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PEMEX Boosts Participation in Spain's Repsol, Prompting Some Nationalist Concerns in Spain

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It's not uncommon to see the state-run oil company PEMEX at the center of controversies regarding the designation of energy resources as the national patrimony of the nation's citizens. This debate has often been in connection with Mexico's crude oil, natural gas, and PEMEX itself. In late August, PEMEX found itself on the other side of the conflict when it teamed up with Spain-based construction and real estate company Sacyr Vallehermoso to boost their share of Spanish giant Repsol YPF SA. The two companies acknowledged that their intention was to restructure Repsol's management. Even though Spain's Constitution does not have a provision reserving energy resources as national patrimony, questions arose on whether Repsol, a symbol of Spain around the globe, would remain sufficiently "Spanish."

Under the transaction, PEMEX raised its shares of Repsol to 9.8%. This brought the combined shares of Sacyr Vallehermoso and the Mexican oil company to 29.8%, just short of the 30% trigger for a takeover bid under Spanish law. Even without a takeover, the two companies would gain enough board seats to allow them to push for restructuring Repsol. The primary aim is to split the chairman and chief executive officer roles currently held by Antonio Brufau.

This is the second time this year that PEMEX has boosted its shares in Repsol. In July, the Mexican company acquired 825,125 shares in the Spanish company through its international subsidiary PMI holdings. PEMEX said the transaction increased its stake in Repsol to 5%. At that time, PEMEX justified the move as a maneuver to allow it to attain certain tax advantages available from the Spanish government ((SourceMex, July 27, 2011).

The question of whether Repsol would retain its Spanish character arose even though Sacyr Vallehermoso is headquartered in Madrid and even though PEMEX's share increased to less than 10%. The Spanish government, in a statement, said that it remained neutral on the question of Repsol's nationality but requested information about the transaction because of the strategic nature of the energy company. "The government does not have an opinion nor does it want to intervene in a private operation," said Industry, Trade and Tourism Minister Miguel Sebastián Gascón. Still, Sebastián openly advocated that Repsol not lose its Spanish identity.

There was also some concern from the Repsol board of directors, which questioned whether the change might be counter to the interests of the company's other shareholders. But some analysts suggested that that the move is beneficial for Repsol investors.

"Brufau will stay as an executive in Repsol as he is very well-regarded but we'll see the CEO and chairman roles split early next year. Having a relationship with PEMEX is a strong step farther into Mexico and Latin America," analyst Stuart Joyner of Investec Securities in London told Bloomberg news service.

Public concerns about the transaction prompted Sacyr Vallehermoso president Luis del Rivero and PEMEX director Juan José Suárez Coppel to schedule a meeting with Sebastián to reassure the

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minister that they would not compromise Repsol's Spanish identity. Mexico's Ambassador to Spain Jorge Zermeño was also at the meeting.

"We reiterate the commitment by PEMEX and Sacyr to keep Repsol a Spanish company," a spokesperson for the Mexican state-oil company said in Mexico City. The spokesperson also emphasized that there are no plans to boost PEMEX's share in Repsol above the current 9.8% share because this would require a public bid, which PEMEX wants to avoid.

PEMEX seeks technological expertise from Spanish company

PEMEX's decision to expand its investment in Repsol comes just weeks after the Spanish company failed to win the bids for Mexico's first-ever contracts to private investors for exploration and extraction activities. The contracts were instead awarded to Britain's Petrofac Facilities Management and Mexico's Administradora en Proyectos de Campos. Both companies received concessions for 25 years in a move that provides PEMEX with capital and technological expertise (SourceMex, Aug 24, 2011)).

Still, the PEMEX investment in Repsol gives the Mexican company access to the Spanish firm's engineering and scientific knowledge. "We want to take advantage of Repsol's technological expertise, particularly in seismic interpretation, which would help us with projects like Chicontepec and deep-sea exploration," said the PEMEX spokesperson in Mexico City.

PEMEX has faced problems extracting reserves from Chicontepec because of the site's difficult geological features. There are millions of barrels of crude at Chicontepec, but they are in small deposits, which makes extraction slow and costly (SourceMex, March 22, 2006).

The oil company is also seeking new technology to boost production in the Cantarell field, where reserves have fallen significantly in recent years because of overexploitation (SourceMex, Dec. 11, 2002) and (March 7, 2007). Since 2009, PEMEX has managed to slow down the decline in reserves by focusing its drilling on smaller deposits at Cantarell and increasing extraction at Ku-Maloob-Zaap (SourceMex, April 29, 2009). The strong performance at Ku-Maloob-Zaap has helped compensate for the disappointing output from Chicontepec.

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