

UNCERTAIN OUTLOOK FOR MEXICAN OIL DEVELOPMENT POLICY

1. Mexico has unquestionably discovered large new petroleum resources near the Gulf of Mexico, which give Mexico reserves at least as large as those of Venezuela, and possibly much larger. The discovery occurred last year, but the Mexican government kept its size a closely guarded secret while it was formulating its petroleum policy. Pemex, the state-owned oil monopoly, pushed rapidly to develop the new fields and began to export oil to the United States this September. Pemex had planned to continue rapid development of the fields. Although information on the size of the discoveries would probably have leaked out eventually, President Echeverria apparently hoped to delay the domestic political battle this information would occasion until the fields were more fully developed and a consensus had been reached within the government on future petroleum policy.

2. Unfortunately, information on the size of the deposits has appeared in the US press. This has precipitated a public debate over Mexico's oil export policy, with leftist elements taking predictable stances. Because of Mexican sensitivities to US pressure or the appearance of pressure, the leak has been particularly damaging to those in Mexico that favor rapid boosts in exports. President Echeverria reportedly was incensed at having this information prematurely disclosed and at being scooped by the US announcement.

3. [REDACTED] Mexico could have an export potential of as much as 100,000 b/d by yearend. In September, Mexico began exporting oil to three US firms at a rate of about 35,000 b/d. Pemex has also approached several other US firms and several Latin American countries. Earlier this month it made arrangements with the USSR to ship 450,000-500,000 barrels to Cuba. Officials of Pemex have stressed that the US sale was a short-term deal based on financial considerations and did not necessarily imply that Mexico intended to become a large-scale exporter of crude oil.

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4. A decision has not yet been made on the level of future Mexican oil exports. While many Mexicans will welcome the impetus to economic development that could come from maximum exploitation of the country's newly found oil wealth, such exploitation is not assured. There are powerful elements in the ruling Institutional Revolutionary Party (PRI) that would oppose rapid expansion of output and exports, arguing that the oil must be conserved for the use of future

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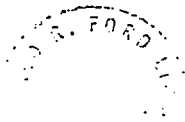
generations. They can be expected to seek to limit oil output in the coming years to the minimum required to cover domestic needs and to earn essential foreign exchange. If their views prevail, Mexican oil exports could fail to exceed 500,000 b/d over the next three years. This is far below the 1.2 million b/d that Mexico probably could be exporting in three years with a maximum development effort.

5. Nationalist and conservationist views would receive strong support from Mexicans generally. In the past, such views have had strong influence on resource development policies. Mexico has long restricted output of many minerals to the levels required to meet domestic demand. Mexico in 1965 refused to take advantage of exceptionally high world sulfur prices and limited exports and future output.

6. Mexico's hesitation is not necessarily influenced by a desire to make common cause with OPEC. In the past, officials of PEMEX have expressed the view that the organization is too driven by Arab political interests and that membership could restrict Mexico's production flexibility. Some Mexican officials had, however, advocated joining OPEC in order to influence that organization's attitudes, goals, and intentions. Subsequent to US press announcements, Flores De La Pena, Secretary of National Patrimony, announced that Mexico will seek observer status in OPEC. We do not believe that Mexico would participate in any scheme aimed at breaking up OPEC or causing a sharp reduction of oil prices. On the contrary, Mexico will have a strong interest in maintaining high oil prices.

7. Petroleum policy has been the subject of strong debate among Echeverria's closest advisers, two of whom are also leading contenders to succeed him as president. The Secretary of Government, Moya Palencia, is considered friendly to the United States, but he takes a very nationalistic attitude toward oil exports. Moya feels Mexico should move very cautiously, perhaps exporting a modest quantity of refined products, while taking care to avoid rapidly depleting the new deposits for short-term financial advantages.

8. Taking the opposite view is Finance Minister Lopez Portillo, who advocates that Mexico become a major oil exporter. Lopez Portillo is convinced that large oil revenues would have a beneficial impact on Mexican economic development. Also, he has repeatedly expressed concern about the impact of high oil prices on developing countries and believes that the United States should take the initiative to resolve the oil crises.



9. The decision on exports ultimately will reflect what Mexico perceives to be its own best interests. Pressing economic problems will almost certainly result in some exports of oil, preferably, from the Mexican view, of refined products. Besides a mounting foreign trade deficit, Mexico is faced with one of the world's fastest growing populations. The economy requires large capital inflows in order to maintain the 8% real annual growth rate necessary to provide the 600,000 new jobs required annually. To feed the population, the agricultural sector also requires large amounts of capital. Conversely, inflation has become a major political issue in Mexico, and President Echeverria is concerned that petroleum development may aggravate inflationary pressures.

10. President Echeverria would not and politically could not boost exports to such an extent as to endanger future domestic energy supplies. He has already expressed concern about future supplies and may want to tie oil exports to the transfer of advanced energy technologies.