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In mid-October, Hurricane Roxanne forced the state-run oil company PEMEX to stop virtually all of its drilling activity in the Gulf of Mexico and to halt all shipments from three oil terminals in the southeastern region of the Gulf, resulting in the loss of millions of dollars in potential export revenues for Mexico. The storm brought severe floods and wind damage to the southern coastal regions of the Gulf of Mexico during an eight-day period between Oct. 10 and Oct. 17. According to local officials, Roxanne initially arrived in Yucatan state's coastal regions as a hurricane, left for sea as a tropical storm, and then hit the Campeche-Tabasco area again as a hurricane. According to local officials, the storm devastated the fishing industries of Yucatan, Campeche, and Tabasco states, and also caused significant damage to the agricultural sector of the southeastern region (see SourceMex, 10/25/95).

For PEMEX, the storm resulted in suspension of drilling activities at 90% of the platforms in the Gulf of Mexico, plus the total shutdown of the ports of Cayo Aracas, Dos Bocas, and Pajaritos. Energy Secretary Ignacio Pichardo Pagaza told reporters the storm halted almost 90% of the total maritime production in the Campeche Sound for eight days. During the storm, Mexico's total production was reduced to 600,000 barrels per day, compared with a recent output of 2.69 million bpd. The Campeche Sound is the source of more than 70% of Mexico's total crude oil production.

Pichardo was unable to provide immediate assessments of the impact of the drilling and shipment delays other than the loss of opportunity to export millions of barrels of crude oil. However, according to a report in El Financiero daily business newspaper, the storm caused PEMEX to default on almost one third of the export shipments of crude oil scheduled for October. PEMEX was due to export about 47.2 million barrels of oil during the entire month of October, but because of storm damage, that total reached only about 33.2 million barrels. "We still don't know how much this is going to cost us," said Pichardo. "We do know that we will not be able to recover the potential revenues that were lost due to the delays."

PEMEX officials said the oil company was forced to invoke an insurance clause that allows the company to default on part of its contracts due to circumstances beyond its control. On the other hand, according to PEMEX officials, the storm caused little structural damage to PEMEX drilling and shipping facilities, which was expected to allow exports to resume fairly quickly.

The storm also forced PEMEX to stop production of natural gas, which created a need for Mexico to import about 600 million cubic feet of gas. In a press conference, Energy Secretary Pichardo and PEMEX director Adrian Lajous said the combination of lost revenue from exports and the cost of importing natural gas was estimated at US$135 million. Ironically, just a few days before PEMEX announced that the company would not be able to cover all of its commitments for October, PEMEX officials told the New York Times that Mexico was expected to surpass production and export

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levels this year. Quoting deputy energy secretary Jorge Navarrete, the newspaper said this year's production would increase to an average of 2.85 million bpd by December, surpassing the peak of 2.75 million bpd set in 1992. In contrast, production of crude oil in the past 10 years has fluctuated between 2.40 million bpd and 2.60 million bpd. Many energy industry experts attributed this relatively low output to the lack of investments in infrastructure for drilling and other production processes. Some energy analysts attribute the increase in production this year to PEMEX director Lajous, who persuaded Zedillo to increase the PEMEX budget for oil exploration and production by 20%.

The increased revenues have allowed PEMEX to employ more advanced techniques to extract oil, including horizontal drilling. The increased exploration budget has also helped PEMEX with efforts to find new reserves of crude oil. As of late 1994, PEMEX reserves of oil stood at 64.5 billion barrels, compared with 72.5 billion barrels in 1984. According to the New York Times report, the anticipated increase in production this year could turn Mexico into the world's sixth largest source of crude oil, surpassed only by Saudi Arabia, the US, Russia, Iran, and China.

Energy Secretary Pichardo told the Times that the Zedillo administration views an increase in oil export revenues as one of the vehicles to help reactivate the Mexican economy. However, industry experts question how much oil revenues will actually help Mexico. At current prices, Mexico's oil export revenues this year are expected at US$1 billion, an insignificant amount when compared with Mexico's US$375 billion economy. Still, the increase in production and exports is of particular significance to the US. According to El Financiero International weekly business newspaper, the US received almost 80% of PEMEX's total exports during January-August, or about 1.03 million barrels per day. For August alone, the US share of Mexico's oil exports increased to 83%, or about 1.25 million bpd.

The US also has another vested interest in an increase in Mexican output of crude oil. Earlier this year, Mexico agreed to deposit a portion of oil revenues with the US Federal Reserve as collateral for the US$20 billion rescue package received from the US. The US$20 billion is part of a larger rescue package of US$50 billion arranged by US President Bill Clinton in January of this year (see SourceMex, 02/01/95). Meantime, the increase in production of crude oil has also resulted in a surge in output of natural gas. According to PEMEX deputy secretary Navarrete, natural gas production this year was expected to increase by at least 15% from last year. Navarrete noted that the increase in pumping of crude oil has helped boost natural gas production, since the two types of fuel are often located side by side. In addition, PEMEX has increased drilling of natural gas wells in Tamaulipas and Coahuila states.

According to PEMEX officials, new wells in the two states should help boost production capacity in the Tamaulipas-Coahuila region by about 40% to about 400 million cubic feet per day (see SourceMex, 04/26/95). According to the Times report, by increasing the supply of natural gas, the Zedillo administration is hoping to help Mexican companies cope with stricter air emission standards and other environmental regulations. Roughly 50% of the fuel burned in factories and generating plants in Mexico was high- sulfur oil, compared with 32% natural gas. The administration's target, according to the report, is to reduce the percentage of oil-burning plants to 19% by the year 2005. (Sources: Associated Press, 10/18/95; Deutsche Press Agentur, 10/20/95; New

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York Times, 10/19/95, 10/21/95; Notimex, 10/21/95; Excelsior, 10/20/95; Reuter, 10/19/95, 10/25/95; Agence France-Presse, 10/19/95, 10/25/95; El Financiero International, 10/23/95)

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