

## 1. HISTORICAL 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 and 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 Mexican populist government that took power in the Mexican revolution of 1910-1917 made several efforts to improve this situation by declaring, under the Constitution, all underground resources to be national property and granting new concessions both to national and foreign companies. At the same time, the domestic Mexican market became more significant with local hydrocarbon consumption increasing 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. In 1992, PEMEX had proven reserves of 65.5 billion barrels. Its crude production reached 2.668 million barrels a day (bd) and its gas production 3.6 billion cubic feet a day (mcf), in addition to 1.57 million bd of refined products and over 18 million tons of petrochemicals (see Section 3 for a detailed description of PEMEX's activities).

## 2. ECONOMIC ENVIRONMENT

With the objective of reducing the inflation rate, the Mexican authorities implemented a stabilization program in 1988, called the Economic Solidarity Pact, which features traditional austerity measures, entailing tight fiscal and monetary policies and unorthodox measures, such as price, wage and exchange rate controls. This program has been the cornerstone of Mexico's