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Mexico Eying China as Potential Customer for Crude Oil

by LADB Staff
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The Mexican government is eyeing China as a potentially large market for exports of Mexican crude oil. Sergio Ley Lopez, Mexico's ambassador to Beijing, said China, one of the world's largest energy consumers, has raised the possibility of acquiring Mexican oil in the near future. The state-run oil company PEMEX currently does not have the capacity to meet China's request but could do so in future years if production is increased, Ley Lopez told participants at a conference sponsored by the Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM).

Declining Reserves a problem
A key factor in Mexico's ability to boost production to accommodate the Chinese demand is whether PEMEX is able to reverse the trend of declining supplies. In a report published in early February, the oil company estimated the country's proven reserves of crude oil at the end of 2003 declined by 4.5% from the previous year.

Proven reserves stood at about 20.5 billion barrels, crude equivalent, at the end of last year and are expected to decline by another 1.52 billion during 2004, said Luis Ramirez Corzo, director of PEMEX subsidiary Pemex Exploracion y Produccion (PEP).

Mexico's ability to increase exports under question Mexico's inability to find new sources of oil has caused concern both at the domestic and international level. In 2002, the International Energy Agency (IEA) warned that Mexico could become a net importer by 2030 if it did not find additional supplies through increased exploration (see SourceMex, 2002-12-11).

"Fundamentally, it is not clear that Mexico has as huge a potential for oil as Mexicans have been led to believe," energy expert David Shields said at a conference in Mexico City in early February. "There's a question whether Mexico can sustain this level of production and this level of exports."

Exploration options
PEMEX director Raul Munoz Leos said the company is considering forming partnerships with large multinational energy companies to explore for oil fields located at greater sea depths. These companies include Chinese companies, which have ample experience in deep-sea drilling. Another factor contributing to the decline in reserves is PEMEX's decision to continue increasing production at a rapid pace.

Last year, PEMEX set production records with average output of 3.37 million barrels per day. Production remained strong in January of this year, reaching 3.41 million bpd, PEMEX statistics showed. PEMEX attributed the increased output to the use of new technology and attractive international oil prices, which resulted in increased exports. PEMEX earned US$1.49 billion from average oil exports of 1.864 million bpd in January, the company said.
A major reason for the increased production was strong demand from the US, which remained Mexico's largest customer for crude oil. Mexico ranked second to Saudi Arabia among suppliers of crude oil to the US market. A report published by the Energy Information Administration (EIA), a unit of the US Energy Department, said the US imported an average of 1.589 million barrels of Mexican oil daily during 2003. In December, US imports of Mexican oil averaged 1.765 million bpd, the EIA said.

While PEMEX continues to break records with exports, the lack of refining capacity has forced Mexico to import gasoline, primarily from the US. Mexico imported 111,500 bpd of gasoline in January, compared with only 22,900 bpd in December 2003. The increased imports were needed to compensate for an increase of 6% in domestic demand for gasoline and diesel last year, PEMEX reported. (Sources: Notimex, 01/01/04; El Universal, 01/14/04; The Herald-Mexico City, 01/21/04; El Financiero, 02/03/04; The Dallas Morning News, 02/04/04; Dow Jones news service, 01/19/04, 02/18/04; Agence France-Presse, 02/23/04; La Jornada, 01/20/04, 02/03/04, 02/24/04; El Sol de Mexico, 01/30/04, 01/19/04, 01/20/04, 01/23/04, 02/24/04; La Cronica de Hoy, 02/12/04, 02/24/04; Milenio Diario, 02/24/04)

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