

## The Mexican, Saudi, and Venezuelan connection – a memoir

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Robert Mabro played a key, if unaccredited, role in the secret negotiations that brought together these three countries, in an attempt to stabilize oil prices in the first quarter of 1998. These had gradually eroded in the fourth quarter of 1997 and tumbled in the last two trading days of that year. The spot price of Brent averaged US\$19.30/bbl from January to November 1997 and dropped below US\$16 on 31 December. As it turned out, this was only the beginning of a deep and lengthy price collapse. Prices continued to plunge in 1998 reaching US\$11.05 on 17 March, further descending to 10.77 in mid-June, and 9.91 by Christmas Eve. On 11 December 1998 I sent a short handwritten note to President Zedillo letting him know that Pemex had sold cargoes of Maya crude for US\$5.68/bbl the previous day, a drop of 64 per cent from the average realized price of October 1997. Not only had the price of internationally traded oil reached very low levels, but the price differential between Brent and Maya crudes was widening due to increasing volumes of discounted Venezuelan crudes flowing to the US Gulf Coast. In spite of three major production cuts agreed by oil exporters, the price of Brent did not again breach the US\$18 threshold until 6 July 1999, having remained below this level for 19 consecutive months.

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**‘AS IT TURNED OUT, THIS WAS ONLY THE BEGINNING OF A DEEP AND LENGTHY PRICE COLLAPSE.’**  
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This memoir draws on memoranda that I wrote, other unpublished documents in my files, personal logs, media comments and dispatches of the time, and notes from a diary that Mabro kept at the time. It is also based on my own

recollection of events that happened 17 years ago; these were necessarily influenced by later conversations with four key actors: Prince Abdulaziz bin Salman, Alberto Quirós Corradi, Humberto Calderón Berti, and Robert Mabro. The subjective nature of this narrative has an intrinsic bias difficult to correct: it tends to portray an exaggerated image of the role played by its author. More importantly, it hardly deals with the perennial issue of different actors and witnesses having different recollections of the same event. However, the undoubted central figure in this episode, in the overall management of the 1998–9 price collapse and in international oil affairs over the past 20 years, has been Ali al-Naimi, the minister of Petroleum and Mineral Resources of Saudi Arabia. I keep in my office a photograph, with a kind message in Arabic, in which I am shaking hands with him in the gardens behind the Algerian Embassy in The Hague, while the final press communiqué was being typed. It was taken at the end of a long set of tripartite meetings that began on 21 March 1998 and extended for almost a year. In this last meeting we were joined by the oil ministers of Algeria and Iran. Unfortunately, the Mexican energy minister was not able to attend.

### Mexican motives

On 17 December 1997 the Mexican intergovernmental committee on international oil trade (COCEP) was informed of the deterioration in market conditions and the increasing competition with Venezuela in the US Gulf Coast. The Pemex–Shell joint venture in the Deer Park refinery had acquired a number of cargoes of heavy Venezuelan crude for delivery in January and February, at prices

that implied a US\$1/bbl discount with respect to Maya. This was particularly problematic as Pemex was in the process of approving the terms and conditions of new long-term supply contracts, which included a light/heavy crude differential protection that incentivized and committed buyers to install delayed cokers. Pemex was seeking to expand the demand for heavy crude in US Gulf Coast refineries and in Mexico, which would provide a stable home for Maya crude.

Over the holidays I began to consider the possibility of a Mexican initiative that might contribute to the recovery and stabilization of rapidly falling prices for its crude oil exports. An agreement among producing countries would be required for an immediate and substantial reduction in global supply, as well as a more orderly behaviour by the two most important regional suppliers of heavy crude, who were both increasing their production capacity. It was essential to achieve a new *modus vivendi* between Venezuela and Mexico, and between Saudi Arabia and Venezuela. Changes in short-term policy were needed, as well as the clearing up of misconceptions regarding their respective intentions. For this to happen, a modicum of trust had to be re-established and this could only be done through dialogue and eventual negotiation.

Early in January 1998 I came to the conclusion that Mexico could potentially play a constructive role in the search for a compromise among producers. First, we needed to reduce the tension between Venezuela and Saudi Arabia by facilitating direct contact. Second, Mexico could offer a relatively modest reduction in actual and planned exports. This could have a significant symbolic value, encouraging



other non-OPEC exporters to cooperate and contribute to an atmosphere that might facilitate an agreement within OPEC. Third, a renewed contact with the Venezuelans could clear up misunderstandings that arose from the intense competition taking place in the heavy crude oil market, as a new expansive phase of production got underway in both countries.

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**'MEXICO COULD POTENTIALLY PLAY A CONSTRUCTIVE ROLE IN THE SEARCH FOR A COMPROMISE AMONG PRODUCERS'**  
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I was well aware that the probability of success of such an initiative was limited. It could face a sudden death if the Saudis or the Venezuelans rejected a Mexican mediation or had a preference for another intermediary. The diversity and intensity of the underlying conflicts of interest among producers were substantial. Building an understanding that would accommodate short- and longer-term objectives between countries with very different economic and oil industry structures was particularly difficult. Political conditions in the Middle East and North Africa were a source of bitter strife. However, if successful the potential benefits to Mexico were significant and the short-term up-front costs relatively small. Mexico was in a privileged position that could allow it to take the first step. It had a capital of goodwill accumulated in previous market stabilization and crisis management efforts; and a solid commercial reputation in international markets, characterized by its transparency. Its cultural affinities with the Venezuelans, the experience of managing a joint oil cooperation programme in Central America and the Caribbean, and longstanding industry relationships were relevant assets. Finally, the fact that it was not part of OPEC gave it greater flexibility and Mexico was unencumbered by the burden of cumulative grievances and misunderstandings with respect to past

negotiations and mutual compliance complaints.

I wrote two long memoranda to President Ernesto Zedillo, both titled *Oil Diplomacy*, one dated 13 January and the second 2 March. The first examined market conditions and prospects, proposed cooperating with other producers, and assessed the risks of taking the initiative and participating in negotiations. The other, an 18 page double-spaced note, contained a more detailed discussion regarding the execution of our strategies, proposing explicit marching orders for the Ministry of Energy and the State oil company, on the basis of which we could coordinate our actions. I gave the first memo to the minister a few minutes before we entered the president's office. After reading it he recommended prudence and suggested that I should not be too persistent with my proposals as the president would be hesitant to explore the recommended course of action. Fortunately he was wrong. The president read the memo carefully in silence, asked a few clarifying questions, and basically agreed to the proposal. I felt obliged to mention that I understood that he might have some reservations regarding what was put forward in the paper he had just read. He answered that he did have some misgivings, but that they were spelled out in the memo and that we did not have many options.

My own apprehension with respect to the effects of lower oil prices was becoming more concrete. On 14 January the Mexican Minister of Finance, Angel Gurría, announced the first of a series of Federal Budget adjustments directly linked to the fall in oil revenues. The original budget approved by Congress considered a price premise of US\$15.50 per barrel for the Pemex export mix. This assumption was lowered by US\$2 on the basis of the price erosion in

the previous fourth quarter and first two weeks of January. The estimated annual decrease in revenues was equivalent to 0.4 per cent of GDP. Pemex was asked to reduce its own projected operating and capital expenditures. Before the end of March a second Pemex 1998 budget cut was implemented. The rigorous and prompt response of the government to lower prices, and eventually to lower volumes, reflected the deep commitment to fiscal discipline and to maintaining macroeconomic balances, as the country recovered from its devastating 1995 financial crisis.

Pemex had previously managed to convince the government of the need to authorize significant capital increases for the large-scale and complex Cantarell heavy crude expansion project, and the full reconfiguration of at least two of its refineries, so that they would be able to run additional volumes of this type of crude oil. These projects had been launched in early 1997. Their timely and orderly execution was at risk if prices and revenues continued to fall. For these reasons price recovery was absolutely critical for Pemex.

On 15 January I held a press conference in Mexico City that touched on market conditions and prospects for 1998, the recent sharp fall in oil prices, their implications for the Federal Budget and for cuts in Pemex capital expenditures. My price assessment at the time was wrong, having concluded that we were facing a significant fall in oil prices, but that it would not turn into a price collapse similar to the one in 1986. The main difference could be found in the fact that global excess capacity was small in comparison to that which prevailed in the second quarter of 1985. This would allow price overshooting to be eventually corrected during the year. At the time it was difficult to imagine the magnitude of the fall in global demand triggered by the Asian and the Russian financial and economic crisis, the

reduction in the growth of consumption in other emerging economies, and the slow expansion of demand in industrial countries. However, I did recommend that Mexico had to be prepared for lower prices and greater price volatility, but I made the mistake of trying to sooth public opinion regarding these matters.

Privately I was much more concerned, and a bit depressed, by the lack of response by major oil producers. I shared my worries with Mabro over the phone in mid-January. We agreed to meet in Oxford the weekend of 24–25 January (I would be on my way to a Repsol Board of Directors meeting in Madrid), for leisurely conversation, good wine and, if possible, a touch of intrigue. When we met a mood of gloom and pessimism prevailed. I sought his advice regarding possible courses of action by Mexico, the sequence of eventual conversations with Venezuela and Saudi Arabia, and the risks of a potential Mexican initiative. His final recommendation was negative. He thought that it was still too early to make any move, that the main actors had not yet really felt the pain of lower prices, and that it would be wise to wait for some sign that they might engage. His prudence further distressed me.

Mabro reacted with what he did best: he wrote a short provocative piece for the February 1998 issue of the *Oxford Energy Forum* titled 'Whither Oil Prices?',<sup>1</sup> which was immediately translated into Arabic. It managed to initiate a serious conversation with a number of friends and some foes. He was pleased by the comments that he received and happy to engage in more structured discussions. On 9 February he received a phone call from Prince Abdulaziz who wanted to pursue the topics covered by his paper. As it turned out, it was a key exchange of ideas that launched the process that was being sought. Mabro later told me that he had identified a positive attitude and a will to sort out the main

issues we were dealing with. He then talked with Suleiman al-Herbish and Majid al-Munif, high-level officials in the Saudi Ministry of Petroleum, who also praised his article. More importantly, he agreed to meet Munif in Tokyo on 24–26 February, where they would both be attending a conference and have time to chat.

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**'I CONTINUED TO BE UNEASY ABOUT THE REACTION OF THE SAUDIS TO ANY FORM OF MEXICAN MEDIATION.'**  
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The week of 15 February I called Mabro at home several times. He conveyed his conversations with the Saudis and discussed their content from various angles. By then he had come to the conclusion that the time was ripe for a Mexican initiative, as neither the Venezuelans nor the Saudis were prepared to make a first move or recognize that they were now hurting because of falling prices. On the contrary the tension between the two would increase during the next three weeks due to statements and op-page articles made by Erwin Arrieta and Luis Giusti (Venezuela's minister of Energy and Mines and president of PDVSA, respectively) as well as by other members of the Venezuelan petroleum establishment, all blaming the Saudis for their current predicament and reiterating their refusal to cut production. I confirmed to him that Mexican government officials would try to meet with their Venezuelan counterparts as soon as possible and explore their conditions for meeting with the Saudis. I continued to be uneasy about the reaction of the Saudis to any form of Mexican mediation.

From Tokyo Mabro conveyed to me that Munif had no objection to the government-to-government meeting between Mexico and Venezuela. Back in Riyadh, he phoned Mabro on 3 March after speaking with Ali Naimi and Prince Abdulaziz. They seemed

to be happy about our rapprochement with the Venezuelans. However, they were not yet ready to talk to the Mexican minister or other Mexican officials directly. They seemed to be reluctant to respond immediately over the phone and preferred to continue our communications through Mabro, who kept me briefed. This saved them from potential embarrassments. In any case they wanted to assess and corroborate independently what I had been conveying to them through Mabro. I was frustrated but understood that in these matters you must check and double check everything and try to maintain deniability.

The distrust between Venezuela and Saudi Arabia ran deep and the Venezuelans appeared to be doing everything possible to make it more acute. Saudi-Venezuelan relations had begun to sour in the mid-1980s. It was not a secret that Sheikh Yamani and Arturo Hernández Grisanti did not get along with each other. The involvement of these two oil ministers in managing the 1986 price collapse fully revealed the tensions between them. More fundamentally, the development of the extra-heavy crude oil resources of the Orinoco Belt grew to become a veritable bone of contention. Many Venezuelans believed that this type of crude, given its specific pattern of extraction and its upgrading requirements, ought not to fall within the scope of OPEC production regulation. As development and production activities advanced in this area, the issue of the Venezuelan production quotas came to the forefront. With the opening – the Apertura – of the Venezuelan oil industry to international investment and more aggressive investment and development plans in the Orinoco Belt, pressure built up for the recognition of this exemption. A current of opinion in that country believed that their interests would be better served by simply exiting OPEC. In the 1997–8 juncture, this view was



reflected in the strident statements by Luis Giusti that Venezuela would never reduce its production, no matter how low prices fell. They understandably angered the Saudis. Later, when issues of compliance with OPEC agreements were being discussed, Arrieta unfortunately characterized this organization as a club of Pinocchios, where everybody lied to each other. This did not help to improve mutual goodwill between two OPEC founding members.

**Miami secrets**

The Mexican energy minister was now fully committed and offered to set up a meeting in Miami with Arrieta and Giusti for 4 March 1998. All three had been invited by Sheik Yamani to a Center for Global Energy Studies meeting with a revealing title: 'Oil, power and regulation in Latin America: from state monopoly to private investment'. I travelled separately, took a large comfortable suite in a hotel far from the one where the Yamani conference was taking place. The Mexican energy minister arrived with Arrieta and Giusti, and to my surprise with Alberto Quirós, a former CEO of Maraven, Lagoven, and Shell Latin America. The meeting was kept secret from other high-ranking Venezuelans present at the Miami conference.

The Mexican minister and I succeeded in what we had hoped to achieve in Miami. Initially, the Venezuelans responded rigidly and blamed Saudi Arabia for the situation. After a while they softened their positions. At the end we agreed on six basic points:

- i. Mexico would establish direct contact, at a ministerial level, with Saudi Arabia in order to organize a meeting with Venezuela that would break the *impasse* between these two countries;
- ii. Venezuela was willing to talk to the Saudis if quotas and cuts from established production quotas were not discussed;

- iii. the Venezuelans were prepared to put on the table cuts from current production levels;
- iv. discussions would only relate to short-term market issues while longer-term investment programmes and production targets would not be addressed;
- v. Mexico would also make a contribution to a global reduction of oil supply;
- vi. preparations for further meetings would remain secret.

With this understanding in hand we were ready to talk directly with the Saudis. Once back in Mexico I asked Mabro to convey to the Saudis our desire to set up a phone conversation between the Mexican minister and Ali Naimi, so that he could explain what had transpired in Miami.

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**'THE VENEZUELAN CHANGE OF HEART WAS STRICTLY TACTICAL.'**  
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The Venezuelan change of heart was strictly tactical. Giusti's commitment to opening up the oil industry to private investment and his conviction that heavy crude production not be subject to OPEC collective decisions remained intact. The Caldera government would only restrain the more radical expressions of these policies, but would continue to condone the lack of compliance to committed production cuts throughout 1998. It would not be until February 1999 that the Chávez administration, with Ali Rodríguez as oil minister, would be prepared to comply with OPEC production agreements.

**Saudi reticence and mistrust**

Various time lags were making the negotiations more difficult. Although Mabro kept Munif fully briefed, we were not able to dent the prevailing circle of mistrust. On 8 March 1998 Munif conveyed the scepticism of

the Saudi minister with respect to Venezuelan behaviour, and saw no advantage in talking with Mexico. The Saudis had kept on reading the Caracas media with a certain delay and were incensed. It took them time to receive and translate press reports. They missed the subtle change toward moderation that was taking place and did not fully understand that lower-level executives and officials could continue to follow old directives and that their statements were difficult to control in a less centralized environment. We were rebuffed by the Saudis. Munif told Mabro that they had decided to give Rilwanu Lukman, the Secretary General of OPEC, the opportunity to broker a solution within the OPEC structure. Mabro reported this in almost real time and I conveyed to Quirós Corradi what was happening.

On 7 March, Youssef Yousfi, the Algerian oil minister, arrived in a private jet in Caracas for talks with the Venezuelans. He had dinner with Arrieta, Giusti, Calderón, and Quirós. They shared with him the content of our conversations in Miami and talked about possible courses of action. The following day they would be having lunch at PDVSA. Giusti never arrived. The others continued their talks with Yousfi. He then flew to Riyadh where he met Ali Naimi on 11 March, confirming the agreement we had reached with the Venezuelans. This independent corroboration would allow us to move forward. Yousfi had proposed, since the beginning of 1998, a more ambitious plan that included a general realignment of production quotas within the OPEC framework, which the Saudis did not favour. However, he clearly understood the importance of the pending negotiations among OPEC members and with non-OPEC exporters, and supported them. The Saudis did not feel comfortable with Yousfi because of his strong links with the Iranians and the Libyans, among others.

After the Yousfi visit to Riyadh Prince Abdulaziz finally made contact with Mabro on 12 March. He continued to be mistrustful of the Venezuelans and was still influenced by previous statements by them that had lost relevance. After some mutual recriminations between them he agreed to talk to me directly. He told Mabro that he knew me well, saw me at OIES board meetings, and trusted me. Soon after, I received two long calls from the Prince, one on Thursday 12 March and the other on the morning of 13 March in Tlayacapan, where I had locked myself up for a long weekend in my cottage in the mountains south of Mexico City, to write a speech that I had to deliver on 18 March, the anniversary of the nationalization of the oil industry in Mexico.

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**'APPARENTLY THE SAUDIS NOW BELIEVED THAT THERE MIGHT BE A WAY OUT OF THE IMPASSE WITH THE VENEZUELAN.' .....**

Mabro phoned immediately after his conversation with Prince Abdulaziz. He had given him my telephone numbers and thought that he would call shortly. Apparently the Saudis now believed that there might be a way out of the *impasse* with the Venezuelans. Our first conversation gave me some hope. He first complemented me for the interaction with the Venezuelans and for extracting their agreement to basic principles that could possibly allow a constructive interchange. We were making some progress but he was still unable to commit. I was not yet convinced that the Prince had the full backing of Ali Naimi on these matters. At times I felt that other channels of communication were at play. The issue of the venue of the eventual meeting then came up. He insisted that it should be in Riyadh. This was the only secure place where we could be effectively isolated from the media. He was right, but convincing the Venezuelans was not going to be an easy task.

The window for a meeting with the Saudis and the Venezuelans was very tight. The Mexican minister and I were not available before the evening of Friday 20 March. I had to present the Pemex annual report and deliver a speech in south-east Mexico before President Zedillo on 18 March. Arrieta and Giusti would be travelling to Europe with President Caldera on 14 March. This meant that we must have everything decided by then and that we could not meet before 21 March. There was an additional overriding time constraint: the OPEC Conference would meet in Vienna on 30 March.

The flow of phone calls between Tlayacapan, Oxford, Riyadh, Caracas, and Mexico City did not stop from Thursday to Saturday. Fortunately I was able to take most of them from the terrace in front of my cottage. Mabro called to assure me that the Saudi minister was now fully on board. He had continued to talk with Prince Abdulaziz and was convinced that it was the case. The Prince had clearly done a good job. I called Quirós to share what was happening and posed the issue of meeting in Riyadh. I insisted that the question of venue was secondary and that going to Riyadh could turn out to be a good solution. He warned me that his principals in the Venezuelan government would be reluctant to accept. They felt that they would be losing face after a long standoff and appear to have caved in to Saudi power and arrogance. Not only would they have blinked first, but had in fact surrendered to their rivals. After a long discussion, and a number of calls, the Venezuelans accepted. I went to sleep thinking that we were now close to a deal.

In these circumstances the proposed solution was that Ali Naimi should personally invite the Venezuelans and the Mexicans to Riyadh. We needed, however, to get the Venezuelan

agreement first. With this in hand I had to give proper assurances to the Saudis that the invitation would be accepted. The Prince and I discussed multiple options that might accommodate the concerns of all involved. Some of these were rather elaborate and even extravagant, if not impractical. I sat down to draft what could be the script for the minister's eventual conversation, which would be circulated beforehand, so that there would be no surprises. As it turned out it was only useful to clarify things between the Prince and me. We were running short of time. On Saturday 14 March Mabro called at 9 a.m., my time. Prince Abdulaziz had confirmed that Ali Naimi was ready to invite the Venezuelan and Mexican ministers to visit him in Riyadh. However, the Saudis had some final doubts that morning. They were finally resolved after the Venezuelans agreed to a full moratorium on further comments to the press by all the parties involved.

I first needed the Mexican minister's authorization. He was engaged in very complex trade union negotiations in the electricity sector. I managed to reach him and obtained his endorsement. Then came the Venezuelans, who were about to fly to Europe. By this time we only had 15 minutes to agree on the detailed contents of what would be a brief teleconference between the three ministers. Time differences – 13 hours – were working against us and the clock was ticking away. An agreement was finally reached. The ministers were then on the phone and the Saudi invitation was gracefully accepted by the other two members of the trio. After this I drank two double tequilas to celebrate. The following morning I was back to the less exciting task of writing a speech.

#### **On the way**

Immediately after reaching an agreement with Ali Naimi and Erwin Arrieta, the Mexican energy minister



set up a dinner appointment in Oslo with Marit Arnstad, the new Norwegian petroleum and energy minister, for the evening of 19 March, on our way to Riyadh. Our objective was to convey the content of the conversations we held with the Venezuelans and the Saudis, and to elicit their own participation in curtailing global oil supply. Bringing in another major and well-regarded non-OPEC exporter would add significant weight to the overall effort and would also provide Mexico with some cover with respect to possible criticism in Mexico and in other OECD countries. The Norwegian minister promised to give our request her full consideration, wished us luck in our endeavours, and posed some of the limitations, both statutory and political, that she faced. What was important at the time was that she did not say no. The following morning a press release acknowledged the meeting with the Mexican energy minister, mentioned that the current oil market situation was discussed, and that the ministers agreed to remain in close contact.

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**'BRINGING IN ANOTHER MAJOR AND WELL-REGARDED NON-OPEC EXPORTER WOULD ADD SIGNIFICANT WEIGHT TO THE OVERALL EFFORT.'**  
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On the trip from Mexico City to Oslo we had to change our connections after landing in Amsterdam instead of the scheduled stop in Frankfurt. This meant that our baggage would not arrive in Oslo and that we would not receive it until after the Riyadh meeting. I phoned Prince Abdulaziz asking for his help. The Mexican minister and I then flew from Oslo to Madrid where we held a meeting at the Torrejón airport with our Venezuelan colleagues and the Algerian oil minister. The encounter was brief; we ratified the overall content of the conversations with the Saudis and confirmed that productions cuts

would be discussed in Riyadh. Yousfi would not be participating in the meeting. Much later I learned that the Venezuelans and Yousfi had dined the previous evening at the Algerian Embassy in Madrid. The Venezuelans explained that they were searching for an ally who could help neutralize OPEC members that might try to block a Saudi-led agreement.

Humberto Calderón Berti, a former Venezuelan minister, joined the group. It was politically significant that Arrieta had invited Quirós and Calderón to come, as they were not part of the Caldera government. I was pleased, as I knew both of them well from previous contacts in both bilateral and multilateral negotiations. The presence of two experienced men of substance was critical. Their candid advice to the minister, and the counterweight they exercised to Giusti's more aggressive positions, moderated the Venezuelan fury at their Arab colleagues. We then flew with the Venezuelans in their plane that took us to Riyadh. It was full and uncomfortable, but we managed to talk non-stop with Arrieta, Calderón, and Quirós. Giusti would fly directly from Paris.

**Weekend in Riyadh**

We arrived late on Friday 20 March at the Royal area of the Riyadh airport and both teams were directly taken to the government conference palace, thus ensuring that our presence remained unknown to the media. We remained ensconced in this building until we went back to the airport on Sunday. Kindly, Prince Abdulaziz had a tailor waiting for us and both the Mexican minister and I had two full sets of clothes ready the following morning. On Saturday we had a long morning session that allowed our ministers to confirm the agreements they had reached over the telephone, commit to specific cuts, and review the probable support from other countries.

Later we attended a dinner offered by our host Ali Naimi at a Saudi Aramco tent in the desert. Much time had been spent drafting the final communiqué of the meeting and press releases by each of the three countries. The first one simply stated that the oil ministers of Mexico, Saudi Arabia, and Venezuela met in Riyadh and had decided to undertake an effort, together with other OPEC and non-OPEC producers, to withdraw 1.6 to 2.0 million b/d from the crude oil market. They confirmed commitments by others of approximately 1.1 million b/d.

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**'THIS MET WITH ALI NAIMI'S PROPOSAL THAT SAUDI ARABIA WOULD MATCH THE SUM OF THE VENEZUELAN AND MEXICAN CUTS.'**  
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The other three press releases announced a cut in production by Saudi Arabia and Venezuela of 300,000 and 200,000 b/d, respectively. The Mexican communiqué of 22 March was more specific. It disclosed that the Ministry of Energy had instructed Pemex to reduce its crude oil export programme by 100,000 b/d with respect to the volume realized in the first quarter of 1998, estimated at 1.84 million b/d, a cut of 5.4 per cent over the next three quarters. This met with Ali Naimi's proposal that Saudi Arabia would match the sum of the Venezuelan and Mexican cuts. On this occasion, as in previous ones, Mexico's commitment was expressed in terms of exports, not production, given that a large fraction of the total crude produced was domestically consumed. This was not the case of other major exporting countries, with the exception of Russia. All Mexican statements stressed the sovereign, unilateral nature of its cuts.

On Sunday morning we flew back to Madrid, where we said goodbye to our Venezuelan friends. Our lost baggage was waiting for us at our

rooms at the Ritz. I called Mabro to comment on events, read to him a draft of the Mexican press release, and shared my misgivings. The most important one was the inclusion in the final communiqué of the target cut of 1.6 to 2.0 million b/d. I firmly believed that this range was unfeasible and its announcement unnecessary.

### The Vienna anticlimax

On Monday 23 March President Zedillo gave a speech in Mexico City where he acknowledged the effects of the Asian financial crisis and the fall in oil prices on the Mexican economy, carefully explained Mexico's participation in the Riyadh meeting, and reasserted the need for prudent macroeconomic management. The following day the minister of finance disclosed a further reduction in the Mexican crude oil mix price assumption to US\$12.50/bbl, new oil revenue estimates from lower prices and lower volumes, and further cuts in the 1998 federal and Pemex budgets. The costs of adjustment to the price fall would continue to mount.

There were still two pending questions in our negotiations: the response of the Norwegians to Mexico's request for a production cut and the invitation to Mexico to attend the meeting of the OPEC Conference in Vienna as an observer. Both came at the very last moment. The Norwegian parliament had initially voted down the government's proposal to cut production. However, Mabro received a call from Jens Stoltenberg, whom he knew from the Oxford Seminar. He had been minister of trade and energy from 1993 to 1996 and at the time chaired the standing committee on oil and energy in Parliament (he would later serve twice as prime minister and is currently Secretary General of NATO). He explained that the Opposition was not averse to a production cut, but had voted against

it for purely political reasons. They had reversed their decision and now supported the minority government to go ahead with the cuts. He added that the minister of energy would shortly publish a press release announcing a cut of 150,000 b/d, equivalent to close to 5 per cent of the estimated 1998 production. The previous evening I had received a draft of their 27 March press release. The Norwegians preferred not to attend the OPEC Vienna meeting in spite of their generous contribution.

The Mexican minister had decided early on that he would not participate in this meeting, but would send members of his staff to represent him. This would preclude any further negotiations within the OPEC framework. On Friday 27 March I called Rilwanu Lukman, the Secretary General of OPEC, and touched on the subject of the invitation to the Vienna meeting. He politely explained that such an invitation was the prerogative of the President of the Conference, who was expected to arrive in Vienna early on 29 March. This response was difficult to fathom but it did not particularly worry me. The invitation was finally extended hours before the meeting started. Ricardo Samaniego and Lourdes Melgar, from the ministry of energy, were on standby in Vienna and were able to attend the meeting. Ali Naimi had previously asked the Mexican minister to send representatives for follow-up conversations.

The Conference lasted only one day. After the intense communications and discussions of the Riyadh three, and their conversations with other producers, the debate at the OPEC Vienna Conference came to a prompt close. It agreed to cut 1.245 million b/d from current production, as estimated by selected secondary sources. The individually pledged figures would not constitute new quotas and the cuts were intended to be in place from 1 April until the end of 1998. In light

of its exceptional circumstances Iraq was not called to participate in the agreement. OPEC also recognized the production cut pledged by non-OPEC exporting countries. It is interesting to note that there was no mention in the opening address of the meeting, or in the final press release, of the important contribution by Norway. They only referred to the participation of Oman and Mexico.

The media liked to characterize the efforts deployed by the Riyadh trio as cloak and dagger diplomacy in distant scenarios: Algiers, Amsterdam, Cancún, Caracas, The Hague, Madrid, and Vienna, among other cities. They complained about the secrecy of these meetings and preferred the circus atmosphere that surrounded OPEC gatherings. The players thought that keeping the meetings private was necessary, given the complexity of the negotiations, the uncertainty of their success, and the stakes involved. They wanted to come out in the open when they had something to tell. The changing context in which these meetings took place, and the long period it might take prices to fully recover, required discretion. Throughout this period Mabro continued to talk with the media and with opinion makers, carefully clarified issues, corrected mistaken perceptions, and provided background that helped understand what was happening.

Much less justifiable had been the dysfunctional secrecy imposed by OPEC members with respect to their crude oil production and export data, and their reliance on estimates from secondary sources. Mexico always argued that oil producers are better served by full transparency and timely disclosure of the relevant statistics. This would improve their understanding of market conditions and give greater credibility to their commitments. For these reasons it has published



for years detailed oil sector statistics on a monthly basis, less than 30 days after the end of any given month. More recently it has also released selected daily data.

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**'HIS ANALYSIS OF THE STATE OF THE OIL PRICE REGIME AND OF OIL MARKET CONDITIONS WAS INSIGHTFUL.'**  
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In May 1998 Mabro published an OIES working paper entitled 'The Oil Price Crisis of 1998'.<sup>2</sup> His analysis of the state of the oil price regime and of oil market conditions was insightful. He

also derived important lessons from the negotiations carried out by producers from Jakarta to Vienna, via Riyadh. It is worthwhile reading today. His active participation in the events described in this memoir was later recognized by the governments directly involved, as was his wider contribution to engagements among producers and to the dialogue between producing and consuming countries. He was decorated by the governments of Mexico and Venezuela and, on the occasion of the third OPEC Summit, was distinguished by King Abdullah with a major prize in

the field of petroleum research. With this memoir I want to pay tribute to his intellectual generosity; his tireless work in building three sister institutions at Oxford: the Oxford Institute for Energy Studies, the Oxford Energy Seminar, and the Oxford Energy Policy Club; and, of course, his extraordinary bonhomie. I have been privileged by a friendship that began in 1979.

A second part of this narrative will cover the efforts that were deployed and the difficulties that were faced in achieving oil price recovery during the rest of 1998 and the first half of 1999.

*Notes*

<sup>1</sup> 'Whither Oil Prices?', Robert Mabro, *Oxford Energy Forum*, February 1998, Issue 32, pages 15–16.

<sup>2</sup> 'The Oil Price Crisis of 1998', Robert Mabro, OIES Working Paper SP10, 1998.

