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Strong Global Market Helped Mexico Nearly Double Oil-export Revenues In 1999

by LADB Staff
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The sustained strength of global oil prices in recent months has significantly boosted Mexico's oil-export revenues and helped stabilize the country's economy. In a report published in late January, the state-run oil company PEMEX said Mexico obtained almost US$8.85 billion in revenues from crude-oil exports, almost twice the US$5 billion projected at the beginning of the year. The crude-oil export revenues accounted for more than one-third of PEMEX's total export sales of 231.4 billion pesos (US$24.6 billion) in 1999. PEMEX's total revenues last year were 26% higher than in 1998. The strong global oil market is attributed primarily to the discipline of oil-producing countries to limit production and export levels to reduce global inventories. Three countries Mexico, Venezuela, and Saudi Arabia are credited with coordinating the reduction in inventories in 1998 and 1999 when prices were in a severe slump (see SourceMex, March 25, 1998, June 10 1998, March 24, 1999). The tight inventories and steady demand caused prices to surge to an average US$18.07 per barrel last year, said a World Bank report released in early February. Mexico's oil-export price averaged US$15.62 per barrel last year, US$6.37 higher than the original projection of US$9.25, PEMEX said. With the tight supplies, prices have continued to increase into 2000. On Feb. 7, the average price for Mexican crude reached US$24.96, its highest level in three years. Oil-producing nations, both within and outside the Organization of Petroleum Exporting Countries (OPEC), are generally pleased with the gradual increase in prices during the past year. But some oil producers and multilateral organizations are concerned that continued high prices might discourage demand and slow economic growth.

The World Bank projects that oil-export prices will average about US$20 per barrel in 2000

Producers may revise oil-export restrictions after March Speaking at the World Economic Forum in Davos, Switzerland, in late January, Mexican Energy Secretary Luis Tellez said the policies enacted by oil producers will remain in place at least until OPEC meets at the end of March. At that time, OPEC members are expected to discuss new production strategies. "We will be very responsible in taking the proper measures so there will not be a tight market and inventories can be restored after March 31," Tellez said. The agreements by oil producers to reduce production and exports are due to expire the end of March. That deadline comes only days after the OPEC meeting in Vienna March 27, when members of the cartel and other oil producers will discuss supply policies. Mexico is not an OPEC member, but works very closely with the oil cartel. Some oil-industry analysts say the sustained strength in oil prices has led the US to pressure Mexico, Venezuela, and other producers to allow some increase in oil production and exports after the inventory-reduction agreement expires. George Speicher, energy-futures broker and analyst at brokerage firm FIMAT, said US President Bill Clinton's administration could use the North American Free Trade Agreement (NAFTA) as a bargaining chip in its dealings with Mexico. "US Energy Secretary Bill Richardson] may play the NAFTA card to pressure Mexico to not go along with extending
the agreement," Speicher said in an interview with Reuters. There are some rumors that the US
is considering dipping into its domestic oil reserves to bring prices down, but US officials have
denied the rumors. In an interview with the daily newspaper El Economista, analysts at Standard
and Poor's and Bursametrica said Mexico could wait until the second half of 2000 to push for
easing the current policy. PEMEX director Rogelio Montemayor Seguy is said to favor allowing
the inventory controls to remain in place for three months beyond March to ensure that prices do
not fall suddenly. Speaking to reporters Feb. 8, Montemayor said the desirable course of action is
for producing countries and governments to reach an agreement that would result in an orderly
market transition, price stability, and a mechanism for longer-term planning. In his report listing
projections for PEMEX in 2000, Montemayor included the possibility that Mexico would boost
production slightly this year. The report targeted annual output for 2000 at 3 million barrels per day,
slightly higher than the 2.906 million bpd produced in 1999, but still below the average of about 3.07
million bpd recorded in 1998. Mexico's Centro de Estudios Economicos del Sector Privado (CEESP)
suggests prices could also be influenced by reduced demand. In its weekly report in early February,
the CEESP said recent increases in US interest rates will tend to discourage US domestic demand for
oil products, which in turn will help reduce global oil prices.

Congressional committee proposes stabilization fund

While oil prices will probably remain stable this year, the prospect of instability in coming years
has led the energy committee (Comision de Energeticos) in the Chamber of Deputies to propose a
special stabilization fund. Committee chair Sergio Benito Osorio Romero said the fund would be
created from oil-export revenues and used to guard against any drastic movements in international
oil prices. Under the proposal, the government should set an average oil-export price of US$16 per
barrel. The additional revenues obtained by Mexico when prices go above that would go directly
to the special fund. Osorio estimates the amount of money in the fund could surpass 20 billion
pesos (US$2.13 billion) by the end of 2000. "These resources will be used as a type of insurance
policy in case of a sharp decline in international prices," said Osorio, a member of the center-left
Partido de la Revolucion Democratica (PRD). "This would ensure that low prices do not adversely
affect our country's finances." The move to create the special fund gained the support of the five
political parties represented in the energy committee. This initiative will be presented to the full
Chamber of Deputies in the next full session of Congress, which begins March 15. President Ernesto
Zedillo's administration has not commented on the proposal. But it was one of the items scheduled
for discussion in a meeting between energy committee members and PEMEX director Montemayor
during February. [Note: Peso-dollar conversions in this article are based on the Interbank rate in
effect on Feb. 9, reported at 9.39 pesos per US$1.00] (Sources: Bridge News, 01/10/00; The Dallas
Morning News, 01/11/00; Associated Press-Dow Jones news service, Reforma, 02/03/00; Reuters,
01/27/00, 02/03/00, 02/08/00; The News, 01/11/00, 01/28/00, 02/09/00; La Jornada, 01/13/00, 02/04/00,
02/09/00; El Economista, 02/01-03/00, 02/07-09/00; El Universal, 02/03/00, 02/09/00; Excelsior,
Novedades, 02/04/00, 02/09/00; El Financiero, 02/09/00)