

Fighting Begins Over Mexico's Oil Monopoly

ADRIANA GOMEZ LICON, KATHERINE CORCORAN, Associated Press

MEXICO CITY (AP) — The fight to revamp Mexico's moribund, state-run oil industry could start as early as this week with a Senate proposal to allow private access to the country's oil, a nationalist symbol that for decades has been fiercely protected by the constitution from possible profiteering by foreign companies.

Legislators from the two parties supporting an oil overhaul say they support constitutional changes to allow the government to grant licenses and share oil and profits with multinational giants such as Exxon or Chevron. The anticipated proposal would go much further than the plan introduced by President Enrique Pena Nieto in August, which would have allowed the sharing of profits but not of oil.

Javier Trevino, a legislator from Pena Nieto's Institutional Revolutionary Party, said his party has struck an agreement after several weeks of talks with the opposition National Action Party, which has favored stronger private investment from the start. He said the bill emerging from the Senate is expected to offer a wider range of options for companies interested in investing in deep-water drilling, including licenses for the right to extract and commercialize oil. It would allow an oil company to "book" or list reserves as assets, something Mexico has forbidden in its mission to keep its oil in the hands of Mexicans.

Such arrangements have been prohibited in the decades since 1938, when President Lazaro Cardenas nationalized the oil industry, wresting it from the hands of foreign companies accused of looting the country's wealth. It is considered one of Mexico's proudest moments, the basis for a fervor that continues today around oil and the reluctance to tinker with the constitution.

But those constitutional safeguards now act more like a straitjacket, keeping the Pemex state oil monopoly slow, outdated and unable to attract the investment, technology and knowledge it needs to tap shale and deep-water reserves, say people inside and outside the government.

"The era of easy oil has passed," Trevino said. "We have to share the risks."

Up to now, Pemex has allowed contracts that only pay a fee for services rendered.

While oil production has increased substantially in the U.S. and Canada, Mexico's has fallen 25 percent since 2004, and proven reserves are down 41 percent since 2001, the Mexican Institute on Competitiveness says. The U.S. contracted 70 companies to drill 137 deep-water wells last year, while Mexico, using only Pemex, drilled six, according to Mexico's government.

Oil analysts called the initial Pena Nieto proposal "reform-lite," saying it was

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stunningly short on details and more of a political document designed to convince the Mexican public that the reform did not conflict with the intentions of Cardenas, a revered forefather.

"The profit-sharing contracts, there's no reason to believe that they would be radically different from the contracts we already have," said Mexico City oil analyst David Shields.

Cardenas' son, former presidential candidate Cuauhtemoc Cardenas, is leading the opposition to the oil overhaul, calling it "privatization." His Democratic Revolution Party says the government needs to clean up corruption and fix the financial structure of Pemex before considering any changes to the constitution to allow private investment. Thousands gathered on Mexico City's main plaza Sunday to hear Cardenas call for a nonbinding referendum on any changes in the oil business. He said they have collected more than 1 million signatures so far of the 1.6 million needed.

"We should be consulted before they adopt a measure that is so regressive and damaging to the interests of Mexico and Mexican," Cardenas told the crowd.

But the rallies so far have not been as large as they were in 2006, the last time Congress tried to open up the oil industry. So far the opponents don't appear to have the votes in congress to block the reform.

The problem, oil analyst George Baker said, is that Mexicans still think of oil as physical property, patrimony, while oil companies see it as something to post on a ledger. No one exploring or producing in national reserves ever really owns the oil, he said. But the Mexican psyche still centers on the pre-1930s, which U.S. and other foreign companies controlled production and profits in Mexico before nationalization.

"If you're thinking that the U.S. Navy is going to go out and defend the interests of a private oil company in the Gulf, just because you allow it to post reserves, that goes into science fiction," said Baker, the Houston-based publisher of an industry newsletter, Mexico Energy Intelligence.

Sen. Jorge Lavalle, a National Action Party member of the Senate energy commission from the oil state of Campeche, said the proposal would still require the government to approve which kinds of contract to award, depending on the venture. Most of the production sharing would be for exploring shale and deep-water reserves, he said. Shallow-water drilling would continue with the current contracts that give Pemex a monopoly.

There would be little difference to Mexicans between production and profit-sharing contracts, he said. "The issue of how we pay neither gives us nor takes away our sovereignty."

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