

Mexico's 69-Year-Old State Oil Firm Facing Threats to Its Stability

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MEXICO CITY, March 16 -- Depleted reserves, crumbling pipelines, outdated technology and billions of dollars in debt.

It doesn't seem much to celebrate. While Petroleos Mexicanos executives and union leaders prepare to deliver patriotic speeches and sing the national anthem Sunday on the 69th anniversary of the nationalization of [Mexico's](#) oil sector, many energy experts say Pemex needs to stop looking backward.

What the company really needs, these analysts say, is a rapid rescue. Government leaders and Pemex executives have been warning about the problems for years. But they haven't taken much action, in large part because the state-owned company is viewed as a national treasure.

When it was nationalized in 1938, Mexicans celebrated in the streets. Some donated their jewelry to help pay for the state takeover. Since then, the company has been the government's biggest source of income, and Mexicans are wary of any changes to its operation that could be seen as a threat to Mexican sovereignty.

But problems abound. The Cantarell oil field, the company's main shallow-water producer in the Gulf of Mexico, is slowly running out of oil. The company is struggling with leaky pipelines that have led to spills and explosions, debt and pension obligations totaling upwards of \$100 billion and a lack of technology and money to fix those problems.

Mexico's constitution prohibits the company from forming production and exploration alliances with domestic and foreign private companies that would have the money and technology to pursue Mexico's greatest long-term hope for oil: the billions of barrels estimated to be in deep-water reserves in the Gulf.

No Mexican president -- even fiscally conservative, private enterprise-friendly leaders such as current President Felipe Calderón -- has ever suggested changing that, although many, including Calderón, have suggested loosening the rules a bit to allow for limited joint ventures.

Oil experts say it is unlikely Mexico will see any significant energy sector proposals this year from Calderón, who is still recovering from a July election that he won by less than 1 percentage point over his rival, leftist firebrand Andrés Manuel López Obrador.

López Obrador vehemently opposes private investment in the oil sector, and it was he who led massive marches in the late 1990s against privatizing the petrochemical industry.

"My feeling is that they're going to keep their heads down on oil policy for 12 months or so," said George Baker, a Houston-based energy analyst who publishes a newsletter called Mexico Energy Intelligence, speaking of Calderón's administration.

Another factor against high-impact proposals for change is Pemex's confidence that it can resolve its most pressing problem, declining production at Cantarell.

The issue is a serious one: The field is Mexico's largest single source of crude oil; oil provides nearly 40 percent of the government's revenue; and Mexico is one of the largest exporters of oil to the United States.

"Whatever happens in Cantarell affects public finances and the credit rating not only of Pemex but of the country as well," Baker wrote in a policy paper last month.

In a February news conference, Pemex chief executive Jesús Reyes Heróles indicated that the company can make up for a good part of that lost production with expanded output at the offshore Ku-Maloob-Zaap oil field in the Campeche Bay in the Gulf and other projects.

But David Shields, an independent energy expert in Mexico City who has written books on Pemex, has his doubts. Citing Pemex's own internal projections, Shields says that while the government estimates a production drop of about 200,000 barrels a day this year, "it's probably going to be much more than that, around 600,000."

The company has dismissed pessimistic internal studies as representing worst-case scenarios that don't take certain factors, such as maintenance, into account. But another, perhaps overriding reason may explain why Mexico is not in crisis mode when it comes to Pemex's debilitating problems: money.

Despite steady drops in production and myriad threats to the company's long-term stability, high oil prices pushed Pemex's sales revenue in 2006 to a record \$98 billion, 10 percent over the figure for 2005.

If that revenue were significantly threatened -- by suddenly falling oil prices, drastic production drops or problems in the troubled refining sector -- Congress could be compelled to make minor reforms next fall, when the new budget is being drafted, Shields said.

But in the meantime, "if the money's coming in, people are not going to be too worried and they're not going to make changes. That's the bottom line."