Andean Report by Carlos Cota Meza

Venezuela pumps strategic oil reserve

Mexico's oil production is collapsing while Venezuela schemes to become top producer in a hemispheric reserve.

The Venezuelan government is negotiating with the Bush administration to create a Western Hemisphere strategic oil reserve, as proposed by former U.S. Secretary of State Henry Kissinger. In this scheme, President Carlos Andrés Pérez is going it alone, ignoring quota agreements with OPEC and with the Informal Group of Latin American Oil Producers.

During the group's last meeting in June, Venezuelan Mines and Energy Minister Celestino Armas presented Carlos Andrés Pérez's new oil program, explaining that "negotiations are being planned with Venezuelan businessmen and international financial agencies, for their participation in areas which until now have been reserved exclusively for the state. . . . he Venezuelan government intends to carry out a series of changes in its legislation, to make it the number-one Latin American oil producer."

Officials of Venezuela's state petroleum company PDVSA have indicated that "investments in oil are already being directly negotiated with both national and foreign private capital, a program that is becoming one of the most important within the future mosaic of the international petroleum market."

At the Informal Group's meeting, which was not attended by Francisco Rojas, the president of Mexico's state oil company PEMEX, it was revealed that Mexico is flagging as Ibero-America's leading producer of crude oil.

The new Venezuelan oil program anticipates that 11 billion barrels of oil will be added to current proven reserves of 59 billion barrels, which will raise its reserves of conventional crude to 70 billion barrels by 1995. The plan anticipates keeping Venezuelan oil exports at 1,714,000 barrels a day, 484,000 more than what Mexico exports. While Venezuela increases its proven reserves, Mexico has reduced its own from 72,000 barrels in 1982 to 66,000 in 1989.

Celestino Armas has declared that "outside of the Middle East, Venezuela is the only certain source of petroleum in the Western Hemisphere." Agreeing with Armas, PDVSA director Andrés Sosa Pietri announced the return of the oil multinationals to Venezuela. He added that association contracts were already being studied, in accordance with Article 5 of the 1976 Oil Nationalization Law. According to Sosa Pietri, "Venezuela will accept the return of the multinationals in high-risk areas and where high technology is required for oil exploration and exploitation."

In the upcoming OPEC meeting, Venezuela will ask that its production quota be raised to 2.4 million barrels a day (mbd). Unidentified officials of PDVSA have leaked that President Pérez already has a study which "affirms that the best thing that could happen to the country is for OPEC to abandon its quota system." Venezuela eventually hopes to raise production from 2.7 mbd to 3.6 mbd by 1995.

On July 13, Venezuelan Energy Minister Armas met in Washington with his counterpart James Watkins. Foreign Minister Reinaldo Figueredo reported that Armas presented Watkins with a proposal to create "a hemispheric petroleum system for emergency cases."

Armas's proposal stems from an earlier proposal made by Pérez to Bush during his visit to Washington last May. Pérez had urged the United States to agree to an increase in Venezuelan oil production to 3.5 mbd, a quantity which could then be used in emergencies by the United States or any Western nation.

While Venezuela's oil future is under negotiation, Mexico's appears to be on the decline. June prices for Mexico's Isthmus, Maya, and Olmeca oil were being quoted at 96¢ below the "budget price" of $13 per barrel, according to PEMEX. This represents a loss of $44 million for the month of June, according to income calculations in the 1990 budget. According to PEMEX spokesmen, "the fall in prices is due to the persistent instability of the international oil market, caused by OPEC overproduction."

Mexico is already importing Venezuelan oil for generating electricity, and PEMEX's deputy trade director Javier Jiménez Espriu told the press that "national gasoline consumption is rising between 12 and 14%. . . . Since there is no possibility of increasing production inside the country, this fuel will be brought in from abroad."

One PEMEX official told *EIR* that he didn't understand what was going on in Venezuela. Its new program, he said, goes outside the agreements of both the Informal Group and the Latin American Energy Organization, especially with respect to the sovereign management of the companies involved. Asked if the Mexican government was counting on a war in the Mideast, the official said, "Yes, because only a sharp increase in the international price will save PEMEX and the country. . . . Otherwise, we would have to do what Venezuela is doing."