

1. BACKGROUND

The first oil production took place in Mexico in 1876. The government of Porfirio Díaz allowed many privileges to foreign companies, and by 1910, British and U.S. companies held concessions over extensive petroleum producing areas. During the next decade, petroleum production experienced an extraordinary development, growing from 3.9 million barrels in 1910 to 193.4 million barrels in 1921, when Mexico became the second world producer. At the same time, however, the foreign companies paid virtually no rights or taxes on this production, they were quickly exhausting existing wells with unrestricted exploitation while offering extremely low wages and labour conditions considerably below those offered in other countries. The post-revolutionary government made several efforts to improve this situation, by declaring all underground resources to be national property and granting new concessions both to national and foreign companies. At the same time, a spontaneous tendency towards mexicanization occurred: local hydrocarbon consumption increased from 11% to 40% of total production, thus limiting exports, while an increasing amount of crude oil was being processed locally, albeit using very simple processes.

Influenced by labour management disputes and a growing sense of resource nationalism, the Mexican government of Lázaro Cárdenas expropriated the overwhelmingly foreign dominated industry (U.S., British and Dutch) in a move considered very bold at the time. It then successfully created a single company, Petroleos Mexicanos (PEMEX) to encompass the complete spectrum of hydrocarbon resource exploration, development, storage, transportation and marketing. Major initial difficulties related to political pressures, and to labour and technology problems and shortages existed but, by the early 1940's, PEMEX had developed a degree of corporate coherence and started to function effectively. Between 1948 and 1975, oil and gas production increased 513%, local consumption of hydrocarbons grew 632%, oil and gas reserves increased 364% and refining capacity by 406%. At present, Mexico is the world's fifth largest crude oil producer.

2. ECONOMIC ENVIRONMENT

Over the past two years, Mexican economic policy has featured a tough anti-inflationary program called the Economic Solidarity Pact, combining traditional austerity measures (tight fiscal and monetary policies) and unorthodox measures (price, wage and exchange rate controls). The program has been successful in reducing inflation, from an annual 159.2% in 1987 to 51.7% in 1988 and an 20.3% by 1989. The general criteria for Mexico's macroeconomic policy in 1990, are to consolidate and fortify the progress made in price stabilization, to reaffirm gradual and sustained economic recuperation, to increase investment, both national and foreign, and to improve living standards.