8-19-1998

Reduced Exports, Increased Production Tighten PEMEX Storage Capacity

LADB Staff

LADB Latin America Data Base News & Educational Services
SourceMex
LADB Article Id: 54639
ISSN: 1054-8890

Reduced Exports, Increased Production Tighten PEMEX Storage Capacity

by LADB Staff
Category/Department: Mexico
Published: 1998-08-19

Mexico's capacity to store supplies of crude oil appears to be tightening because of the decision by state-run oil company PEMEX to reduce exports but not production. PEMEX officials acknowledged that Mexico's two major storage caverns in Veracruz and Tabasco state are close to 90% of capacity as a result of concerted efforts by major oil producers to reduce exports because of slumping prices at the global level. Mexico was one of three countries that coordinated separate efforts to convince producers to reduce global oil supplies.

Mexico, Venezuela, and Saudi Arabia coordinated the reduction in global supplies through agreements reached in Amsterdam in March and Riyadh in June (see SourceMex, 03/25/98 and 06/10/98). In each instance, PEMEX agreed to reduce its exports by 100,000 barrels per day. Mexico's total reduction of 200,000 bpd in exports has not been matched by a similar reduction in production, which has contributed to an increase in domestic supplies.

PEMEX officials have defended the need to continue average daily production at current levels because of growth in domestic demand during the first half of the year. In July, PEMEX reported exports of 1.644 million bpd, in line with its commitments under the Riyadh and Amsterdam pacts. However, PEMEX statistics showed production of crude oil for the same month totaled 3.12 million bpd, an increase of 170,000 bpd from June.

Petroleum industry analysts said Mexico's growing domestic inventory has contributed to weak global prices, even though Mexico has not actually brought those supplies onto the market. In an interview with Reuters news agency, a petroleum industry analyst said the increase in domestic demand was too modest to justify recent production levels. "Maybe refinery runs were increased a bit more," said the source. "But PEMEX is still stuck with a buildup of at least 160,000 bpd." The crude oil is being stored in the Tuzandeptl cavern in Veracruz state and the Dos Bocas storage site, which have the capacity to hold 16 million barrels of oil. Both storage sites are close to 90% full, PEMEX officials acknowledged.

To alleviate pressure on the storage sites, PEMEX is planning to launch a new floating storage facility with a capacity of 2.34 million barrels. This facility, however, will be intended primarily to hold oil that is ready for shipment. One government source told Reuters that PEMEX may actually be adding to the glut in the oil market in other ways. According to the source, PEMEX export statistics probably do not include the crude oil sent for processing to the company's joint venture with Shell Oil company in Deer Park, Texas.

In June the refinery processed about 160,000 barrels of Maya heavy-grade crude oil. In early August, PEMEX reported profits at only US$8.33 billion in January-June, a decline of more than 22% from the

ISSN: 1054-8890

first six months of 1997. PEMEX reported total sales at US$14.17 billion in the first half of the year, a decline of 8.7% relative to a year ago. Domestic sales increased by 3.4%, which was not enough to offset the 31.9% decline in the value of exports.

Lower oil revenues contribute to reduced public surplus

On a related matter, the Secretaria de Hacienda y Credito Publico (SHCP) said the sharp reduction in the price of Mexico's crude-oil exports was a major contributor to the government's shrinking finances in the first half of 1996. In its quarterly report on public finances, the SHCP reported a surplus of only 4.2 billion pesos (US$457 million) for January-June. In contrast, the surplus was reported at almost 18.3 billion pesos (US$1.99 billion) in the first half of 1997.

The SHCP report said the lower oil prices, along with increased expenditures related to the reform of the social security system, cost the government about 47.3 billion pesos (US$5.15 billion) in January-June 1998, which resulted in the narrow surplus for the first half of the year. With oil prices expected to continue weak through the second half of the year, the SHCP has forecast a public deficit of 1.25% of GDP for 1998. The weak global oil prices since late 1997 led the Zedillo administration to implement three separate reductions in the budget for 1998 (see SourceMex, 01/21/98, 03/25/98, 07/15/98). The latest budget reduction was based on the assumption that Mexico's export price for crude oil would average US$11.50 per barrel.

This targeted price, however, seems increasingly out of reach because oil prices are unlikely to recovery sufficiently in the second half of the year to compensate for the sharp drop in January-June. Mexican crude-oil export prices averaged about US$10.63 during the first half of the year, compared with US$17.13 during January-June 1997. The price of Mexican crude oil has continued to deteriorate slowly in recent weeks.

On Aug. 18, the average export price for Mexican oil was US$9.54 per barrel, declining by about US $0.30 cents over a three-day period. According to PEMEX calculations, prices would have to average US$12.42 during the second half of the year for the target of US$11.50 to be met.

Energy secretary sees price recovery by early 1999

Energy Secretary Luis Tellez Kuenzler has acknowledged that the prospects for the global oil market are not promising in the short term. But he told reporters in mid-August he was confident prices would sustain a steady recovery once inventories are reduced and the financial markets begin to emerge from recent crises in Asia and Russia. This recovery, he said, could occur in early 1999, particularly if a severe winter in the Northern Hemisphere results in an increased demand for oil.

The Mexican energy secretary also confirmed reports he was scheduled to meet with counterparts from Saudi Arabia and Venezuela in September to evaluate the impact of the Amsterdam and Riyadh agreements. However, Tellez denied that the three countries were planning to coordinate a third reduction in oil exports. Former PEMEX executive Jorge Diaz Serrano has suggested that the company abandon its commitments under the Riyadh and Amsterdam pacts and export as much oil as necessary to help boost revenues. However, Tellez dismissed Diaz Serrano's suggestion, saying that Mexico is fully committed to comply with the two agreements. The three budget reductions announced earlier have had a proportionately larger impact on PEMEX. But the reduced

LADB Article Id: 54639
ISSN: 1054-8890

expenditures have not prevented it from hiring 885 new workers in April-June, bringing its total work force to more than 151,000 employees.

Still, PEMEX acknowledged that most of these jobs were temporary positions related to specific projects to modernize and expand infrastructure for the subsidiaries Pemex- Petroquimica and Pemex Gas. "These jobs will disappear once the projects are completed," the PEMEX statement said. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Aug. 19, reported at 9.18 pesos per US$1.00] (Sources: El Financiero International, 08/03/98; Novedades, 08/14/98; El Universal, 08/04/98, 08/12/98, 08/14/98, 08/15/98; Reuters, 08/06/98, 08/10/98, 08/13/98, 08/14/98, 08/18/98; El Economista, 08/04/98, 08/14/98, 08/17/98, 08/19/98; Excelsior, 08/14/98, 08/19/98)

-- End --