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Energy Inflation Also Devastates Mexico

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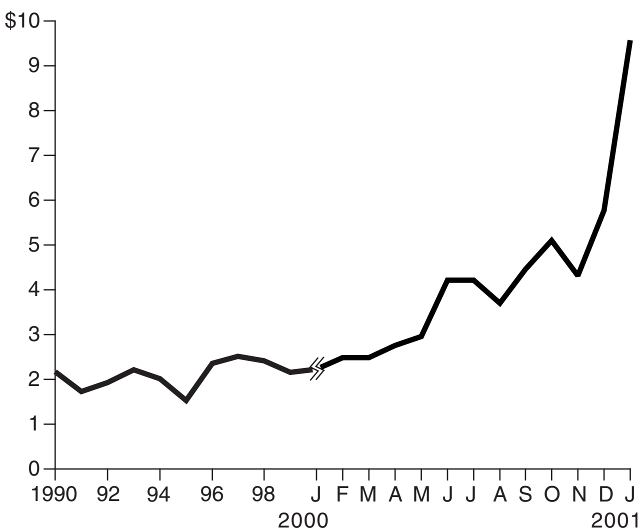
Mexico will be one of the countries most affected by the collapse of the United States economy, because of the extreme integration of their two economies, which is seen, in particular, in the fact that most of Mexico's production is geared to exports to the United States, especially since the North American Free Trade Agreement (NAFTA) was signed in 1993. The first ravages of this aspect of the world depression have already begun to be felt in Mexico, in the national industry, and the *maquiladoras* (virtual slave labor assembly plants along the U.S.-Mexico border) as well.

The first shock wave of the international financial collapse, the inflationary rise in the cost of raw materials and energy, hit Mexico in the price of natural gas. Gas is used as the leading energy source in the steel, glass, ceramics, and chemical manufacturing industries, and is also a raw material for some other industrial processes. Over the last year, its price nearly quintupled in value, a hyperinflationary increase (see **Figure 1**).

The price of natural gas in Mexico rose from $2.23 per million British thermal unit (BTUs) in January 2000, to $5.775 by December 2000. In January 2001, the price hit $9.57 per million BTUs. The price of natural gas in Mexico is set by the Secretary of the Treasury and Public Credit, using a formula based on the international price of West Texas gas.

FIGURE 1
Mexico Natural Gas Price
($/million BTU)



The destructive indifference of the federal government, in the face of the crisis provoked by the exorbitant increase in the price of gas, was exemplified by Secretary of Energy Ernesto Martens's Jan. 11 statement that "the average price of natural gas during 2000 was $3.5 per million BTUs, and I don't see how this price could decapitalize companies." Of course, Mexican industrialists do not pay some nonexistent "average" price, but the almost $10 per million BTUs which gas now costs.

Martens's dismissive statement was used by some Mexican business groups as an excuse to justify the campaign of the international financial oligarchy to get their hands on Pemex, the state oil company, through its privatization. These businessmen—misguided, or worse—promoted the idea that Pemex was the agency which fixed the price of gas. They accused it, even, of implementing monopolistic practices, when they themselves had promoted NAFTA and its side accords, which pegged the gas price in Mexico to the international reference price.

The list of companies wounded, some mortally, by the gas price rise, is growing. During the last months of 2000, numerous businesses throughout Mexico reported either a partial or total shutdown of production, including:

- Hojalata y Lámina, S.A. (HYLSAMEX), a subsidiary of the Alfa Group, on Sept. 21, 2000, shut down operations at its sponge-iron furnaces at two Monterrey plants and a Puebla plant, and its iron mines in the states of Colima, Jalisco, and Michoacán, resulting in a loss of 6,000 direct jobs, and 1,250 indirect jobs.
- Minera Autlán, a subsidiary of the Ferrominosa Group, shut down a smelter, reducing the production of manganese, and partially closed operations at the Molango mine in the state of Hidalgo, on Nov. 28, affecting 200 workers directly.
- The steel company ISPAT temporarily suspended operations at its Lázaro Cárdenas plant, because of the price of gas. The company transferred production to its plants in India and Trinidad and Tobago, leaving more than 3,000 Mexicans out of a job.
- Altos Hornos de México reported that it had laid off 620 workers between the end of the year 2000 and Jan. 16, 2001, "to save $12 to $14 million."
- Six small glass companies also closed; here the number of workers left jobless is unknown.

Production Comes First, Says MSIA

The Ibero-American Solidarity Movement (MSIA) in Mexico, associated with the ideas of Lyndon LaRouche, intervened into the crisis, presenting Senators and other officials with a proposal that the price of gas be fixed at $2.5 per million BTUs, under the powers which the Constitution provides to the government of Mexico to protect the public interest.

The MSIA mobilized demonstrations and took to the airwaves, bringing to the public's attention the ten-point emergency energy plan drafted by U.S. Presidential precandidate Lyndon LaRouche. In October, the MSIA brought Nevada state Senator Joe Neal (D) and *EIR* Editor Paul Gallagher into Monterrey, the leading industrial city in Mexico's north, where they gave public conferences, newspaper, radio and television interviews, and held private meetings with industrialists, explaining the international speculative dynamic which was causing these problems in Mexico. The MSIA also strongly promoted, above all at Monterrey's several universities, the idea that the financial crisis must be turned into the opportunity to take up, again, the infrastructure and nuclear development projects required to reactivate the economy.

After a flood of advertisements in the press and declarations by national industrial associations and trade unions (the steelworkers, metalworkers, etc.), on Jan. 16, Energy Secretary Martens, in a joint press conference with Secretary of the Economy, Luis Ernesto Dérbez and industrialists, announced that the government would offer longer-term "hedge" contracts, fixing the price of natural gas at $4 per million BTUs for the next three years.

It was a minimal concession in the face of the economic and social disaster that loomed. And, as in the case of California, emergency measures had to be taken, to head off a greater catastrophe. Although the measure will permit some companies to reopen some of the operations they had shut down, others can no longer do so.

Next Come the Maquiladoras

The international crisis is hitting not only Mexico's national industrial sector, but also the *maquiladoras* assembly plants, whose exports are held up as the supposed salvation for Mexico under globalization, so praised by President Vicente Fox.

The automobile assembly industry will be the worst affected, given that 75% of its production goes to the U.S. market, according to the figures of the Mexican Automobile Industry Association. In the United States, General Motors Corp. announced plans to reduce its world production by 21% in the first quarter of 2001, over what it produced in the same period in 2000. That announcement followed those of DaimlerChrysler and Ford Motor Co., that they will cut production in the first quarter by 26 and 17%, respectively. The three firms have plants in Mexico.

The first effects are already being felt in the north of the country, where the *maquiladoras* are concentrated. In the north, there were many industrial towns, of 5-10,000 inhabitants, in which a mining company or a steel or iron plant used to be the center of economic activity, and for which the whole population worked, directly or indirectly. However, under the NAFTA government of President Carlos Salinas de Gortari (1988-94), many of these once-state-run companies were privatized, and shortly thereafter went bankrupt.

Many of these towns would have become ghost-towns, because the population no longer had any place to work, were it not for the fact that the *maquiladoras* came in, to replace the bankrupted national industrial firms, and to take advantage of the cheap labor of the unemployed. Today, many of these are "*maquiladora* towns."

In the northern state of Coahuila alone, 7,000 people were taken off the rolls of the Mexican Social Security Institute (IMSS) in the last few months; 1,000 of those worked for DaimlerChrysler. Workers are removed from IMSS's rolls when they have gone three months without work.

Delphi Automotive Systems, the largest *maquiladora* in the country, employing 75,000 workers, has laid off 5,000 people from its plants in the states of Tamaulipas, Chihuahua, and Querétaro, since July 2000. On Jan. 9, Delphi's Michael Hissam announced that Delphi would be cutting its production and personnel *by 50%* over the next two years, although, strangely, two days later, another company spokesman denied the report. At least 70% of Delphi's production goes to General Motors.

As is evident, unemployment and the shutdown of productive industries in Mexico are arriving, although still as small tremors or quakes. But in Mexico, outside of the actions of the MSIA and LaRouche's proposals, almost no one has yet to question the tectonic fault which is producing them: NAFTA and the insolvent world speculative system of which it is a part.