 by Josefina Menéndez

Confrontation with the multis

The dust has far from settled around the recent dramatic and surprising shakeup at Pemex.

Most of Mexico and the entire international energy community were on the edge of their seats early last week when Mexico's industry minister, José Andrés De Oteyza, appeared before Congress to explain the reasons for the surprise ouster of Pemex Director Jorge Díaz Serrano last week.

De Oteyza did not disappoint those who were hoping for high political drama.

The powerful secretary lambasted Díaz Serrano in everything but name, characterizing the former Pemex chief's decision to lower Mexican oil prices as "precipitous" and "of extreme gravity."

He warned that Mexico would re-evaluate its pricing policy on July 1, and suggested that Mexico might well "purge" its client list of those unwilling to pay Mexico's asking price. De Oteyza threatened: "Buyers will have to contemplate the possibility that a barrel of oil lost today may be a barrel of oil lost forever."

Perhaps the most significant part of De Oteyza's speech was his rejection of the idea that "market forces" willy-nilly define oil price levels—the argument commonly used to explain the recent drop of world oil prices. "Mexico will defend the thesis of planning rather than improvisation, of economic cooperation rather than trade speculation, of guaranteed supplies rather than commercial bargain sales."

Press columnist Pérez Stuart, one of Mexico's leading advocates of Friedmanite economics, expressed outrage at this De Oteyza insolence: "Mexico is disobeying the law of supply and demand," Pérez Stuart shrieked, "which is as irrational as maintaining the current parity of the peso."

The "law of supply and demand" that the noted columnist is referring to is actually better defined as the massive political and economic pressure brought to bear on Mexico over the past months by the oil multis who threatened to suspend purchases if Mexico didn't cut prices. In fact, it was reputedly this pressure to which Díaz Serrano succumbed in his decision to lower prices, a decision which in turn led to his ouster.

The *Wall Street Journal* June 18 reported that Mexico's new hard line on prices will be matched—and then some—by the oil multis. "A confrontation is shaping up," the *Journal* augurs hopefully, since "the companies are in a tough mood that hasn't been seen in many years."

But spot checks conducted by *EIR*'s New York office failed to confirm the *Journal*'s analysis. For example, a high official at Shell Oil—one of Mexico's important clients—told *EIR* frankly: "We hope Mexico will reconsider its decision [to raise prices], given the world market situation. However, if they do raise the price, we will continue to buy their oil." An Ashland Oil executive echoed the same sentiments.

There is, however, a faction within the energy community that is definitely itching for a showdown with Mexico. A leader of this group is Qaddafi-linked Armand Hammer and his infamous Occidental Petroleum Company. Although not themselves purchasers of Mexican crude, Occidental has joint ventures in Mexico and has been playing an influential role in shaping policy toward Mexico.

Hammer's particular obsession is to force Mexico to abandon its industrial development projects, and to change its nationalist foreign-investment laws—which require majority Mexican ownership in any foreign investment in the country, and prohibits it entirely in the area of primary petrochemicals.

Hammer believes that forced reductions in Mexico's oil income is a good way to achieve this.

An Occidental executive, who asked *EIR* not to identify him by name, argued that De Oteyza's announcement was "ill-advised, because nobody will be interested in buying oil at higher prices."

The source elaborated on his company's scenario: "A drop in oil sales will kill Mexico. Look at their balance of payments, at their trade balance, at their foreign debt. . . . But if Mexico gets more foreign investment, they could compensate for what they are losing because of the oil price drop. . . . Mexico really should open up more to multinational ventures."

And then as an afterthought the Occidental executive added: "But please don't quote me by name. You would greatly harm me individually, and the company."