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Oil Production Declines Sharply; Concerns Rise About Dwindling Reserves

by LADB Staff
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Mexico received another reminder of its pending crisis in the energy sector when the state-run oil company PEMEX released production and export figures for the first eight months of the year. The statistics not only indicated a decline from a year ago but also offered still another indication that the country's Cantarell oil field is dwindling further. In its report, released in late September, PEMEX estimated production for January-August at 2.834 million barrels per day, the lowest level in 10 years.

Total output for the eight-month period was down by more than 9% from January-August 2007, PEMEX said. The PEMEX report said production from Cantarell, which has been Mexico's principal source of crude, amounted to an average of only about 1.110 million bpd in January-August, a decline of almost one-third from the same period in 2007.

Observers said even the increased output at Ku-Mallob-Zaap (KMZ) field, which is in the same general region as Cantarell, was not good news for PEMEX. KMZ increased production by 11,600 bpd in January-August. "This is not even half the amount needed to compensate for the declines in Cantarell," said the Mexico City daily newspaper El Universal.

The pending crisis in PEMEX comes as the Congress is about to consider legislation to implement major reforms in the energy sector. Federal legislators and President Felipe Calderon's administration have agreed in principle to extend autonomy to PEMEX, including a proposal to allow the company to keep a large share of its revenues for use in exploration and extraction projects. The reforms have been stalled, however, because of differences of opinion regarding private participation in the state-run company.

The Calderon administration and legislators from the governing Partido Accion Nacional (PAN) are pushing for the reforms to allow PEMEX to hire private companies to conduct key functions, while the center-left coalition (Frente Amplio Progresista, FAP) objects to any private involvement in the company.

The other major opposition party, the Partido Revolucionario Institucional (PRI), has expressed willingness to allow some private investment but cautions against taking any moves that would violate Mexico's Constitution (see SourceMex, 2008-07-09).

Another point of contention is that the FAP would like to hold a citizen referendum on PEMEX reforms, while the PRI and the PAN believe the matter should be decided by Congress (see SourceMex, 2008-07-16 and 2008-08-06).
Revenues up because of high international prices

The reduced output resulted in a smaller supply of crude available for export. For January-August, PEMEX reported exports of crude oil at 1.439 million bpd, the smallest amount since 1998. This level of exports is about 16% below the amount recorded in January-August 2007. "Nevertheless, our country is lucky that international oil prices for crude have reached historic highs," said the agencia de noticias Proceso (apro). "Because of this, oil-export revenues have reached unprecedented levels." PEMEX reported that the value of exports in January-August reached US$34.8 billion, an increase of 51% from the revenues obtained in the first eight months of 2007. The average price for Mexican crude during January-June of this year was reported at US$99.17 per barrel.

The recently high prices for Mexican crude oil have prompted the Calderon administration to base its 2009 budget on an average price of US$80 per barrel, compared with US$49 for the 2008 budget (see SourceMex, 2008-09-17).

Along with the high oil-export revenues, PEMEX has also reported an increase in some key expenditures. The company spent US$10.5 billion to import gasoline in January-August, compared with US$6.6 billion in the same period in 2007. In volume, gasoline imports averaged 342,300 bpd in the first eight months of this year, compared with 297,500 bpd in the same period last year.

One of the long-term goals of the PEMEX reforms would be for Mexico to construct refineries at home to produce its own gasoline. Currently, gasoline is imported from refineries in the US (see SourceMex, 2006-10-18).

Still, revenues were strong enough in January-August to result in a trade surplus of US$21.98 billion for PEMEX during that period. In the same eight-month period in 2007, PEMEX reported a trade surplus of US$15.8 billion. Production and exports are expected to experience a further decline in September, in part a result of the effects of Hurricane Ike. The hurricane, which landed near Galveston, Texas, on Sept. 13, forced refineries in the Texas Gulf region to reduce operations. Because of this, PEMEX had to cut down production by 250,000 bpd for more than a week.

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