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Mexico is the world's seventh-largest producer of crude oil, but a major lack of refinery capacity has forced the country to import about 40% of its domestic needs for gasoline. In late July, the Mexican government took a step to address the situation by reopening an expanded and modernized General Lázaro Cárdenas refinery in Minatitlán, Veracruz state. The expanded refinery, which now has the capacity to process about 285,000 barrels per day compared with 160,000 bpd previously, is one of three projects aimed at reducing reliance on imports to a targeted 34% of domestic consumption by 2016.

"The reconfiguration of Minatitlán is part of PEMEX's comprehensive strategy on refining," PEMEX director Juan José Suárez Coppel said at the inauguration ceremony for the modernized General Lázaro Cárdenas facility. Also on hand were President Felipe Calderón, Veracruz Gov. Javier Duarte, and Energy Secretary José Antonio Meade.

The expansion of the Minatitlán facility, begun in 2003, was completed at a cost of about US$3.5 billion. PEMEX added 12 new plants to the refinery, all equipped with the latest technology, making it the most modern oil-refining facility in Latin America. Before the expansion work, the refinery was the oldest such facility in Mexico. "For all intents and purposes, this is the equivalent of constructing a new refinery for PEMEX," Calderón told reporters.

Government targets reduced gasoline imports

In addition to the increased output at General Lázaro Cárdenas, the Mexican government is counting on an expansion of the Salamanca refinery in Guanajuato state and construction of the Bicentenario refinery in Hidalgo state to help boost domestic supplies of gasoline. The Bicentenario project was announced with much fanfare in 2009 (SourceMex, April 22, 2009), but construction has been delayed. PEMEX expects Bicentenario to be completed sometime in 2016.

PEMEX also hopes to boost its refining capacity by acquiring a partial or full share of existing facilities in the US (SourceMex, April 13, 2011). PEMEX is a partner with multinational oil company Shell in a refinery in the Houston suburb of Deer Park (SourceMex, Oct. 14, 1998). Any gasoline produced in overseas refineries with Mexican crude for sale in Mexico would not be considered an import. "If we take into account the projects that we have overseas, PEMEX could supply 80% of Mexico's domestic needs," said Suárez Coppel.

Suárez Coppel said PEMEX's target of supplying about two-thirds of the domestic market's gasoline needs holds true even with a projected increase in consumption, which is expected to grow by 4.5% annually in the next several years.

Despite the optimism about increasing the supply of gasoline produced domestically, a problem looms for PEMEX. With the rapid decline in Mexico's principal oil field, the Cantarell reserve

(SourceMex, March 7, 200), Mexico might be faced with the dilemma of choosing whether to export its crude production or retain it to keep its refineries supplied.

As early as 2002, industry analysts were projecting that Mexico could become a net importer of crude oil by 2030 (SourceMex, Dec. 11, 2002). A more recent projection from experts at the Houston-based Baker Institute at Rice University moved up the timetable, suggesting that PEMEX could become a net importer in five years. "If higher levels of spending do not allow PEMEX to replace reserves at rates higher than those in the past five years, we find that Mexico could become a net oil importer by 2016," said Baker Institute energy experts Kenneth Medlock and Ronald Soligo in a report entitled "The Future of Oil in Mexico."

In the report, the authors said they were optimistic that Mexico would eventually reverse its oil deficit by developing deepwater resources. "Under this assumption...imports would continue to increase until deepwater resources come online in 2020," said the report.

President Calderón pledges increased expenditures for PEMEX

Calderón acknowledged that the government has not invested sufficient capital in PEMEX in recent years to boost reserves and make the company more viable. He explained that the government has been saddled by the global economic crisis, which hurt the Mexican economy.

"My pledge is to give priority to our oil industry and PEMEX, bringing in the type of investments that we haven't seen in years," the president said at the inauguration ceremony at the Minatitlán refinery. "In 2011, we are allocating 286 billion pesos [US$24 billion] for PEMEX, which is four times higher than what was invested just eleven years ago in 2000."

While the vast majority of the new expenditures in PEMEX come from the federal budget and the company's new revenues, the challenge is to find ways to attract foreign participation without violating the Mexican Constitution. Some steps have been taken in that direction. In late 2010, Mexico's high court (Suprema Corte de Justicia de la Nación, SCJN) affirmed Calderón's plan to empower PEMEX and its subsidiaries to enter into agreements and contracts with private companies. The contracts would allow private entities to conduct incentive-based tasks on behalf of the oil company (SourceMex, Dec. 15, 2010).

And, although strong restraints remain on direct participation of foreign companies in PEMEX, there is nothing stopping the company from investing in foreign energy concerns. In late July, PEMEX announced the purchase of 825,125 shares in the Spain-based energy company Repsol YPF through its international subsidiary PMI holdings. PEMEX said the transaction, which increased its stake in Repsol to 5%, allows it to attain certain tax advantages available from the Spanish government. [Peso-dollar conversions in this article are based on the Interbank rate in effect on July 27, 2011, reported at 11.65 pesos per US$1.00.]

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