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State-run Oil Company Reports Sharp Drop In Revenues From Weak Global Oil Prices, Reduced Export Volume

by LADB Staff
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The state-run oil company PEMEX reported heavy losses during the first quarter of the year, primarily because of reduced production and a sharp drop in global oil prices. In a report released April 21, PEMEX said a drop in output, which resulted in a lower volume of exports, along with the weak global market, combined to reduce the oil company's earnings in January-March by 60% relative to the first quarter of 2008. The sharp drop in international prices had been expected, as the continued slump in the global economy has reduced demand and caused prices to continue falling steadily.

The average export price for Mexican crude oil during January-March fell to US$38.92 per barrel, compared with the average of US$83.10 per barrel in the first quarter of 2008. In addition to lower prices, the volume of exports was down sharply, in part the result of reduced production. PEMEX exported an average of 1.27 million barrels per day in the first quarter of the year, compared with 1.49 million bpd in January-March 2008. The combination of sharply lower prices and reduced volume was reflected in the company's bottom line. Export revenues during the quarter reached US $4.81 billion, a huge decline when compared to the US$11.4 billion obtained in the first three months of 2008. "With prices this low, it was inevitable that the trend would be reflected in [PEMEX's] earnings," said Deputy David Maldonado Gonzalez, chair of the energy committee (Comision de Energeticos) in the lower house.

Low revenues affect federal budget

The Congress and President Felipe Calderon formulated the 2009 budget based on an expected average oil-export price of US$70 per barrel for Mexican crude oil this year. Some observers say earnings would have still declined from 2008 even if the average price of US$70 per barrel had been attained. "That price would have resulted in earnings of only U$8.6 billion, still far short of the US $11.4 billion recorded in 2008," said the Mexico City daily newspaper La Jornada. Even with recent reforms in Mexico's tax system (SourceMex, September 19, 2007), Maldonado and others agree that the Mexican treasury still depends too much on oil-export revenues. "We definitely envision a difficult situation for our country's treasury," said Maldonado, a member of the governing Partido Accion Nacional (PAN). Gabriel Perez del Paral, an economist at Universidad Panamericana, said the government failed to act even with all the signs that global oil prices had reached a peak in July 2008. "The government still depends on oil revenues for 40% of its budget," said Perez del Paral. There is also some concern on the production side. The reduced export volume was the result of both reduced production and lower demand from traditional clients. Output was reported at an average of 2.66 million bpd during the quarter, compared with 2.91 million bpd in January-March 2008.

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About 60% of the total output came from two oil fields: Cantarell and Ku-Maloob-Zaap. For PEMEX, the production decline is especially worrisome given assessments that Mexico's oil supplies are dwindling at a very fast rate (SourceMex, September 24, 2008). But PEMEX sees a rebound in the near term, thanks to the increased productivity of Ku-Maloob-Zaap, which has now surpassed Cantarell as Mexico's most important source of crude oil. Output from this reserve is now estimated at about 830,000 bpd. PEMEX says proven reserves at Ku-Maloob-Zaap as of Jan. 1, 2009, stood at 5.99 billion barrels, confirming expectations that this reserve would become Mexico's primary source of crude oil (SourceMex, March 07, 2007).

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