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PEMEX Helps Broker Agreement Between Argentine Government, Spanish Energy Company Repsol

by Carlos Navarro
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In a move that could benefit Mexico’s state-run oil company PEMEX, Spain’s energy company Repsol and the Argentine government reached an agreement that compensates the Spanish company for losses incurred during the renationalization of its Argentine subsidiary in May 2012 (NotiSur, May 4, 2012). PEMEX, which owns almost a 10% share in Repsol, helped broker the agreement, subsequently approved by the Spanish company’s board of directors. Argentina agreed to compensate Repsol the equivalent of about US$5 billion in bonds denominated in dollars and guaranteed by the government.

Sources said the bond would pay no interest during an initial several-year grace period, but Repsol could sell it at any time, likely with a discount on the face value. The company also would be able to begin recovering the face value of the bond following the grace period.

As part of the settlement, Repsol agreed to withdraw a series of lawsuits filed against Argentina over the YPF seizure, including a complaint filed with the Washington-based International Centre for Settlement of Investment Disputes (ICSID).

Development of shale field at center of controversy

Repsol also withdrew a request before a World Bank panel to prevent the Argentine government from developing the resources seized from Repsol, including control over the Vaca Muerta shale field in southern Argentina, which contains vast resources of oil and gas (NotiSur, Aug. 9, 2013). PEMEX had sought to participate in developing the area but was reluctant to move forward on any partnership with YPF because of legal threats from Repsol. The Spanish company had vowed to sue any company that partnered with YPF, including one of its largest shareholders, PEMEX.

PEMEX became a majority holder in Repsol when it boosted its participation in the Spanish company in 2011 (SourceMex, Sept. 7, 2011).

Observers credited PEMEX for bringing the two sides together to reach a settlement. "It was the entry of a third party, Petróleos Mexicanos SA, that brought the dispute to a head in the Argentine capital, according to participants in the four-hour meeting," said the US business newspaper Barron’s. "PEMEX was pressing for a negotiated deal that would ease its access to Argentina's riches and threatening to dump part of its 9.3% stake in Repsol if the dispute lingered."

All parties involved in the issue reacted favorably to the agreement between the Spanish company and Argentine President Cristina Fernández de Kirchner's administration. "A historic achievement occurred on this day," PEMEX director Emilio Lozoya Austin said in an interview with Mexico’s Radio Fórmula. "Mexico has attempted to reconcile the positions of the two sides. Because of that, we are pleased with the tentative agreement that was negotiated."
"Everybody wins," YPF Chairman Miguel Galuccio said the day after Repsol's board accepted the outline of the deal and agreed to negotiate details with the Argentine government. The 11 months of behind-the-scenes work, he said, "was a team effort."

Following the settlement, Fernández de Kirchner called Mexican President Enrique Peña Nieto to express her gratitude for the key role that Lozoya played in brokering the accord between YPF and Repsol, a spokesperson for the Argentine presidency said.

**Relationship between PEMEX, Repsol had been tense**

Relations between Mexico’s state-run oil company and Repsol were not exactly cordial in the weeks leading to the agreement. Tensions arose when the Madrid-based newspaper ABC published an unconfirmed report that PEMEX and Mexican entrepreneur Carlos Slim were planning to mount a joint bid to acquire a larger share of Repsol. The report said the larger share in Repsol would allow PEMEX and Slim to remove Repsol’s president Antonio Brufau from his post.

PEMEX vehemently denied the rumor, as did a spokesperson for one of Slim’s companies. PEMEX director Lozoya was later asked to address the question in testimony before the energy committee (Comisión de Energía) in late November. "Lozoya right away denied that PEMEX was seeking to boost its share in the Spanish companies," columnist Rogelio Varela wrote in the Mexico City daily newspaper Reforma. "Furthermore, he emphasized that there are no negotiations with Carlos Slim Helú or any other entrepreneurs on this matter."

The Spanish government was also forced to issue a denial about the rumored PEMEX takeover. Spain’s Minister of Industry, Energy, and Tourism José Manuel Soria told reporters that PEMEX had "absolutely no intention" of expanding its share of Repsol.

Some observers suggested that the rumors succeeded in turning in Spain against PEMEX and Slim. "There were nationalistic reactions in social networks, including attacks against Slim," columnist Jesús Rangel wrote in the Mexico City daily newspaper Milenio. "[The suggestions] were that Slim would seek an agreement with Argentina regarding YPF, in which he owns some shares. Thus, PEMEX and Slim would gain control of the riches of the Vaca Muerta field."

While Lozoya denied any move by PEMEX to increase its control of Repsol, the PEMEX director did not hold back in his criticisms of Brufau during testimony before members of the energy committee. Lozoya repeated PEMEX’s push for a change in the leadership of Repsol while criticizing what he viewed as excessive compensation for Brufau and other executives. "From the time the current Repsol administration took over, PEMEX’s return on investment has been zero," said Lozoya. "At the same time, the [return for the energy sector] at the global level has increased by 69%."  

Lozoya said Repsol’s weak performance does not merit the high pay that company executives are receiving. "This relationship between shareholder return and compensation for the administration is completely outside international norms," said the PEMEX director.

"We have been very vocal about our desire for change," Lozoya told Mexican legislators. "The compensation that this administration is receiving has been among the highest [in the world]."

Brufau was paid more than 7 million euros (US$9.5 million) in 2012, making him one of Spain’s highest-paid executives. If Brufau were to leave his post, he would receive a severance package of close to 22 million euros (US$29 million).
PEMEX acquires majority share in Spanish ship builder

The YPF-Repsol agreement also had implications for another PEMEX venture in Spain. Officials for the oil company informed Spanish Prime Minister Mariano Rajoy’s administration that a condition for completing the purchase of a 51% share in struggling Spanish shipbuilder Hijos de J. Barreras was that Repsol reach an agreement with Argentina.

The purchase by PEMEX subsidiary PMI was completed in late November, but it was uncertain what direct impact, if any, it would have on another transaction involving Barreras and the Mexican oil company. PEMEX had signed contracts worth US$190 million with Barreras and another Spanish shipbuilding company, Navantia, in September 2012 to build floating hotels to provide housing for PEMEX offshore oil workers.

Construction had yet to begin as of November 2013 because of a delay in the bidding process, but Barreras officials expressed hope that the matter would be resolved before the end of the year. The two identical hotels would each have the capacity to house about 600 oil workers. Each unit, measuring 131 meters in length, would be able to travel at a maximum speed of 12 knots.

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