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President Enrique Peña Nieto to Present Energy-Reform Plan in August

by Carlos Navarro
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After months of promising to overhaul Mexico’s energy sector, President Enrique Peña Nieto’s administration might finally be ready to send an initiative to the legislature. Leaders from the governing Partido Revolucionario Institucional (PRI) said they expect energy-reform legislation to arrive in Congress during the first week of August.

The Comisión Permanente, a standing committee comprising legislators of all parties in Congress, would be the first to consider the legislation, since the full Senate and Chamber of Deputies are on recess until September. The energy debate—which is expected to center on the future of the state-run oil company PEMEX—comes as Mexico’s crude-oil reserves are falling rapidly (SourceMex, Sept. 24, 2008, and Aug. 1, 2012) and interest from private investors in exploration and extraction is low because of a lack of incentives.

"Mexico’s easily tapped oil reserves have become dangerously depleted. Daily output has dwindled to a 22-year low at the country’s top producing Cantarell oil field, with production falling 74% since 2006," analyst Raúl Gallegos recently said in a piece published by Bloomberg news service.

With Cantarell reserves falling sharply, proposals have centered on finding new sources of crude oil, and most proposals call for moving forward on deep-water reserves (SourceMex, Oct. 17, 2012). "PEMEX must now look for oil deeper offshore, but it lacks the expertise to do so. It needs the help of global oil companies, notably those in the US, which have developed technology to tap deep-water oil fields and extract shale oil as well," said Gallegos.

PEMEX confirmed the continued drawdown of Cantarell with new statistics published at the end of July. The oil company reduced its target for crude-oil production for 2013 to an average of 2.54 million barrels per day. This compares with the company’s original forecast of 2.55 million bpd, made in December 2012.

PRI legislators promised that the debate on energy reforms would be broad and include proposals put forth by all parties, including the conservative Partido Acción Nacional (PAN) and the center-left Partido de la Revolución Democrática (PRD). The three major political parties have agreed on the need to restructure the energy sector but differ on the approach. The PRI and the PAN (which announced its own plan in July) support increased participation of private companies in PEMEX (SourceMex, Nov. 30, 2011, and March 7, 2012). The PRD and its center-left allies support changes to the tax code that would allow PEMEX to keep a much larger share of its revenues to devote to exploration and production (SourceMex, Jan. 30, 2008).

PAN proposal boosts competition for PEMEX

Perhaps in an effort to upstage Peña Nieto, the PAN presented its own package of energy reforms in July. The plan sets a target of US$30 billion for private investment in the Mexican energy sector.
The PAN proposal would respect the Mexican Constitution by designating oil and hydrocarbons as the patrimony of all Mexicans, but all activities related to the development and production of natural resources would be open to private companies. PEMEX would be just one of many companies competing in the energy sector for projects involving refining, developing gas fields, petrochemicals, and deepwater exploration.

"We will establish a bidding process, which will be managed by the Secretaría de Energía (SENER)," said the text of the proposal released by the PAN. "PEMEX would continue in charge of all its current projects, but any new concessions would be assigned through an open process allowing participations of private companies, public-private partnerships, and PEMEX."

"We have to give other actors an opportunity" where PEMEX cannot or does not want to participate in oil production," said PAN president Gustavo Madero. "No other place in the world has a model like the one in Mexico where only one company wants to do everything."

The PAN plan also seeks to give the Comisión Nacional de Hidrocarburos greater regulatory powers in the areas of exploration, production, and audits.

PRD open to changes but cautious
The PRD has not yet presented a plan for the new congressional session, but some indications are that the party is ready to enter into dialogue. Still, the party will not budge on its demand that any changes avoid turning over control of Mexico's resources to private entities. The party's proposals center primarily on implementing further tax reforms that would give PEMEX much greater control of its financial resources, with profits continuing to fund the federal treasury despite recent reforms (SourceMex, July 20, 2005, and Sept. 19, 2007).

The PRD also rejected the PAN proposal to create competition between PEMEX and private entities. Cuauhtémoc Cárdenas, the PRD's senior statesman and former presidential candidate, described the PAN plan as "badly laid out and badly supported."

In an interview on Milenio Televisión, Cárdenas criticized the plan as incomplete because it focuses too much on a scheme to bring private investors into the oil sector and not enough on making PEMEX a viable company. Furthermore, Cárdenas said the PAN "has exaggerated figures on the investment requirements" of the oil industry.

Some private analysts were intrigued by some of Cárdenas' comments. "While it's going to be very difficult for the PRD to directly support the proposals of the PRI, the PAN, and the [Partido Verde Ecologista de México], the positions expressed by the PRD through Cárdenas, are not dogmatic," financial columnist José Yuste wrote in the Mexico City daily newspaper Excélsior. "They are merely proposals that are open for discussion."

Yuste praised Cardenas' suggestion that Mexico review successful models used by state-run oil companies in other countries, including Norway's Statoil, Brazil's Petrobras, and Colombia's Ecopetrol. "The debate can begin now, especially with the PRD," said Yuste. "This is a party with different but important ideas about reform, and there is room to find common ground."

PRI officials gave little hint of the specific proposals in Peña Nieto's plan, but the general consensus is that the president is expected to support private investment while avoiding any move to surrender Mexico's hydrocarbons to private interests. "We know what we want," Energy Secretary Pedro
Joaquín Coldwell told reporters. "The resources will continue to be owned by Mexicans, and PEMEX will not be privatized."

PRI Sen. David Penchyna Grub, who chairs the energy committee (Comisión de Energía) in the upper house, emphasized that his party supports an energy-reform bill that promotes competition and productivity in the energy sector. "The President’s proposal—and I say this because I have been working on it for eight months—will be comprehensive and will put on the table the elements that have been missing so that we can develop an important energy reform," said Penchyna.

Some analysts suggested that Congress look at comprehensive changes to the structure of PEMEX as part of the energy-reform process. "In my opinion, PEMEX's current operational and administrative situation is much worse than many analysts—whether from the left or the right—assume," independent energy analyst David Shields wrote in the Mexico City daily newspaper Reforma. "There are significant weaknesses that are underestimated, which are attributable to excessive bureaucracy, overregulation, political intervention, a lack of a business culture, and administrative councils that lack transparency and are inefficient. These are elements that must receive priority."

PEMEX’s inability to attract private participation under its currently limited structure was evident with a failed effort in early July to attract enough interest from international companies to extract oil from the Chicontepec basin. This field, in shallower waters in the Gulf of Mexico, is estimated to contain about 40% of Mexico’s existing reserves (SourceMex, April 7, 2010).

PEMEX was able to attract bidders for only three of the six sections of Chicontepec that were put up for auction, but the two largest areas—Pitepec and Amatitlán—attracted no interest. "It was striking, and not in a good way, that three of the six blocks had no bidders," George Baker, a Houston-based energy consultant, told Reuters.

The companies that withdrew from the process included Spain’s Repsol SA and China Petroleum & Chemical Corporation. Like most of the pre-approved bidders who dropped out, the two companies said they were looking for a higher fee per barrel than PEMEX was willing to offer.

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