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## **Citizen Referendum, Concern About Deepwater Oil Reserves Could Influence Pemex-reform Legislation**

The Mexican Congress will consider two very important and potentially conflicting factors when taking up legislation to reform the state-run oil company PEMEX during the fall legislative session, which begins in September. First, legislators will have to take into account a nonbinding citizen referendum. Although participation was fairly low, those who cast a ballot rejected any private participation in PEMEX. A second factor is the "efecto popote" (drinking-straw effect) by which Mexico could lose potential deepwater reserves in the Gulf of Mexico to multinational oil companies if it does not act to access those reserves. However, the only way to access the reserves is with technology and expertise provided by foreign companies. Referendum voters reject privatization, but participation very low. Reaction to the first phase of the citizen referendum, sponsored by the center-left coalition Frente Amplio Progresista (FAP), was mixed. The vote was held in Mexico City and nine other states, with votes elsewhere in the country to follow during August (see SourceMex, 2007-07-16). Turnout was much lower than anticipated, but the organizers and supporters of the referendum cited the strong opposition to private-sector involvement in any facet of PEMEX operations. Roughly 80% of the 1.5 million Mexicans who cast ballots in the first round of voting on July 29 voted against private participation in PEMEX, whether by Mexicans or foreign parties. Referendum promoters, including ex-presidential candidate Andres Manuel Lopez Obrador and Mexico City Mayor Marcelo Ebrard, warned Congress against ignoring this huge "mandate" from the people when the PEMEX-reform legislation is considered.

Lopez Obrador said he was prepared to continue protests if the legislation contained any proposals whatsoever to turn over any functions to the private sector. "If the opinion of the people is not respected, we are going to continue with our peaceful civil resistance," said the ex-Mexico City mayor. "We are not going to allow the Congress to approve any measure that turns over our natural resources to private parties." Lopez Obrador has been the most vocal critic of President Felipe Calderon's proposal to reform PEMEX, which the executive presented in April of this year. The plan keeps PEMEX fully in the hands of the Mexican government, as mandated by Article 27 of the Mexican Constitution, but it contains some modest proposals allowing the use of private contracts for specific functions (see SourceMex, 2008-04-30).

Ebrard also called the results "an imperative mandate" by Mexican citizens to halt any efforts to make changes that violate the spirit of Article 27. "The will of the people that was expressed freely is clearly opposed" to the president's legislation, Ebrard said. Several critics called the referendum a failure because of the extremely low participation. Slightly more than 1.5 million people cast ballots, far short of the goals set by organizers. The FAP had anticipated a turnout twice that size in Mexico City alone. About 820,000 residents of the capital cast ballots on July 29, roughly 11% of the city's registered voters. "The turnout was limited...the conclusions were expected," said PEMEX director Jesus Reyes Heróles. German Martinez, head of Calderon's governing Partido Accion Nacional (PAN), said the FAP is to blame for the poor turnout. "This exercise was a complete failure on the part of the organizers," said Martinez. He expressed confidence that the results of the vote would have no bearing on the final legislative proposal.

Center-left PRD divided on collaboration with other parties The aftermath of the referendum also exposed some divisions in the center-left Partido de la Revolucion Democratica (PRD), the largest member of the FAP. The PRD delegations in the Chamber of Deputies and Senate fully embraced the referendum, but many members of the Nueva Izquierda faction of the party are angered by continued attempts by Lopez Obrador and his followers to dictate how the party should proceed in Congress. Referendum organizers insist that any decisions in Congress should be based entirely on the will of the people. Therefore, the PRD and the two other parties in the FAP, the Partido del Trabajo (PT) and Partido Convergencia por la Democracia (PCD), should not offer any proposals regarding PEMEX reforms. A PRD faction in Congress that supports Lopez Obrador is unhappy that the party's interim president Guadalupe Acosta met with leaders from the PAN and the other major opposition party, the Partido Revolucionario Institucional (PRI), to discuss a possible compromise. Sen. Rosalinda Lopez, who belongs to the PRD's Izquierda Democratica faction, said Acosta's decision to meet with the leaders of the two other parties was an "act of weakness." A large majority of the PRD members in Congress and most of the members of the leadership committee (Comision Ejecutiva Nacional, CEN) support the stance of the Nueva Izquierda, which reserves the right of legislators to make the decision.

Fernando Belaunzaran, a key CEN member, even accused Lopez Obrador of seeking to create an "a divisive social movement." The Mexico City daily newspaper El Universal said, "Far from unifying the PRD, the recent citizen consultation is threatening to permanently fracture the party." Several PRD legislators in Congress went as far as endorsing a plan offered by the PRI. At first glance, the PRI proposal differs little from the plans presented by Calderon and the PAN. It calls for an overhaul of the PEMEX tax and administrative structure and allows it to hire private contractors for specific functions. The PRI plan stipulates that the private contractors would be paid only for services and that and at no time would they be able to claim ownership of any of the natural resources they help extract. This proposal appears to be a good starting point for discussions in Congress, having gained the conditional endorsement of key leaders from other parties like PRD Sen. Graco Ramirez and party president Acosta, as well as Energy Secretary Georgina Kessel, PAN president German Martinez, Interior Secretary Juan Camilo Mourino, and PAN Senate leader Gustavo Madero. The PAN and the PRD intend to offer their own proposals, which would be reconciled with the PRI plan during discussions in key committees. Still, there were dissenting voices. Lopez Obrador rejected the PRI plan, saying it was too similar to the one presented by the Calderon government. "The plan retains a privatizing orientation," he said.

Other critics like columnist Pablo Hiriart of the Mexico City daily newspaper Excelsior said the proposed consensus among the three parties would shortchange PEMEX of the reforms it needs, such as greater incentives to bring in technology and expertise offered by private oil companies. "[Supporters of a compromise] will pompously say that dialogue and cooperation won out," said Hiriart. "But nothing could be further from the truth. It is not a political victory that is needed, but a technical and legislative triumph." Drinking-straw effect could influence Congress One area where PEMEX is almost certain to need technical expertise is in deepwater drilling, with concerns that Mexico may lose potential reserves to US multinational oil companies that have received permits to drill on the US side of the Mexico-US maritime border. The US government has already issued dozens of drilling rights to several companies that intend to exploit deepwater reserves. The list includes prominent multinational companies like Shell, BP, Chevron, and

ExxonMobil, as well as a handful of independents such as Houston-based Bois d'Arc Energy. These companies will be drilling in US territorial waters, but there is deep concern that oil below Mexican territorial waters will migrate to the US wells through a process commonly known in Mexico as "efecto popote," the drinking-straw effect.

"When they take petroleum from the American side, our petroleum is going to migrate," said PRI Sen. Francisco Labastida Ochoa, who chairs the energy committee in the upper house (Comision de Energeticos). Most companies have yet to launch any projects related to their drilling permits, but one multinational, Shell Oil Co., has begun constructing a huge offshore oil platform about eight miles north of the maritime border between the two countries. "As tall as the Eiffel Tower, the floating production facility will be anchored to the ocean floor by moorings spanning an area the size of downtown Houston," said the Los Angeles Times. "Slated to begin operating late next year, this leviathan known as Perdido will cost billions and be capable of pumping 100,000 barrels of crude a day." A major problem for Mexico is that the country lacks a legal recourse to defend its patrimony.

Under international law, communal reserves such as those thought to be in this area are shared. The US has yet to ratify a key UN treaty on maritime law, however, which would make it difficult for Mexico to pursue any complaints regarding this issue. Mexico urged to negotiate collaboration pact with US As an alternative, the Mexican Congress is pushing the Calderon administration to negotiate a special utilization agreement with the US, a move that Energy Secretary Kessel and other administration officials strongly support. In early June, opposition legislators sent a letter urging the administration to make the necessary contacts to begin negotiations with the US. This move is necessary, independent of whether PEMEX-reform legislation is negotiated this year, the legislators said. "The pressure is forcing [legislators] to do something," maritime-law expert David Enriquez told the Los Angeles Times. "It's the one area where they are unified."

Mexico urgently needs to boost its reserves, given the consistent decline in reserves in the Cantarell oil field in the past several years (see SourceMex, 2006-03-22 and 2007-03-07). Cantarell, which has been Mexico's principal source of crude oil for almost three decades, produced just over 1 million barrels per day in May, less than half the production reported in its peak year in 2003. Just a year ago, in May 2007, production from the reserve was at 1.6 million bpd. Other experts contend that the joint utilization agreement could also give Mexico access to information and technology related to deepwater drilling.

In particular, PEMEX could receive assistance in conducting the seismic and drilling work needed to determine if there is crude on its side of the maritime border. Additionally, the US has already constructed a network of pipelines to transport oil obtained from deepwater sources, which would eliminate the need for Mexico to construct this costly infrastructure. Other experts believe a utilization agreement with the US would serve as a model for similar agreements with Guatemala, Belize, and Honduras, countries that share a maritime border with Mexico. Still, there is some uncertainty about whether shared deposits actually exist in the Gulf of Mexico. For the most part, any discoveries in deep waters have involved isolated pockets of oil, not huge fields. And the US Minerals Management Service, the federal agency that regulates US offshore production, recently said it had no knowledge of any reservoirs under development that cut across the international divide. On a related matter, the Calderon administration and the

government of former President Vicente Fox have come under strong criticism for failing to follow through on an agreement negotiated in 2000 with the US regarding a disputed territory in the Gulf of Mexico known as the Donut Hole. The area is thought to have huge deepwater reserves of oil and natural gas (see SourceMex, 2000-06-07).

Independent energy analyst Lourdes Melgar said the government has failed to activate consultation mechanisms that have been in place since the agreement was signed in January 2001. While Mexico has ignored its rights under the treaty, multinational oil companies have invested between US\$2 billion and US\$3 billion in exploration activities in the area, Melgar said at an energy forum in Mexico City in early June. Mexico's lack of activity in the Gulf of Mexico is evident. Since 1992, international companies have drilled more than 2,100 wells at depths greater than 1,000 feet on the US side of the gulf. In contrast, PEMEX has drilled seven deepwater wells since 2004, none of which is producing, and none is likely to produce for years. Others believe that Mexico got the raw end of the deal in the negotiations regarding the Donut Hole. "This agreement was totally unjust," Fabio Barbosa, an economic researcher at Universidad Nacional Autonoma de Mexico (UNAM), told participants at the same forum. "The US took the most promising portion of the fields."