Energy

How Mexican oil price was broken

by Carlos Valdez

Three years since Mexico made it known to the international banks that it could not possibly comply with the payments due on its foreign debt, to be precise on Aug. 20, 1982 under the administration of José López Portillo, today the Mexican nation again confronts the same situation: It will not have the money to pay, not merely the principal, but even the interest on foreign debt. What detonated the situation is the virtual collapse of the oil prices, which were mortgaged to debt repayment in 1982, and whose hard-currency earnings today will not be enough to cover interest payments.

The general rumor in governmental circles, according to what the Mexican press put out in the second week of July, is that Mexican Finance Secretary Jesus Silva Herzog will have to tell the bankers very soon that famous phrase, "Debo no niego. . . pago no tengo" (loosely translated, "I owe, I don't deny . . . money, I don't have") and then beg for an emergency credit of at least $2 billion (in 1982 Silva Herzog negotiated a $1 billion credit line based on expected oil revenues) to pay the annual interest on Mexican foreign debt which is already more than $95 billion. According to this version, if the banks refuse to give Mexico new credit, the government of Miguel de la Madrid could see itself forced in the coming months to declare a temporary payment moratorium to the international financial community, as Mexico did on that sad Aug. 20 of 1982.

Economic warfare on Mexico

The singular thing about Mexico's critical financial situation is that the origin of the virtual economic war in which Mexico has been living since early 1985 has been orchestrated by a sinister pact between Great Britain and the Soviet Union.

In effect, at the opening of the year, when the instability of the world oil market became accentuated, the sales of Mexican petroleum abroad fell by around 200,000 barrels per day as the result of the drop of one dollar in spot market oil prices and the increase of supply on that market deriving from, among other things, large increases in the oil production of the Soviet Union and the North Sea. In the face of the lower price of North Sea oil, Mexican crude lost competitiveness and Pemex, the state oil company, decided on Feb. 4 to lower the price of Isthmus oil by $1.25 per barrel. In total, in the first quarter of the year, average sales of Mexican exports were lower by 10% compared to the same period of 1984.

The price war on the international market continued, and again Britain and the Soviet Union lowered their prices, and Mexico again lost its markets, forcing it into another price drop of $1.50 in the price of Maya oil.

The pressures on the prices continued during June. By that date the OPEC member countries had already enacted a series of reductions in the agreed-upon prices via explicit and inplicit discounts through tricks, cosmetic arrangements, processing, and marketing. The oil spot market became so flooded that by June, 80% of the world's oil was being sold on the spot market at prices as much as $3 below the official ones. By then, Mexican oil exports had fallen by some 40%; in June, Pemex exported only 800,000 barrels per day, 700,000 barrels less than its normal level of exports.

In short, Mexico, which sells all of its oil under government-to-government contracts, was facing the fact that with the exception of Japan, countries like France, the United States, the U.K., Brazil, and Canada among others, were not picking up their normal purchases of oil from Mexican ports. Japan was the only country to maintain its Mexican petroleum imports at the level of 150,000 barrels a day and religiously pay for them every 30 days.

Even in the case of Nicaragua, supposedly an ally of Mexico in the Central American conflict, President Daniel Ortega went on a tour of the socialist bloc countries and got guarantees from the U.S.S.R. to supply Nicaragua all the oil they needed. Mexico had been one of the main supplyers of oil to Nicaragua, through the Pact of San José.

According to the National College of Economists, the total losses from the oil pricing crisis will mean a loss of $3 billion to Mexico, provided that it recovers its markets and at best obtains around $13 billion this year. But all the "predictions" indicate, with the *New York Times* in the lead, that the price of a barrel of oil will keep plummeting downward, to $20.

It must be noted that Mexico warned, in early July, through its Energy Secretary Francisco Labastida Ochoa, after a meeting with Venezuelan President Jaime Lusinchi, that if the oil prices fall by any more than $2, countries like Mexico will have serious problems in meeting their foreign debt payment commitments.

In Mexico, economic specialists of the National Chamber of Manufacturing Industries (Canacintra), rejected demands that the Mexican government apply a third cutback in the budget of public spending and instead said that Mexico should resort to the international forums to declare a moratorium on its foreign debt. Besides, the labor sector of the country has reacted by demanding a change in the government's economic policy because we "cannot tolerate more adjustments." Sources in the Budget Ministry, however, have made it known that the Mexican government will have to decide very soon on a new budget cut.

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