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# Is Mexico Prepared for Deepwater Drilling in the Gulf?

Inter-American Dialogue's Latin American Energy Advisor

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***Q and A: Is Mexico Prepared for Deepwater Drilling in the Gulf?***

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Pemex is not prepared for risks such as a spill or other serious accident that could happen as it plans to drill two wells in ultradeep waters of the Gulf of Mexico, said Juan Carlos Zepeda, the head of Mexico's National Hydrocarbons Commission, in a Feb. 15 interview with The Wall Street Journal. According to Zepeda, his agency's resources amount to about 2 percent the size of its U.S. counterpart's budget. Pemex officials, however, say that the company is capable of carrying out its plans safely. How prepared is Mexico to deal with a serious accident in the Gulf of Mexico? Is the company sacrificing safety in its bid to improve competitiveness and meet production goals?

**A: John P. Philbin, director of crisis management at Regester Larkin Energy:**

"Among the lessons learned from the Deepwater Horizon incident, two are fundamental in determining response preparedness. First is the importance of having a consistent national doctrine at federal, state and local levels. Significant gaps surfaced during the Macondo blowout response because the U.S. Coast Guard operated under the United States' National Contingency Plan (NCP), which uses a top-down approach to manage the response, while state, local and elected officials operated under the Stafford Act, which is a bottom-up approach. The second fundamental concern is awareness and knowledge of the doctrine for those with any role in preparedness and response. Response plans and procedures developed from national doctrine must account for the complexity that will ensue, involving many jurisdictions and response elements. Adequate resources and pre-agreed collaboration mechanisms among resource providers are equally important. Note that the U.S. Coast Guard deployed some 60 boats and 2 aircraft to assist in Macondo response efforts, along with over 3,000 other boats and 127 surveillance aircraft and hundreds of individuals involved in the command and control structure. Mexico's navy, with some 200 ships total, would be severely taxed to respond to an incident, despite having some doctrine in place to deal with a spill and despite some simulations. The fact that the United States and Mexico signed an agreement this week to collaborate on safety and response mechanisms in the Gulf of Mexico is a critical step toward safer Gulf operations—for both Mexico and the United States."

**A: John D. Padilla, managing director at IPD Latin America:**

"The plan at issue is Pemex's intent to drill in the Perdido Foldbelt area, which abuts the U.S.-Mexico maritime border. Although the bulk of Pemex's offshore infrastructure is located in the southern Gulf of Mexico (i.e. near Cantarell and Ku-Maloob-Zaap), Perdido represents the company's most promising near-term commercial crude oil prospect. The 18 other deepwater wells Pemex has drilled have either been principally natural gas or heavy oil; those that will be brought online still await commercialization. Complicating the equation, Pemex is saddled with four latest-generation semisubmersible rigs that cost \$500,000 per day. Because the company has been unable to drill in Perdido's ultra-deepwater, the rigs have been relegated to drilling in shallower water—work that less sophisticated technology could accomplish. Ongoing concerns over deepwater drilling in the wake of the Macondo incident, combined with memories of Pemex's less-than-aggressive response to its 1979 Ixtoc spill, have given authorities on both sides of the U.S.–Mexico border pause. An archaic constitutional ban that prevents the company from providing the proper balance of risk-reward incentives, coupled with declining production, leave Pemex few large-scale, near-term alternatives—other than forging into Perdido on its own. The accord signed by U.S. and Mexican authorities on Monday offers an elegant way to calm fears on both sides of the border. Whether joint ventures materialize or not, the accord would permit joint inspection teams the right to ensure compliance with safety and environmental laws. Will Mexico's Senate approve the accord?"

**A: Alejandra León, associate director for Latin America-downstream oil at IHS Cera:**

"The lack of Pemex's experience in deep and ultradeep water operations creates a valid uncertainty about its capabilities to efficiently handle any accident or crude spill in those types of operations. However, safe operations do not just depend on Pemex. Service providers play a critical role. As long as Pemex contracts highly qualified companies to develop deep and ultradeep water activities and the contracts are clear regarding environmental requirements and other responsibilities, the risk will be mitigated. In fact, prevention is the very first step in creating strategies for potential accidents or crude spills. In this sense, the role of the National Hydrocarbons Commission (CNH) is critical. As a regulator, the CNH has created clear and strict rules for deepwater operations, aligning Mexican standards to the strictest international standards. This is a good first step to prevent any serious accident or crude spill. The next challenge is to ensure that the regulation will be upheld and here the question remains if the CNH has the sufficient authority and resources to oversee Pemex's operations and guarantee the rule of law."

**A: David Shields, independent energy consultant based in Mexico City:**

"They say that if a country does not defend its borders, then others will not respect those borders. That is probably how we should understand Pemex's decision to drill the Maximino-1 well in 3,000 meters of water in the Perdido Fold Belt, right next to the shared maritime boundary with the United States. It is a decision that does not make sense in terms of competitiveness or production goals. It is about defending the final frontier of national sovereignty and sticking the Mexican flag on the floor of the Gulf of Mexico to advise U.S. companies that they have no right to drill for oil in the ultradeep waters on the Mexican side. The recently signed deepwater agreement obliges both countries to work together and share the spoils of the development of

transboundary reservoirs, if they actually exist. For now, Pemex, in line with constitutional restrictions, is going alone on the Mexican side. Safety is a major concern as Pemex and its contractors have no experience in such harsh environments. In fact, Pemex has never produced oil commercially anywhere in deep water. It does not have an insurance policy for worst-case scenarios nor does it have emergency measures in place to deal with a major spill. It does not fully abide by existing Mexican regulation of its deepwater activity, which cannot be enforced. On the U.S. side, prohibition of ultradeepwater drilling, enacted after the Deepwater Horizon spill, has come and gone. The next disaster is just waiting to happen."

**A: George Baker, publisher of Mexico Energy Intelligence:**

"The serious issues of corporate governance and regulation in the shadow of the Macondo incident have not yet been addressed in the many post-accident studies that have been released. On April 20, 2010, a joint BP-Transocean safety audit team boarded the Deepwater Horizon for an inspection of the safety practices of the crew and the condition of the facilities. The nominal objective of the inspection was to identify issues and conditions that could result in damage to lives, facilities and the environment. Within hours after the safety audit team flew off by helicopter, the Macondo well blew out. How is it that this team of senior safety auditors missed all the evidence that a catastrophe was unfolding beneath their feet? This is a question on the level of seriousness as that of the integrity of the cement that failed. The facile answer to the question is that safety, as a discipline and a concern, is divided into two parts: occupational safety, dealing with the slips and falls of employees, and process, or industrial, safety, dealing with conditions that could put the entire crew and facilities at risk. What happened on the Deepwater Horizon is that members of the safety audit team focused their attention on the feel-good issues of occupational safety, chit-chatting with crew members, while they ignored the fact that a cement bond log had not been run, and that proof of cement integrity was problematic at best. One measure to avoid a repetition of his situation would be to order, as a matter of regulation, safety audits of industrial safety and occupational safety to be carried out separately, by different teams."

*The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at [skuleta@thedialogue.org](mailto:skuleta@thedialogue.org) with comments.*