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Mexico Reports Strong Revenues from Oil Exports in January-April

by LADB Staff
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Mexico continues to benefit from the recent upswing in the global oil market, with state-run oil company PEMEX reporting strong revenues from crude-oil exports. For the first four months of this year, PEMEX has earned nearly US$6.2 billion, the result of a combination of increased production and a surge in global oil prices. This is an increase of US$597 million or 10.6% over the same four-month period last year.

The oil-export price for Mexican crude oil reached US$33.95 per barrel on May 23, compared with the average of US$20 per barrel used by Congress and the administration to determine the 2004 budget (see SourceMex, 2004-01-07). On May 17, oil prices reached US$41.85 on the New York Mercantile Exchange, the highest level since the commodity was first traded at the exchange in 1983. The surge in global oil prices is partly the result of the war in Iraq and political tensions in other producing countries like Saudi Arabia and Venezuela.

The increase is also attributed to vigorous economic growth in countries like China and India, which have increased their consumption of crude oil in recent months. China has become the principal importer of crude oil, increasing its purchases by about 1 million barrels per day since the start of the year. Mexico has maintained its exports at about 1.86 million bpd, but is considering an increase later this year if the Organization of Petroleum Exporting Countries (OPEC) and other major producers like Norway and Russia decide to boost global supplies. Mexico is not a member of OPEC, but often works in concert with the oil cartel. "The Congress has given us authority to export as much as 1.95 million bpd, so we still have some operating margin," said Energy Secretary Felipe Calderon Hinojosa.

High oil prices benefit economy but raise long-term concerns

Some analysts say the strong oil-export revenues, along with a recovery in the US economy, contributed to Mexico's strong economic performance in the first quarter of this year. Earlier this month, the Secretaria de Hacienda y Credito Publico (SHCP) reported Mexico's GDP growth at a better-than-expected 3.7% in January-March compared with the same quarter in 2003. But GDP growth was only 1.3% when compared with the last quarter of 2003. "Growth was better than expected in the first quarter," said analyst Guillermo Estebanez of Bank of America Securities. "It's showing that we're past the doldrums of last year."

The high oil prices, however, are a double-edged sword for the Mexican economy because the increased revenues come with the risk of high inflation and the potential for reduced economic growth in the US, which is Mexico's top trading partner. A recent analysis by the Organization for Economic Cooperation and Development (OECD) said the US GDP could decline by 0.1% if international oil prices remain at US$40 per barrel or higher for the next several months. "We don't
want such high oil prices," President Vicente Fox said in a meeting with business leaders on May 19. "In the long run we will pay a price for those high oil prices."

Mexican economists are concerned about the impact of high oil prices on interest rates at the global level and in the US, where a budget deficit is expected to increase the cost of borrowing significantly. The concerns about US rates drove the Mexican currency to a record 11.77 pesos per US$1.00 at the beginning of the month. The exchange rate had recovered to 11.43 pesos per US$1.00 by May 27. "These movements are related to the general volatility caused by an imminent rise in interest rates in the US," said analyst Carlos Gonzalez Tavares of Ixe Casa de Bolsa. The inflationary pressures of high oil prices are not yet apparent in Mexico. The Banco de Mexico (central bank) last week reported a negative inflation of 0.37%. But in a subsequent report, the bank said, "The central bank is concerned about inflationary risks; we should not let our guard down in any way."

Some analysts say it's a matter of time before high oil prices begin to have an effect on Mexico. "If oil prices remain at this level we are going to see an even greater increase in global inflation," said Ernesto O'Farrill, director general of the Mexico City-based consulting company Bursametrica. "The risk is just around the corner." Governors, agriculture groups want larger share of windfall According to some estimates, the additional earnings from oil exports could amount to 4% of the government's total revenues.

Some of this money is likely to be channeled back into domestic programs, but officials at the Secretaria de Hacienda y Credito Publico (SHCP) say a large share is destined to be turned back to PEMEX. Reforms in the revenues law (Ley de Ingresos) give PEMEX the right to claim 50% of excess revenues. "These would have previously gone to the general treasury," said deputy finance secretary Ruben Aguirre Pangburn. Half of PEMEX's share of excess revenues is to be used to pay its debts and the rest is to go into the petroleum stabilization fund. Congress created the fund in 2000 to deposit oil-export revenues for use during times of emergency. The revenues law stipulates that the remaining half of excess oil-export revenues is to be used for a variety of projects throughout Mexico, including urban and rural development, communications, and other purposes.

Mexico's largest governors association (Comision Nacional de Gobernadors, CONAGO), comprising chief executives from the center-left Partido de la Revolucion Democratica (PRD) and the former governing Partido Revolucionario Institucional (PRI), is pushing for states to obtain a larger share of the excess revenues. CONAGO wants Fox to distribute a higher share of the revenues to the states, beginning with the excess revenues obtained through April of this year. "We could bring a constitutional complaint against the president if the states do not get more money," said Tlaxcala Gov. Alfonso Sanchez Anaya, a member of the PRD.

Some federal legislators say they are willing to help CONAGO through the legislative process, with PRD Deputy Minerva Hernandez offering to introduce a resolution calling on the SHCP to begin turning over excess oil-export revenues to the states. Hernandez raised the possibility that the budget committee (Comision de Presupuesto) would consider making changes to the revenues law to transfer a greater share of oil-export earnings to the states. This could mean reducing the amount of money that goes into the petroleum stabilization fund. Rural organizations like the Confederacion
Nacional Campesina (CNC) say the Fox administration is obligated to devote a large share of the excess revenues to projects that directly benefit agriculture producers.

CNC president Heladio Ramirez said the president promised to allocate these funds for agriculture projects in the poorest areas of the country when the administration negotiated a rural agreement with producers in April of last year. The agreement, known as the Acuerdo Nacional del Campo (CNC), would boost financial assistance to the farm sector and develop other mechanisms to assist agriculture producers (see SourceMex, 2003-04-23). Some PEMEX officials say the fight over the excess revenues reflects a fundamental flaw in the government's fiscal structure, which relies entirely too much on oil exports. "Mexico cannot continue to support itself through earnings from oil exports," Juan Bueno Torio, director of Pemex-Refinacion, told the energy committee (Comision de Energia) in the Chamber of Deputies.

Bueno Torio said the problem could be solved partially through comprehensive tax reform. The current structure continues to transfer PEMEX revenues to the federal treasury through a heavy tax. "The current tax structure is one that does not favor the state-run oil company, and that is why we need to modernize the fiscal regime not only for PEMEX but for the entire country," said Bueno Torio. (Sources: The Financial Times-London, 05/20/04; La Cronica de Hoy, 05/12/04, 05/18/04, 05/25/04, 05/26/04; El Financiero, 05/06/04, 05/18/04, 05/20/04, 05/26/04; The Herald-Mexico City, 05/11/04, 05/18/04, 05/19/04, 05/24/04; El Sol de Mexico, 05/04/04, 05/18/04, 05/19/04, 05/25/04, 05/26/04; Unomasuno, 05/18/04; Notimex, 05/09/04, 05/25/04; La Jornada, 05/12/04, 05/25/04, 05/26/04; El Universal, 05/12/04, 05/14/04, 05/19-21/04, 05/25/04, 05/26/04; Reuters, 05/20/04, 05/25/04; Milenio Diario, 05/25/04; Agencia de noticias Proceso, 05/25/04)

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