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As the Mexican Congress prepares to approve the secondary laws to implement the energy reforms passed at the end of 2013 (SourceMex, Dec. 18, 2013), the state-run oil company PEMEX has also taken some actions to prepare to work with foreign contractors. One of these actions, ironically, was a decision by PEMEX to cut most ties with a current foreign partner: Spanish energy company Repsol YPF SA. In early June, PEMEX announced that it had sold a 7.86% stake in Repsol for about US$2.84 billion.

PEMEX became a major participant in Repsol when it boosted its share in the Spanish company to just below 10% in 2011 (SourceMex, Sept. 7, 2011). That transaction was completed as part of a joint bid with Spanish construction firm Sacyr, whose 20% stake in Repsol made it the company’s biggest shareholder at the time. The agreement with Sacyr fell through a few months later, and PEMEX signed a separate agreement with Repsol in January 2012 under which the Mexican company agreed to not reduce its stake in the Spanish oil company to less than 5% or increase it to more than 10% for 10 years.

Poor economic benefits

The arrangement did not produce the intended benefits, and both sides decided to forego the 2012 agreement, allowing PEMEX to sell most of its stock in Repsol. The poor economic performance of the Spanish company was one of the major reasons behind the PEMEX decision to sell off most of its shares to a group of qualified investors, in an auction held at Bolsa de Valores de Madrid S.A. Just before the sale, PEMEX chief executive officer Emilio Lozoya Austin indicated that Repsol stock was providing "low returns" for the company and that the agreement signed in 2012 failed to produce "mutual benefits."

"The objective of this alliance was to develop technological cooperation between the two companies, but that did not happen," Lozoya Austin told reporters.

The PEMEX CEO said the decision to sell was also based on differences about corporate governance. For example, he said, neither Mexico nor PEMEX was asked to help prepare the Repsol business plan presented by its management earlier this year. "[This decision] demonstrated their lack of interest in the points on which the alliance had been formed," Lozoya Austin said in an interview with the Spanish news service EFE.

The sale was completed just days before a scheduled trip by Mexican President Enrique Peña Nieto to Madrid to meet with Prime Minister Mariano Rajoy. As expected, the Mexican president had to answer questions about the transaction and offer reassurances that this was not a hostile action against Spain. "PEMEX's move to leave its agreement with Repsol was basically a decision by a company that had to consider its bottom line," Peña Nieto told reporters.
The Mexican president also went to great lengths to explain that the move had nothing to do with bilateral relations between Mexico and Spain. "This move has no implications whatsoever for the close relationship between the two governments and between the two nations," said Peña Nieto.

Even with the split, the two companies are expected to cooperate on future ventures. In recent comments to reporters, Repsol Chief Financial Officer Miguel Martínez said the Spanish company was open to collaboration with PEMEX on joint ventures. "We’re totally open to any suggestions," said Martínez.

The decision to sell slightly less than 8% of its stake in Repsol removes PEMEX as the second-largest stakeholder in the Spanish company behind Spanish bank CaixaBank. The Mexican oil company remains a very minor participant in Repsol, but the transaction greatly reduces its influence on the Spanish company. PEMEX’s participation in Repsol proved useful on a couple of occasions, as the Mexican company helped the Spanish company mediate a dispute with the government of Argentina at the end of 2013 (SourceMex, Dec. 4, 2013).

Ironically, Lozoya said the Repsol dispute with Argentina contributed greatly to its poor economic performance. The transaction leaves PEMEX with 19 million shares, or about 1.4% of Repsol, but PEMEX might not even keep that stake in the company. "Once the financing for the current transactions are completed, probably sometime in August, we could sell these shares," said Mario Beauregard, PEMEX’s director of finance.

**PEMEX prepares for opening of energy sector**

Analysts said a third reason for the PEMEX transaction was the need to raise cash to prepare for the pending opening of the energy market to private foreign investors.

"Now that Mexico’s energy sector is about to open, PEMEX sees a greater future and value in investing in our own country rather than in a company that only brought problems and little added value," financial columnist José Yuste wrote in the Mexico City daily newspaper Excélsior.

"If PEMEX is going to be restructured as a new company, it needs a nest egg of capital in its balance sheet," Houston-based energy consultant George Baker said in an interview with Bloomberg news service. "This money is headed toward PEMEX’s balance sheet to give it market credibility."

Some analysts say the decision to allow multinational oil companies to invest in oil-industry activities could bring an additional US$20 billion foreign investment to Mexico annually.

One major multinational company, Chevron Corp., acknowledged in May that the company has held discussions with PEMEX about potential partnerships in onshore, shallow, and deep-water fields.

"If PEMEX is going to go out and look for a joint venture with Chevron in deep-water Gulf of Mexico, [the US-based multinational is] going to want to know that PEMEX has the resources to back up the commitments involved in that type of project," Baker said.

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