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Massive Oil Spill In Gulf Of Mexico Could Have Short- And Long-term Implications For Mexico's State-run Oil Company Pemex

by LADB Staff

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The massive oil spill in the Gulf of Mexico in late April has created a good deal of uncertainty in Mexico. In the short term, questions have surfaced on whether PEMEX infrastructure is secure, given the state-run oil company's less-than stellar safety record. There are also ongoing concerns about the environmental impact of the spill on Mexico. In the long term, there is a question about whether the accident could have any impact on PEMEX's plans to extract oil from its deepwater reserves in the Gulf of Mexico to replace the rapidly dwindling Cantarell oil field. But the oil spill has raised doubts about the safety and viability of deep-sea drilling, and this could affect Mexico's effort to push for this option.

The oil spill occurred on April 20 at the Deep Water Horizon drilling rig operated by British Petroleum (BP) in the Gulf of Mexico, 50 miles off the coast of Louisiana. The rig contains the deepest well on record at a vertical depth of 36,050 feet. But it is precisely the depth of the well that has complicated BP's efforts to cap the leak, which as of mid-May continued to spill hundreds of thousands of gallons of oil into the waters of the Gulf of Mexico.

Some parallels to recent accidents involving PEMEX The BP accident is unprecedented only because of its magnitude. But similar incidents involving PEMEX are being used as a point of comparison. In 2007, a collision between a drilling rig and a floating oil platform spilled an undetermined amount of oil and gas, creating a major emergency (SourceMex, October 31, 2007). An even closer comparison is drawn from a June 1979 accident, when a two-mile exploratory well at PEMEX's IXTOC 1 oil platform blew out, causing major environmental problems in the Bay of Campeche. The accident released 140 million gallons of oil into the waters of the Gulf of Mexico. The leak was finally capped in March 1980. "It took nearly 10 months for the responders to stop the oil from flowing in the IXTOC 1 accident," said Frank James, a commentator for National Public Radio (NPR). "And this was a well that was in only about 164 feet of water. That allowed divers to be sent down to cap the well."

In comparison with IXTOC 1, the Deepwater Horizon wellhead is under 5,000 feet of water, James noted. Until the recent BP accident, the IXTOC 1 spill was considered the second-worst spill on record. The worst occurred in the Persian Gulf in 1991, when invading Iraqi troops opened oil valves in Kuwait, releasing 520 million gallons of oil into the water. The worst spill in US history was the Exxon Valdez accident in Prince William Sound in Alaska, which spilled about 10.8 million gallons of oil. Some experts in Mexico suggest that, despite the BP spill and other recent accidents, deepwater drilling is a viable option for PEMEX because of technological advances in recent years. "As the years go by, [the extraction process] is becoming safer, especially since we now have the experience from drilling efforts in the North Sea and Brazil," Sen. Rubén Camarillo Ortega, a former PEMEX

technician who is secretary-general of the Senate energy committee (Comisión de Energía), said to the Mexico City daily newspaper *El Sol de México*. But some critics wonder whether deepwater drilling can ever be safe. Luis Tamayo, a columnist for Cuernavaca-based *La Jornada Morelos*, criticized Energy Secretary Georgina Kessel for continuing to openly promote deepwater drilling in the aftermath of the disaster. "There is an inconsistency and an arrogance from a secretary who does not seem to realize that there are activities that should not take place, such as extracting oil from the ocean depths," said Tamayo. "This is a risky activity even for companies that possess the latest technology." Tamayo said Kessel, who also serves on the PEMEX board of directors, is making a mistake by downplaying the BP accident and by not discussing its implications on the state-run oil company.

Others wonder whether existing PEMEX equipment and infrastructure are safe. This concern was evident in Congress, when several members of the Chamber of Deputies called on PEMEX director Juan José Suárez Coppel to review all PEMEX facilities and implement any additional safety measures that are required. Could accident affect Mexico's plans for deepwater drilling? The disaster has unleashed a debate on whether offshore drilling is safe. Some members of the US Senate have called for a moratorium on drilling, and some former supporters like California Gov. Arnold Schwarzenegger pulled their support.

Schwarzenegger's decision was important because the governor had been counting on revenues from offshore drilling in California to help ease the state's US\$20 billion budget shortfall. Despite the setback, promoters of offshore drilling are not ready to abandon the effort. US President Barack Obama called for a suspension of new offshore oil leases pending a 30-day investigation into the catastrophe but said deep-sea drilling remained an option for the future. "Let me be clear. I continue to believe that domestic oil production is an important part of our overall strategy for energy security, but I've always said it must be done responsibly, for the safety of our workers and our environment," said the US president. Brazil's state-run oil company Petrobras, which has considerable experience and expertise in deepwater drilling, has opted to take a wait-and-see stance, pending the investigation into the BP accident. "It is too early to say we're going to change anything," Petrobras CEO Sergio Gabrielli told reporters at the Offshore Technology Conference in Houston on May 4.

Petrobras is considered a potential partner for Mexico in its efforts to extract its deepwater oil reserves (SourceMex, August 26, 2009 and March 03, 2010). The Brazilian oil giant already has operations in the Gulf of Mexico and expects to produce oil at the Cascade and Chinook fields by mid 2010, said Petrobras official César Palagi. The accident is not expected to derail PEMEX's ongoing plan to tap into deepwater reserves to compensate for the dwindling supply of oil in its Cantarell oil field (SourceMex, March 07, 2007 and September 24, 2008). "Even though the risks still exist, Mexico should not fall behind all the other countries that are already drilling in deep waters," said Sen. Camarillo, a former PEMEX technician who holds a degree in petroleum technology from the Instituto Tecnológico de Ciudad Madero in Tamaulipas state. PEMEX has discovered vast reserves deep within Mexico's territorial waters in the Gulf of Mexico (SourceMex, March 22, 2006), but a lack of funds and technology has prevented the company from accessing the oil.

In a recent speech at an engineering conference in Mexico City, Antonio Escalera Alcocer, deputy director at Pemex-Exploración, said the company has identified seven deep-water deposits but is

unable to access any of the reserves because of a lack of capital and technology to extract the oil. Escalera Alcocer said PEMEX would require 37 billion pesos (US\$2.98 billion) in investments in the next three years. About 55% of Mexico's proven reserves are in the deep waters of the Gulf of Mexico. "A significant portion of our potential reserves is in deep waters, which means that PEMEX will require a major effort to gain technological know-how," said Sen. Camarillo Ortega. The drawdown in Cantarell is a significant concern for Mexico because it would have a negative effect on the country's finances. Despite a handful of fiscal reforms in recent years (SourceMex, September 19, 2007, October 29, 2008), the Mexican Treasury continues to rely heavily on oil-export revenues to finance government expenditures.

This overreliance on oil-export revenues put the Mexican government in a difficult position during the past two years, when oil exports and global oil prices both declined (SourceMex, April 29, 2009). But Mexican officials readily admit that the growing global demand for oil also drives ongoing efforts to extract deepwater reserves. Even with the push to alternative energy, Kessel noted that hydrocarbons would remain the primary energy source through 2030. "We are facing the challenge of continuing to supply oil and gas to the global economy," Kessel said in an address at a technology conference in Mexico City at the end of April. PEMEX has been able to compensate in part for the slowdown in Cantarell by drawing from the Chicontepec field in the shallow waters of the Gulf of Mexico (SourceMex, April 07, 2010). Suárez Coppel, who was only recently appointed PEMEX director, said the company has made major investments in Chicontepec, which should help boost production levels in 2010. Mexico concerned it could lose deepwater oil to multinationals But any increase in production this year is a mere band-aid. Concerns about the long term remain foremost in the minds of PEMEX officials, who seem in a hurry to access the deepwater reserves.

In addition to the drawdown in Cantarell, there are strong concerns that some of the oil in Mexican waters might migrate to the US side, where it would be extracted by multinational companies in what has been described as the efecto popote, or drinking-straw effect (SourceMex, August 06, 2008 and November 12, 2008). Several multinational companies are already drilling in the Perdido Fold Belt, adjacent to Mexico's territorial waters. Three deposits that form part of the complex are expected to produce an average of at least 100,000 barrels per day of oil equivalent. "The recent startup of the massive Perdido offshore drilling hub a joint-venture of Royal Dutch Shell Plc, Chevron Corp., and BP Plc even has some Mexicans fearful that oil from the Mexican side could seep over and get sucked up in what has been dubbed locally as 'the drinking-straw effect,' said Dow Jones newswires. "[PEMEX] arrived very late to deepwater drilling if you take into account that the multinational companies that are operating on the US side took 15 years to explore and develop strategies in the so-called Perdido Fold Belt," said George Baker, head of the Houston-based consulting firm Energia.com. Kessel sent mixed messages regarding the drinking-straw effect.

In a joint statement with Foreign Relations Secretary Patricia Espinosa, the energy secretary pointed out that Mexico has no clear information that cross-border deposits exist that would cause the drinking-straw effect. At the same time, the two secretaries stressed that the Secretaría de Energía (SENER) and the Secretaría de Relaciones Exteriores (SRE) are "taking all the necessary measures to protect the sovereign rights of Mexico concerning natural resources in the Gulf of Mexico." Carlos Morales Gil, director of PEMEX subsidiary Pemex Exploración y Producción, put a positive spin on the situation. He said exploration by the multinational oil companies benefits Mexico because it confirms that there are reserves in the area. Still, PEMEX cannot begin to access the deposits

because it lacks capital and technology. The company has proposed entering into joint ventures with foreign companies, including Petrobras, but PEMEX is limited by the Mexican Constitution on the types of partnerships it can forge.

Opposition parties have made it known that under no circumstances would they allow PEMEX to structure the contracts to pay foreign entities with oil contained in Mexican territory. As an alternative, PEMEX is hoping to use service contracts to hire multinational oil companies to conduct deepwater exploration and drilling services on the Mexican side of the Gulf. Contractors would be paid in the form of performance bonuses. Suárez Coppel has met with executives from US-based Exxon Mobil Corp., France's Total SA, and Norwegian company Statoil ASA to discuss how PEMEX can maximize its oil production. Kessel said increased investment in the state-run oil company will help ensure "gradual growth" in production to a goal of 3.3 million bpd by 2024. "It's in our best interest to increase investment," said the secretary. "As long as we have the right project, PEMEX will be getting the money that is necessary for investment. We have to maximize the value of PEMEX." Concerns about environmental implications on Mexico For many Mexicans, the immediate concern is whether the oil spill will have any negative environmental impact on Mexico. BP failed in its initial attempt to plug the leak and was attempting a second operation on May 12. In the meantime, an estimated 200,000 gallons of oil per day continued to leak into the Gulf of Mexico, prompting concerns that many US communities along the Gulf of Mexico could face an environmental and economic disaster.

The oil slick has grown to five times the size originally anticipated, but there was little immediate concern that any oil would reach Mexican territorial waters. And in the days following the accident, officials downplayed the potential for damage to Mexico. Jose Jesús Ocaña García, an oceanography and meteorology expert at the Secretaría de Marina (SEMAR), said the Mexican fishing and tourism industries would probably emerge unscathed from the disaster because the oil slick was moving in a northerly direction toward Louisiana and Mississippi and away from Mexico. "There won't be any repercussions for the environment and the biodiversity in Mexico's territorial waters," Ocaña García said in late April. Environment Secretary Juan Rafael Elvira Quesada expressed some concern about the situation but said the Secretaría del Medio Ambiente y Recursos Naturales (SEMARNAT) and SEMAR are on the alert about the situation. "We are already contemplating a course of action in case the slick changes direction," said the secretary. But Mexican legislators and representatives of environmental groups said the expressions of concern were insufficient and demanded a greater sense of urgency from the administration, which it said was taking a short-sighted approach to the disaster.

Deputy Mariana Boy Tamborell of the Partido Verde Ecologista de México (PVEM) said the environmental damage is wider than Mexico's borders. "Even though the spill has not reached Mexican shores, environmental damage has occurred, and not only for the US but for everyone," said the PVEM legislator. Boy Tamborell said the spill has created an impermeable film, which will inhibit plankton and algae from undergoing their normal process of photosynthesis, which is essential for producing oxygen. "Mexico should not remain a mere spectator," said members of the governing Acción Nacional (PAN) in the Chamber of Deputies. "Even though the spill did not occur in our territory, we have to anticipate any situation that could affect our ecosystems and the health and welfare of Mexicans." Similar comments came from Deputy Óscar Román Rosas González of the opposition Partido Revolucionario Institucional (PRI). "The accident has resulted in the spill

of large quantities of crude oil, creating a huge risk for all marine life in the Gulf of Mexico," said Rosas.

There was also outrage in the environmental community. Raúl Estrada, a spokesperson for Greenpeace, criticized SEMARNAT for its timid response to the crisis in the aftermath of the accident. "We expect a more active response from the government," said Estrada. The Greenpeace spokesperson demanded Mexican environmental authorities take steps to monitor the effect of the spill on sea creatures that are of great importance to Mexico. "The Gulf of Mexico is home to several species of commercial importance for Mexico, such as shrimp and yellowfin tuna, which are currently in their reproductive stages," said Estrada. "We have whales, dolphins, manatees, nutrias, as well as 228 species of birds and five species of turtles." The pressure from Greenpeace and the Congress appears to have paid off.

On May 11, SEMARNAT announced that the ministry is researching its options under international environmental law and is considering legal action against BP because of potential damage to its wildlife. Elvira said, for example, that animals such as the Lora turtles, which lay their eggs on beaches in Tamaulipas and Veracruz states, spend a part of the year off the coast of Louisiana, where they are subject to contamination. "It is important and necessary that such errors, omissions, accidents do not go unpunished," said the environment secretary. "The biodiversity that is affected is a biodiversity common to all beings on the planet." [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on May 12, 2010, reported at 12.43 pesos per US\$1.00]

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