The hazy future of Mexican oil

The state-owned oil company, Petroleos Mexicanos (Pemex), must deal with a true dilemma: having to ensure a large part of federal government revenue yet not having the autonomy to make the investments it needs to stay competitive with the world's leading oil producers. For years, Pemex numbers have been heading downhill: proven reserves fell 50% in the last decade, and daily production declined from 3.4 million barrels of oil in 2004 to 2.5 million in 2012. Although past administrations have made efforts to stabilize production, reversing this situation depends on deeper reforms, such as allowing private capital to invest in oil exploration.

That would require changes in the Constitution, and therefore building political consensus beforehand. Today, with a large part of Pemex revenues going to pay taxes and royalties, which constitute 35% of federal revenues, and restrictions on private involvement in the oil sector, there is little room for investment. For instance, Pemex lacks sufficient money and technology to explore prospects for deep-water oil in the Gulf of Mexico.

"We cannot imagine any meaningful reform without a massive crisis or a popular enough president to form a coalition and raise public awareness," says Carlos Elizondo, professor of political science, University of Oxford, England, and Mexico's former ambassador to the Organization for Economic Cooperation and Development (OECD). He explains that a constitutional change needs the approval of two-thirds in both houses, plus one half plus one of the states' chambers.

To further complicate matters, there is little popular support for reforms.

"The majority of Mexicans are misinformed. Although they defend competition if it will give them better services, such as gas stations, they still see Pemex as a symbol against foreign imperialism that must be preserved," says Gilles Serra, professor of political economy, Center for Research and Economic Policy. "It may be that this change would only gain support if there were a shock, such as a sharp drop in production, an accident that would put in doubt Pemex's ability to control it, or a major corruption scandal."

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Promise

The first signals from Enrique Peña Nieto, PRI (Institutional Revolutionary Party) candidate for president, who has been heading the polls, suggest a willingness to liberalize. In April at the World Economic Forum, Peña Nieto said that Mexico should depoliticize the decision to attract private capital for the oil sector, citing the Brazilian oil company, Petrobras, as a model. Analysts, however, say that such a statement is far from reflecting a search for a true model of privatization; Elizondo comments that, "Peña Nieto may be defending competition in sectors such as gas, petrochemicals, and distribution, but never exploration and production of oil itself."

There is some precedent for that opinion. In his 2008 reform bill, President Felipe Calderon of the PAN (National Action Party) proposed to open the refining sector and pipelines to private competition but was defeated in Congress; the PRI was then in opposition. "Now," Gilles says, "Peña Nieto will need more than desire: he will need to negotiate majorities and, above all, have a firm grip on the nationalist wing of his own party, which is influential among service providers and the Pemex workers' union ."

The Pemex union is strenuous in its defense of worker rights. Pemex ended 2011 with a labor liability of U$56 billion, mostly related to pensions for workers.

Reforming Pemex "would be a radical change," Elizondo says, noting that it would require two other factors: an administration that collects more revenue and has more discipline in spending, to reduce the tax burden on Pemex, and a regulatory framework that will prevent monopolies and ensure a balance of power for new participants in the market.



Photo: Pemex gas station/Wikepedia Commons.

Is there space for private sector in Mexico's oil industry?

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