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President Felipe Calderon's administration and the opposition parties have different ways of observing the 72nd anniversary of the expropriation of Mexico's oil industry, which many also mark as the birth of the state-run oil company PEMEX. In a ceremony marking the milestone decision by President Lazaro Cardenas (1934-1940), President Felipe Calderon and members of his administration used the occasion to announce the discovery of new reserves in the Gulf of Mexico and to present a cautiously optimistic view of the future. This is in contrast to the center-left opposition parties, which are pushing for a stronger PEMEX. They warned that Mexico has followed erroneous policies in the past that have led to a crisis in the Mexican oil industry. At the center of controversy is the Calderon administration's decision to pursue performance-based exploration contracts with foreign companies. Even though Congress approved such contracts in 2008, critics argue that the door has been left open for foreign companies to earn profits from Mexican oil, which would violate the Constitution. Calderon marks PEMEX anniversary at site of new refinery Calderon marked the PEMEX anniversary with a ceremony at the site of the company's planned refinery in Tula, Hidalgo state. Construction of the refinery, which would be the first such facility developed in Mexico in three decades, is scheduled for completion in 2015 (see SourceMex, 2009-04-22). PEMEX officials said that the design work and environmental and security reviews had been concluded and that construction would begin in April 2011. The Mexican president said the government plans to devote about 5 billion pesos (US$408 million) to preparatory work on the new Refineria Bicentenario, which will have the capacity to refine about 250,000 barrels per day when it comes online in 2015. The government has yet to announce details of a bidding process by which private companies would be hired to construct the facility. Calderon said PEMEX is planning other investments in the near future, including a new petrochemical complex in Veracruz state that will primarily produce ethylene. The plant, which will be constructed by a partnership between Brazilian petrochemical consortium Braskem and Mexico's Grupo Idesa, will cost US$2.5 billion. The Mexican president first announced this project at the Latin American regional summit in Quintana Roo state in March (see SourceMex, 2010-03-03). At the press conference on the anniversary of the nationalization of Mexico's oil resources, he announced that the project would create as many as 8,000 jobs during the construction phase and up to 3,000 permanent jobs.

The Calderon administration also used the anniversary to announce that PEMEX had found deposits of up to 2 billion barrels of super-light and super-heavy oil in the Ayatzil-Tekel and Tsimin-Xux sections of Chicontepec field, in the shallow waters of the Gulf of Mexico. The oil, discovered in the last two years, would not make a huge difference in Mexico's dwindling reserves of about 43.6 billion barrels. But administration sources say the additional reserves will boost PEMEX's reserve-replacement ratio, which reached 77% in 2009, compared with 72% in 2008. The ratio measures the ability of an oil company to keep reserves from falling as wells draw down crude and natural gas from established fields. A 100% rate would mean new deposits are matching the pace of production. Administration sources said reserves have increased steadily during Calderon's tenure in office, thanks in part to the government's commitment to invest about US$22 billion annually for exploration. This investment, they said, has allowed the company to contain a drop in crude production and keep output stable at 2.6 million bpd.

In the current fiscal year, the Calderon government has given PEMEX a budget of 376 billion pesos (US$30 billion), of which 70% will be used for investment, "a record-high investment total for the company." But the PEMEX subsidiary Pemex-Exploracion y Produccion (PEP) estimates that the find could help boost production by 100,000 to 150,000 bpd. With that discovery and other increased sources of production, PEMEX could resume recent levels of production of 3 million bpd in the short-to-medium term. In addition to the recent discoveries, PEMEX is working on finding more sources of crude oil in the deep waters of the Gulf of Mexico.

PEMEX is optimistic about the Tamil 1 well, which could produce about 200 million barrels of crude equivalent. Center-left opposition parties skeptical The center-left opposition parties comprising the Partido de la Revolucion Democratica (PRD), the Partido del Trabajo (PT), and the Partido Convergencia por la Democracia (PCD) do not share the administration's optimism. The PT and PCD have been especially vocal about what they see as failed policies during the administrations of Vicente Fox and Calderon, both members of the conservative Partido Accion Nacional (PAN). In mid-March, Deputies Laura Itzel Castillo, Mario Di Costanzo, and Enrique Ibarra Pedroza of the PT and Pedro Jimenez Leon of the PCD announced their intention to summon Energy Secretary Georgina Kessel Martinez to answer questions about the Calderon government's strategies regarding PEMEX and hydrocarbons policies in general. At a press conference in Mexico City in mid-March, Itzel Castillo and her fellow center-left legislators raised questions about the government's overreliance on data collected by PEP, which she said lacks the capacity to provide proper analysis because its technical-analysis unit had been dismantled. Furthermore, Itzel Castillo pointed out that production targets had not been met for Mexico's principal hydrocarbons fields, which are Cantarell, Chicontepec, the Burgos Basin, Jujo Tecominoacan, and Samaria. Therefore, said the PT legislator, the production estimates are based on projections for fields that have not yet been discovered and developed, meaning the PEMEX numbers do not "have the least bit of credibility."

The center-left legislators also criticized the management of Cantarell during both the Fox and Calderon administrations. They said Fox, in particular, was responsible for policies that accelerated the depletion of the five fields that comprise Cantarell (see SourceMex, 2007-03-07 and 2008-09-24). As part of a strategy to fund federal operations, the Fox government greatly expanded drilling at Cantarell, with production peaking at 2.13 million bpd in October 2004. By December 2010, this field will only have the capacity to produce 252,000 bpd, said the Mexico City daily newspaper El Universal. Di Costanzo, who presented an analysis of the Fox government's economic policies at the University of New Mexico on March 23, said the ex-president increased oil production significantly in order to fund a bloated bureaucracy, including a major boost in pay for Cabinet secretaries and other high-level officials. The increased spending came at the expense of PEMEX. "The extraction of oil was given a high priority in order to feed public finances and government expenditures, and the petrochemical sector and exploration were de-emphasized," said Di Costanzo. Di Costanzo said PEMEX paid the equivalent of 76% of its sales revenues in taxes to the Mexican Treasury and in return received the equivalent of about 2.5% of its sales revenues to invest. "It is not that Mexico has no petroleum or that PEMEX is inefficient," the PT legislator said. "What has happened is that PEMEX is a company that has not received the appropriate funds for investment." The PT legislator pointed out the irony that Mexico, as the fifth- or sixth-largest oil producer in the world, is forced to import 40% of the gasoline it consumes. Furthermore, he said, such products like fertilizers and petrochemicals, which could be produced in Mexico, must be imported. Almost all the fertilizers that Mexico needs are currently imported from countries like Ukraine, he said. "We cannot compete under those circumstances," said the PT legislator. Di Costanzo insisted that the Fox administration already knew about studies in 1990 that showed that Cantarell was beginning a decline and yet insisted on exploiting the oil reserve. Di Costanzo has also criticized Calderon's policies. At the Mexico City press conference in mid-March, the legislator questioned the administration's strategy of basing PEMEX's future on projections for Chicontepec, where extractions could fall short and costs could be greater than expected. "This strategy lacks specifics on how these objectives are going to be reached," said Di Costanzo. Jimenez Leon, who coordinates the PCD delegation in the lower house, also used the press conference to chide the Calderon administration and PEMEX officials for developing an incomplete strategy. "This report does not provide the quality or the requirements needed by a sector as important as energy," he said. Differences regarding risk contracts at heart of disagreements At the heart of the matter is a difference of opinion between the center-left parties and the PAN on the question of risk contracts.

In 2008, the Mexican Congress approved changes to PEMEX that would allow the company to secure the services of private companies to conduct exploration and production activities (see SourceMex, 2008-10-29). Presumably, the plan would allow agreements with prominent multinational entities like ExxonMobil (US), BP (Britain), Total (France), and Statoil ASA (Norway). But the company most frequently mentioned as a potential partner with PEMEX is Brazil's Petrobras, which has extensive experience in deepwater exploration and production (see SourceMex, 2009-08-26 and 2010-03-03). It is not clear whether Petrobras would be included in the risk contracts or whether there would be a more comprehensive joint venture with PEMEX. "The most important part of these contracts is to attract new operational capacity to PEMEX," Kessel recently told reporters. "There is a lot of international interest in this contract system." Despite the law allowing risk contracts, PEMEX has yet to enter into agreements with any companies because of lingering legal questions. The center-left parties contend that any profit sharing by a private entity, whether foreign or Mexican, would violate the Mexican Constitution. The profits, they say, are theoretically the property of all Mexicans. The center-left parties believe that the best course of action is to allow PEMEX to keep the majority of its profits rather than laundering them through the federal Treasury. That way, the company could take care of its investment needs without having to rely excessively on private companies. Some center-left politicians, including PRD elder statesman Cuauhtemoc Cardenas, are willing to give the government some latitude. But Cardenas, the son of Lazaro Cardenas, is demanding that any contracts between PEMEX and private parties be made public to ensure that they comply with Mexican law. "What is important is that there are no violations of the Constitution," Cardenas said at a ceremony marking the anniversary of the nationalization of Mexican oil resources. "Any development of the oil industry must occur within the framework of the law." The power broker, the long-governing Partido Revolucionario Institucional (PRI), appears to be walking a middle ground in the debate. The PRI holds a plurality in the Chamber of Deputies and is widely expected to consolidate and expand its power during the gubernatorial and state legislative elections in July of this year (see SourceMex, 2010-01-27).

Except for a minority of neoliberal party members, which include ex-Presidents Carlos Salinas de Gortari and Ernesto Zedillo, the PRI has generally taken a public position that PEMEX should not be privatized. But the party appears to have adopted a flexible stance regarding risk contracts, as evidenced by a vote taken in late February. At that time, the PRD, PT, and PCD presented a resolution to have the Mexican Congress file a motion with the high court (Suprema Corte de Justicia de la Nacion, SCJN) to prevent PEMEX from exercising the option of entering into risk contracts. Facing a Feb. 18 deadline to file a constitutional motion this year, the Congress opted not to take this action. Rather than join the center-left parties, the PRI went along with the PAN, the Partido Verde Ecologista Mexicano (PVEM), and the Partido Nueva Alianza (PANAL) in opposing the move. The PRI's refusal to join in the controversy despite the party's public opposition to the privatization of PEMEX angered the center-left parties. "It would have been convenient for the court to consider the matter, if only to determine the scope allowed for these contracts subscribed by PEMEX and its subsidiary companies," said PT Deputy Jaime Cardenas. Deputies Francisco Rojas and Jorge Carlos Ramirez, the PRI floor leaders in the lower house, acknowledged there was some merit in the arguments of the center-left parties. But they also said there was no need for Congress to bring the matter to the high court because PEMEX had agreed to procedures where all contracts would be reviewed to ensure that there were no constitutional violations. "The matter is already resolved," said Ramirez. "The PRI has obtained a promise from PEMEX, and the reason for filing a controversy is no longer there."

Fluvio Ruiz, a member of the PEMEX board of directors, said the oil company is looking at different models and formulas to compensate contractors without violating the Constitution. These formulas would be based on volume and the price of crude oil, Ruiz said in interviews. Even though the Congress did not present a constitutional complaint about risk contracts, administration officials agree that the issue could still end up before the high court, which would review whatever schemes are developed by PEMEX to determine whether they pass constitutional muster. Still, the Calderon government is not worried. "I don't have any doubts that PEMEX regulations will be ratified by the Supreme Court," Kessel said in an interview in late March. Kessel emphasized that the contracts should be made attractive enough to attract new companies to Mexican projects. "[These contracts] represent an opportunity for Mexico to bring in new capacity and technology," said the energy secretary, who also serves as chair of the PEMEX board of directors. PEMEX director Juan Jose Suarez Coppel said contracts with private companies could also help revive production at Cantarell because they would allow reopening wells that were capped because of a lack of resources. "We're confident we'll keep output from Cantarell at the current range" of between 590,000 bpd and 620,000 bpd, Suarez Coppel said in late March. "The goal is that this year production won't fall." [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 7, 2010, reported at 12.23 pesos per US$1.00]