Mexico's Oil Opening Looms Closer

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MEXICO CITY (AP) — Mexico's sweeping away of seven decades of nationalist protections and letting foreign companies back into its oil fields is crucial to bringing the expertise and money needed to rejuvenate its sclerotic energy industry, supporters say.

But even after the strong approval given by both houses of Congress this week, skeptics ask whether Mexico has the ability or will to regulate the private contracts for the benefit of all Mexicans rather than just a few.

The final step for the energy package that passed Congress on Thursday is approval by the legislatures of 17 of Mexico's 31 states, because of its changes to the Mexican constitution.

Passage is widely seen as assured, even though the articles were once seen as sacred, a protection from foreigners plundering Mexico's patrimony.

Industry analysts and oil companies in the United States say both countries will benefit from the measure, which ends the monopoly of state-run Petroleos Mexicanos, or Pemex, and allows Mexico's government to contract with companies like Exxon Mobil and BP to explore and drill for oil and gas that Mexico hasn't been able to tap.

"It's a win-win if there ever was one," William Colton, Exxon Mobil's vice president of corporate strategic planning, said in a webcast.

Mexican oil exports to the United States are projected to drop as U.S. production increases from new fields, but analysts say increased investment in the Mexican economy is good for everyone, and not just for energy.

"It will boost productivity, economic growth and job creation," President Enrique Pena Nieto, who pushed the plan, said via his Twitter account after Thursday's vote.

Mexico faces a daunting task in making Pemex more competitive and efficient. While it's a symbol of national pride and success, the company is widely seen as bloated, backward and corrupt.

Pemex's production is down 25 percent since 2004, and it's suffering record thefts of its oil, some by its own employees. The company is dominated by a labor union headed by the powerful and wealthy Carlos Romero Deschamps, whose family is famous for its ostentatious lifestyle.

It produces double the oil of Norway's state-run Statoil, yet has 6.5 times as many

employees, says Mexico's Center of Research for Development, or CIDAC for its initials in Spanish.

Many Mexicans are less than enthralled with previous hand-overs of state-run business to private enterprise. The turnover of banking and telecommunications to the private sector in the early 1990s resulted in some of the highest lending fees and cellphone bills in the developed world.

"We don't know how to regulate or supervise absolutely anything," newspaper columnist Carlos Puig wrote this week. "We don't know how to put a public transit concession in order. If we can't do it with a few taxis, how are we going to do it with Exxon, Shell or BP?"

Opponents of the change fear multinationals, especially from the U.S., will regain the sort of domination they had over Mexico's oil before it was nationalized in 1938.

Backers insist Mexico isn't going to hand its oil and gas over to private enterprise, but rather the government will be contracting for the private expertise it needs to exploit vast reserves.

Pemex has no deep water production among the 2.5 million barrels it produces each day. But such sources have the potential to boost output by a third, more than 1 million barrels a day, said Carlos Morales, Pemex general director for exploration and production.

Mexico now imports about 20 percent of its natural gas. Shale reserves have a potential of producing 250 trillion cubic feet, which could triple the current domestic daily production, Morales said.

It will take time and money to find and tap into fields — $60 billion a year, says Pemex, which has had to work with $28 billion a year.

"In deep water, you can't think less than six or seven years. Shale can be quicker, but no less than three," Morales said.

CIDAC senior researcher Luis Serra said the first contracts probably won't go out until this time next year, and the first drop of new oil is not likely until after Pena Nieto's term ends in 2018.

The next step is for Congress to draft the laws that will determine how the reform is carried out, including how contracts are awarded and profits managed.

The bill passed Thursday calls for mechanisms to prevent, detect and punish corruption in all new contracts. It also appears to reduce the influence of Romero Deschamps and his union, which will no longer sit on the Pemex's board of directors.

Even with all the questions, Steve Otillar, a partner with Akin Gump energy law firm in Houston, Texas, says interest is high.

"There are a lot of naysayers who thought the constitution would never be changed," he said. "People are going to acknowledge that this is real and will happen and are going to start moving."

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