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LADB Staff

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Export prices for Mexican crude oil averaged only US$10.26 per barrel during the third quarter of the year, ensuring that the state-run oil company PEMEX will not meet its most recent target of US $11.50 per barrel for 1998.

Speaking at a press conference in early November, PEMEX director Adrian Lajous said the government is now projecting oil prices for 1998 at US$10.50 per barrel. The latest reduction of US$1.00 per barrel in the target price for Mexican crude-oil exports will bring an additional loss of US$600 million in revenues this year, Lajous said. President Ernesto Zedillo's administration had originally targeted oil prices at US$15.50 per barrel in its budget projections for 1998. But the administration was forced to reduce the target to US$13.50 in January, US$12.50 in March, and US $11.50 in July because of the weakness in global oil prices.

Each reduction was accompanied by a reduction in the budget for the year (see SourceMex, 01/21/98, 03/25/98, 07/15/98). Global oil prices have remained weak despite efforts by Mexico, Venezuela, and Saudi Arabia to convince global producers to reduce oversupply. Prices have recently dropped to about US$12 per barrel, compared with a peak of US$23 in 1997.

On Nov. 13, Energy Secretary Luis Tellez announced that Mexico would continue to limit exports through the end of 1999 because of the projected weakness in global oil prices next year. As part of its agreement with other oil producers, Mexico lowered its total crude-oil exports this year by about 200,000 barrels per day to an average of 1.65 million bpd. Prices expected to recover slightly in 1999 In its budget proposal for 1999, the administration projects a slight recovery in Mexican crude-oil export prices to US$11.50 (see SourceMex, 11/11/98).

But Lajous hinted that the administration's projection may be slightly optimistic, given predictions for a global economic slowdown next year. For now, Lajous said, he is projecting the average export price for next year at US$11 per barrel. The weak global oil market had a profound negative effect on PEMEX's bottom line. Lajous said PEMEX's pre-tax revenues totaled only US$3.5 billion in the third quarter of the year, a decline of 36% from the same period in 1997. Pre-tax revenues for PEMEX's largest subsidiary Pemex-Exportacion y Produccion dropped 47% during the third quarter, said Lajous. The same trend was reflected in the ledger sheet for January-September, with pre-tax income dropping 27% relative to the same nine-month period in 1997.

Energy Secretary Luis Tellez said the federal government's tax system for state-run companies has also caused problems for PEMEX. Under the current structure, a large percentage of PEMEX revenues are transferred to the federal treasury for use in the general budget. Under a modified scheme proposed by the Secretaria de Energia for 1999, PEMEX will be allowed to keep a higher

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percentage of these revenues. To make ends meet next year, PEMEX has postponed major projects and is considering limited privatizations.

Earlier this month, PEMEX announced plans to eliminate its maritime oil-transport division and transfer its functions to the private sector. Jaime Mario Willards, director of PEMEX subsidiary Pemex- Refinacion, said PEMEX's fleet of 139 ships is too costly to maintain and operate. Except for four ships constructed in 1988, the majority of PEMEX's fleet had reached or will soon reach its useful life of 20 years. PEMEX was scheduled to replace 19 obsolete tankers at a cost of US$1 billion next year. Willards said the company could use these funds for other purposes, including upgrading refineries. "We must define which types of investments are more strategically important for PEMEX," Willards told the daily business newspaper El Economista.

PEMEX also faced increased costs for upkeep of ships and equipment in port. The weekly news magazine Proceso said much of PEMEX's fleet was not being used because international buyers preferred to have crude oil delivered by ships from other nations. (Sources: Proceso, 11/01/98; Excelsior, Novedades, El Universal, 11/12/98; El Economista, 11/06/98, 11/12/98, 11/13/98; Reuters, 11/11/98, 11/13/98; The News, 11/13/98)

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