and its allies consider the prize of Venezuela, Petróleos de Venezuela, SA, the largest corporation in all of Ibero-America.

Díaz Bruzual decreed that all dollar holdings and earnings of the nationalized state oil company were to be handed over to the central bank. This move violated a national security policy dating from 1976, when the oil industry was taken over from the Seven Sisters, which established a total financial autonomy for Petróleos to ensure that it would never fall into foreign hands. By December, the inevitable was obvious. Petróleos officials announced that because of the country's cash crisis, the company would have to borrow perhaps \$1 billion abroad this year. Petróleos itself would now be subject to bank conditionalities.

In January, Finance Minister Arturo Sosa flew to Washington to meet with U.S. Federal Reserve Chairman Paul Volcker. Volcker quietly offered to "help" the New York banks be a little more cooperative in Venezuela's case, provided Caracas agreed to long-term, fixed exclusive oil sale contracts to the United States—the "strategic hemispheric oil reserve" scheme devised by Henry Kissinger's minions at Georgetown Center for Strategic and International Studies. Of course, the scheme depends on a collapse of oil prices and a crisis in OPEC.

Venezuela was already desperate when the Hong Kong affiliate of London's Nordic Bank, Ltd. sued the Venezuelan Development Corporation (CVF) for default in December because of late payments. In January, seven other banks did likewise. But as one New York financier later let out, the suits were merely additional pressure against Venezuela. "A tap on the shoulder, shall we say," he suggested. "It is also a demonstration to the other countries, to show the banks mean business. What is going on is that the banks first want to knock the Venezuelans down, and then start over with those guys."

It won't be easy. As the banks themselves admit, Venezuela can fight back. "There is talk that Venezuela may be the first country to declare a debt moratorium," a Wall Street banker said recently. "It may well be the case." A European financier noted, "Venezuela did create OPEC. Perhaps it will wake up one day and try to lead a cartel of debtors. So the strategy now would be to prevent this leadership."

Nigeria: hanging on to its illusions

by Douglas DeGroot

Because it is so dependent on oil revenue, Nigeria is seen as the weak link in OPEC, and tremendous pressure has been put on Nigeria by the British.

The Nigerian government carried out a massive expulsion of non-Nigerian residents in the brief period of two weeks—from Jan. 17, when the order was announced by the Interior Minister, to the end of the month. British press sources, in their attempt to dramatize the situation, claim that 2 million people have been kicked out, sent back to eight countries in the region surrounding Nigeria.

Several reasons were advanced for the abrupt measure, including smuggling and other criminal activity by the non-Nigerians, participation by some of the foreigners in "Islamic fundamentalist" riots in northern cities, and the fear that foreigners could be used by opposition parties to disrupt the presidential elections this August.

However, the fundamental factor that has led Nigeria to expel these people is the economic crisis. And it is the deteriorating economic situation that has allowed some of them to become grist for various organized-crime mills.

The most heavily populated country in Africa, Nigeria is thought to have over 100 million people, or about one-fourth of the entire continent's population. If Nigeria were to industrialize, overcoming all the problems built into the country by the British during the period of colonial rule, Nigeria could be the catalyst for the development of the rest of the continent.

For this reason, since its independence in 1960, Nigeria has been under attack by the British and their allies, which has included the assassination of three heads of government, and a genocidal civil war. The possible assassination of President Shagari is now being talked about in certain London circles.

The progressive squeeze

By the 1970s Nigeria's economy came to depend almost exclusively on oil production. Since 1981, and the onset of the oil slump due to the economic depression in the developed sector, Nigeria has been targeted.

In 1981, the British lowered the price of their North Sea oil, which is of the same high quality as Nigeria's oil, $5.50 below Nigeria's price, cutting deeply into Nigeria's markets, and putting pressure on Nigeria to abandon the OPEC price structure for cash-flow purposes. At the time of the January OPEC meeting, the British threat to again lower North Sea prices made it impossible for Nigeria and the other African producers to agree to an overall production limit and price differential with the Saudis.

Nigeria was the fifth largest oil producer in OPEC before the current slump; oil exports accounted for 80 percent of federal revenues, and provided 90 percent or more of the country's export income. Before the slump, Nigeria was the second largest foreign oil supplier to the United States. Since then, the British have been taking supply contracts to the United States away from the Nigerians. The biggest lifters in Nigeria, British Petroleum and Royal Dutch Shell, working in partnership, have been reducing the offtake. The third largest lifter, Gulf Oil, has stopped taking oil from Nigeria altogether since Jan. 2.

Nigeria's ambitious five-year development plan was based on a projected oil production of 2 million barrels per day. The plan called for the construction of a steel industry (the Aladja steel plant, which went on line in December 1981, was the first plant to begin production of steel in Nigeria), additional railroads, roads, ports, and other infrastructure. The plan also put priority on development of the petrochemical industry, modernization of the agricultural sector (nearly 70 percent of the population is still rural), and manufacturing and education (the illiteracy rate is still quite high).

The plan was launched in January 1981, the last month oil production was at the projected level. Production collapsed to well below 1 million barrels per day, before it climbed to somewhat above that level again. British sources claim that production is now again down to 800,000 bpd.

Nigeria got itself into its present economic predicament by playing the fiscal-conservative game, hoping at the same time that the lies it was being fed about an economic upturn in the developed sector would become reality.

In order not to break OPEC's price structure, Nigeria began imposing giant spending cuts. In March 1982, imports were totally frozen for a period. The budget for 1982 was cautiously based on projected oil sales of 1.3 bpd. Last November, the 1983 budget was announced, based on a still more conservative expected production of 1 million bpd. That budget sought to cut imports by another 30 percent, and also projected borrowing $4.2 billion abroad for the year. At the time both budgets were introduced, officials announced that an economic upturn was expected during the course of the budget year. Because of its smaller debt relative to some developing-sector nations, Nigerians are still clinging to illusions, hoping that this display of "fiscal responsibility" will make loans available to them.

Nigerian officials were warned what they were in store for two years ago in a special *EIR* report, but the advice was discounted in the hope that the nation would get by.

Indonesia: lower oil income hits economy

by Ramtanu Maitra

The one-third drop in oil revenues Indonesia has suffered in the 1982-83 fiscal year—a $6 billion drop—is forcing the government to make a hard choice between the current living standard of its population and the nation's industrial development.

In the 1982-83 budget, President Suharto made the politically risky decision to cut back government consumer subsidies by 40 percent, from $2.5 billion to $1.5 billion, to sustain a 34 percent increase in the development budget. A further cut in oil income is jeopardizing even the limited 8 percent increase in development funds Suharto had hoped to achieve in the 1983-84 budget.

Unlike the case of Mexico or of Nigeria, the oil crisis does not threaten an immediate crisis of debt payments or political stability. However, the modernization of the country, the maintenance of its population's living standards, and hence the long-run foundation of political stability are being undermined.

During the current fiscal year, income from Indonesia's crude and other oil product exports fell to $12.2 billion from the previous year's $19.1 billion. Liquefied natural gas sales have declined in the current year to an anticipated $3.7 billion.

Indonesia's oil accounts for about 70 percent of its exports presently and about 53.3 percent of total government revenues in the proposed 1983-84 budget. Since April 1982 Indonesia has reduced the price of its oil by $0.20-$1.90 a barrel, depending on the quality of crude. High-equality Minas crude, for example, which accounts for almost 50 percent of Indonesia's crude exports and was priced at $34.53 a barrel as of November, has a select and relatively fixed market. Although there are reports that Minas crude is selling at $33.00 a barrel on the spot market, demand for it remains high.

The Japanese, who buy about 60 percent of all Indonesian crude exports, are pressing for a price reduction. However, the Japanese have emphasized they will honor Jakarta's compliance with an OPEC price cut by maintaining their current purchase commitments. It is generally expected that, given the importance of maintaining good working relations with Indonesia, the Japanese buyers will do their best to maintain the current level of purchases when the annual trade talks between the two nations are held in March.

Cuts in subsidies

Faced with a deteriorating balance of payments, the Indonesian government already introduced an austere budget in fiscal year 1982-83. Subsidies for fuel oil and food were cut from $2.4 billion to $1.5 billion, affecting the entire population. Yet, with long-term planning in mind, President Suharto called for expanding development expenditures by 34.5 percent, whereas routine expenditures were allowed to drop by 6.7 percent.

During 1982, Indonesia's export earnings fell substantially as the world recession pulled down the commodity prices on which Indonesia's non-oil sectors depend. In the second half of the year, complying with OPEC's decision, Indonesia lowered its oil production from 1.6 million barrels per day to 1.3 million bpd, and in November Indonesia cut its oil price.

Presenting the fiscal year 1983-84 budget on Jan. 6, President Suharto, who is compelled by law to prepare a balanced budget, called for removing subsidies from fuel oil altogether and for a further cut in food subsidies. The government, he pointed out, hopes to offset the drop in oil revenue through a 49.9 percent increase in project aid from international sources to $3.6 billion. (The government optimistically estimates oil revenues to be only 2.8 percent less than last year's.) Again, emphasizing the necessity for building up Indonesia as an industrial nation, Suharto called for expanding development expenditure by 7.9 percent.

Foreign exchange reserves add up

During the days of oil boom Indonesia had built up substantial foreign exchange reserves. The country has an official disbursed foreign debt of about $17.0 billion. Private debts add another $5 billion to $6 billion, according to government figures. Official foreign exchange reserves, which declined by $2 billion during 1982, stood at $4 billion in Oct. 1982. State bank foreign exchange holdings held abroad also account for about $4 billion, according to the American embassy's Jakarta report.

Although the estimated oil earnings for fiscal year 1983-84 may seem too optimistic, and the Indonesian currency, the rupiah, is under severe pressure for devaluation, there are several factors which make Indonesia's situation less drastic than that of many other oil producing nations. First, the structure of Indonesia's oil market is dominated by demand for light crudes: Minas light has become almost a necessity in Japan, as Japan's industry has kept modernizing to the disadvantage of heavier crudes. Second, Indonesia's debt is still manageable, with a large portion of it consisting of long-term loans from international agencies or investments with relatively low interest rates.