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Deepwater Troubles

Carlos Macias
February 21, 2008

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The Calderón administration hopes to reform laws guiding investments in Pemex.

Last week, Pemex [declined](#) an invitation to join Petrobras as a minority partner in a deepwater exploration in the U.S. side of the Gulf of Mexico. This despite Pemex's twin problems of declining production and limited exploration capacity to tap large oil reserves in deeper waters. The conundrum rests now in how to get to those reserves without the

technical ability and with constitutional hurdles barring privatization of the government's energy monopoly.

Pemex's production woes are not new and, according to the Energy Information Administration, Mexico's proven oil reserves [continue to fall](#). Cantarell, once the world's biggest offshore oil field, reached its peak production capacity in 2004, but has seen production rates shrink by 500,000 barrels of oil a day.

In early February, Mexican Energy Secretary Georgina Kessel predicted that Mexican oil production would drop by another 200,000 barrels in 2008. She also stressed that Mexico holds roughly 100 billion barrels of equivalent crude oil, saying the country has "plenty of oil, but we need to [find ways](#) of turning these reserves into production and into resources for the Mexican people." In a [report](#) setting out a five-year strategy, the energy ministry reports that total oil production could decline by 2.5 million barrels a day.

Mexico's President Felipe Calderón—who served as energy minister in the Fox administration—echoes Kessel's concerns. During his [recent tour](#) of the United States, he said, "The problem is that this treasure is buried beneath the ocean. To reach that oil we need to strengthen Pemex." To meet that goal, Calderón has [worked](#) to push through reforms of [constitutional law \(PDF\)](#), which keeps Mexico's hydrocarbons in the hands of the state. Mexico was the first developing country to nationalize its oil industry, expropriating U.S. and British holdings in 1938. As the *Economist* notes, Pemex's [failings](#) are related to "two wasted decades in which governments have milked Pemex of cash which it might otherwise have invested."

But Calderón's efforts to open up Pemex to private investment have hit a roadblock in Mexico's opposition-controlled Congress. As a *Houston Chronicle* analysis reports, opponents to the reform

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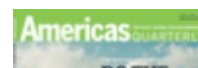
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say the Calderón administration [paints a dark future](#) for Pemex to rally support for privatization. Among the critics stands Calderón's political adversary Andrés Manuel López Obrador, who lost the presidential election by a hair in 2006. The former Mexico City mayor [argues](#) that rooting out corruption would serve to fix Pemex's troubles. López Obrador may be able to strike a chord among Mexicans who remember a former privatization by President Salinas de Gortari's, which gave Mexican billionaire Carlos Slim a monopoly over the telecommunications industry. As *Newsweek's* "Why It Matters" blog reports, Calderón [must ensure](#) that reforms occur "under circumstances that primarily benefit the Mexican people."



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Enter energy giant Petrobras, which could serve as a role model—and [potential partner](#)—for Pemex. The Brazilian firm's aggressive energy exploration policy led to two [major offshore oil](#) discoveries in 2007 plus more ventures in the U.S. Gulf Coast, West Africa, Turkey, Colombia, and, recently, [Cuba](#). While Mexico began deepwater exploration in 2006, Petrobras drilled its first deepwater well in 1992, at a depth of more than 3,250 feet deep. The company has hit some hurdles along the way, such as a [failed](#) \$135 million exploration venture with ExxonMobil and Colombian state-owned Ecopetrol in the Caribbean coast. Still, Petrobras, which the government maintains a 55 percent stake in and which began accepting private investment in the early 1970s, has been recognized as a [model](#) for other national oil companies to follow. For now, Pemex has [turned down](#) Petrobras' partnership offer; energy reform could open the door to similar agreements in the future.

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