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LADB Staff

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Cantarell Project Under IScrutiny for Cost Overruns, Production Shortfall

by LADB Staff

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Mexico's huge offshore drilling complex Cantarell has become the subject of increasing controversy in recent weeks. An article published in late July in the Mexico City daily newspaper Reforma said government auditors were investigating irregularities with expansion and upgrading of the complex, including cost overruns and improper procedures in the concession of bids to private contractors.

The Reforma report said the Secretaria de la Controlaria y Desarrollo Administrativo (SECODAM) and the Secretaria de Energia (SE) are concerned about the increasing cost of the project, which has risen to US\$19 billion from an original estimate of US\$14 billion. The expansion is funded in part by a US\$1 billion loan from Japan's Export-Import Bank (Eximbank), which the state-run oil company PEMEX received in late 1998 (see SourceMex, 1998-10-14).

The report said the SE is also investigating discrepancies on the production estimates for Cantarell. Reforma said PEMEX has been unable to meet its production target of 1.4 million barrels per day at Cantarell as of the first quarter of 1998.

But some PEMEX officials and legislators say production at the site is now at 1.5 million bpd, which could allow PEMEX to meet its target of 1.9 million bpd by the fourth quarter of 1999 (see SourceMex, 1999-01-20). The Cantarell oil fields hold an estimated 13.5 billion barrels of oil and gas.

Legislators conduct own investigation

The questions surrounding the Cantarell project prompted some members of the energy committee (Comision de Energeticos) of the Chamber of Deputies to visit the site to conduct their own investigation. A group of Mexican senators is expected to follow through with its own fact-finding tour of the Cantarell project in the coming weeks. In an interview with Reuters news service, energy-committee chair Benito Osorio said the investigation uncovered some errors in judgement by PEMEX but no evidence of fraud. For example, Osorio questioned why PEMEX was using improper technology to extract oil and gas, thus reducing efficiency and increasing costs.

Osorio, a member of the center-left Partido de la Revolucion Democratica (PRD), was referring to the US\$1 million contract PEMEX awarded to a multinational consortium late last year to construct the world's largest nitrogen-injection plant for use in drilling operations at Cantarell (see SourceMex, 1997-10-15). "The issue is why they opted for this technology, which is only being used in a few wells in the US and other countries, but not for an oil field with the dimensions of Cantarell," Osorio said. The PRD legislator also criticized PEMEX for burning 400 to 500 million cubic feet of natural gas per day at Cantarell, when the gas can be used instead in the oil-extraction process.

Osorio's comment coincided with a separate study conducted by the legislative chamber's energy committee, which questioned the delay in converting Cantarell into a source of natural gas for Mexico. "This has forced our country to remain overly dependent on imports," the study said. Mexico was scheduled to eliminate a duty on imports of US natural gas in July. However, the Secretaria de Energia (SE) has delayed the market-opening measure until the US Commerce Department hands down a decision on an anti-dumping complaint filed by independent US oil producers against imports of crude oil from Mexico and other countries (see SourceMex, 1999-07-07).

The Reforma report said PEMEX also failed to follow normal procedures in hiring an engineering firm to supervise the Cantarell expansion project. Citing a PEMEX document, Reforma said the oil company failed to solicit bids for the supervisory job and instead handed the job to US-based Bechtel.

PEMEX director downplays reports

But PEMEX director Adrian Lajous said the company was legally entitled to hire Bechtel without first conducting public bids. He said the bidding process would have resulted in costly delays. Furthermore, he said, the news that PEMEX was planning to boost production at Cantarell would have upset global oil markets. Lajous also downplayed reports of costs overruns, saying these were not related to the main project. He acknowledged that a handful of PEMEX officials at Cantarell had been sanctioned for minor administrative oversights in contracting firms to repair storm damage.

Mexican Energy Secretary Luis Tellez Kuenzler was also forced to address the questions regarding the Cantarell project at a meeting of Latin American energy ministers in New Orleans in late July. Tellez acknowledged "some problems" in the execution of the project, but he said the Mexican government has conducted an exhaustive review of the plans and has begun to gradually correct any problems that may have occurred. (Sources: Reforma, 07/21/99; Reuters, 07/21/99, 07/22/99, 07/26/99; El Universal, 07/27/99; Agence France- Presse, Notimex, 07/29/99; El Diario De Yucatan, 07/30/99; El Economista, 07/29/99, 07/30/99, 08/02/99)

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