



Trouble South of the Border -- Mexico's Oil Production

Posted by [Dave Cohen](#) on July 11, 2006 - 1:58am

Topic: [Demand/Consumption](#)

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In April of this year, Mexico's president Vicente Fox announced a major new discovery in the Gulf of Mexico by the state-owned oil company *Petroleos Mexicanos* (PEMEX). This new field, announced a scant few months before Mexico's national presidential elections, was said to contain a potential URR of 10 Gb (billion barrels) of oil.

I had wanted to do a story on PEMEX and Mexican oil production. What was the story? I knew from the [discoveries trend](#) that finding a field of this size is now rare, a statistical outlier. So, I waited.

On July 5th, I got my answer and my patience was rewarded. The [Energy Bulletin](#), quoting from the Oil & Gas Journal (OGJ) announced [Fox-hailed deepwater well a modest gas find](#)

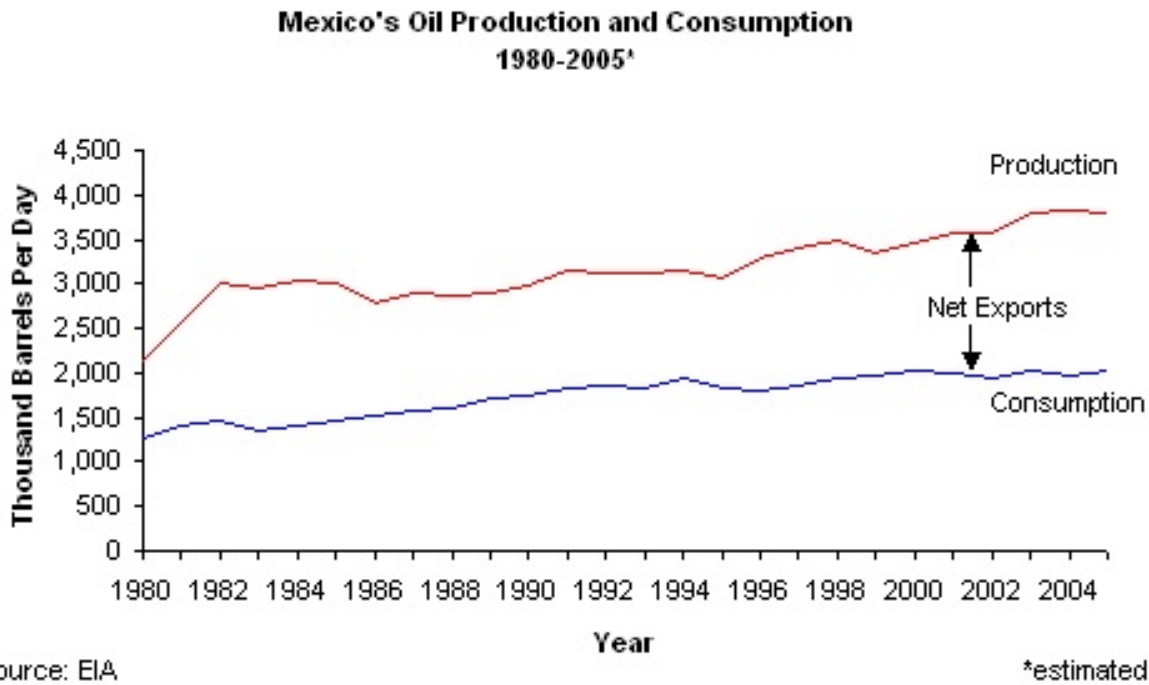
HOUSTON -- Noxal-1, a deepwater Gulf of Mexico well trumpeted in March by Mexican President Vicente Fox as being a major oil discovery, appears to be a modest gas find.

Speaking on Mar. 14 from the drilling rig in 935 m of water 63 miles off Coatzacoalcos, Fox said the then as-yet-untested well had the potential to produce 10 billion bbl of oil (OGJ, Apr. 17, 2006, p. 35).

However, after the well operated by state-owned Petroleos Mexicanos reached a total depth of 4,000 m, the fourth interval tested has flowed 9 MMcf of gas from a reserve estimated at 245 bcf, said IHS Energy, Houston.

This story gives some detail about the current state of Mexican oil production and its possible effects both south of the Rio Grande and here in the United States.

I had followed the story closely that the 2nd biggest oil field in the world and the biggest producer of heavy sour crude, Cantarell, is now [in decline](#), perhaps radical decline. However, I am planning a follow-on story that will explore what is happening there and at Ghawar. Here, we'll concentrate on other aspects of the steadily deteriorating situation in Mexican oil production. As usual, let's get the big picture from the EIA country analysis brief.



Mexican Production & Exports -- Click to Enlarge

And from that [EIA document](#)

Mexico is the fifth-largest producer of oil in the world. The country produced an average of 3.78 million barrels per day (bbl/d) of oil during 2005, a 1.3 percent decline from 2004.

During the first nine months of 2005, Mexico exported 1.79 million bbl/d of crude oil. Of this amount, 88 percent went to the United States, followed by 11 percent to Europe. Mexico is consistently one of the top three exporters of crude oil to the United States, along with Canada and Saudi Arabia.

However, the situation may be going downhill fast. In this shocking statement reported by the Dallas Morning News issued prior to the recent presidential election, [Mexico's oil model is under pressure](#), we learn that

The rust staining the storage tanks and distillation towers of the giant Miguel Hidalgo Refinery suggests what the balance sheets for Petróleos Mexicanos confirm: a company hemorrhaging money.

At a recent reunion of retired Pemex executives, former chief financial officer Ernesto Marcos recalled, **a colleague urged that "the next president be told as soon as possible that we may soon not have enough oil for our own requirements and none for exports."**

That's an ominous forecast for Mexico's economy and for the United States, which relies on Mexico for 8 percent of its oil.

Ominous indeed. In fact, downright scary.

PEMEX Background Information -- A Little History

If you are interested, this fascinating [document](#), sourced from the US Library of Congress, details the history of Mexican oil production. For our purposes today, we note that the petroleum industry was nationalized in 1938 by President Lazaro Cardenas, who is now regarded as something of a national hero in Mexico. Since that time, foreign investment has been forbidden. To make a long story short, today PEMEX is actually *losing money and heavily in debt* despite oil prices hovering near \$75/barrel. From the the Dallas Morning News again.

Yet the Mexican government has taken so much of Pemex's revenue (61 percent) and saddled it with so much debt (more than \$75 billion, including pension obligations) that the company has had a negative net worth since 2002.

In May, the company reported net income of \$700 million in the first quarter but a loss of \$6.75 billion for 2005.

The reasons for this are straightforward. As the Dallas Morning News articles notes, the Mexican government siphons off PEMEX profits to pay for other services. In addition, PEMEX is itself a corrupt state institution. "In Pemex, there is no transparency, nobody watches over the contracts. For starters, they ask for a 10 percent (bribe) off the top of the price. When anyone complains, they are repressed. This is the way business is done here" from [Mexico's oil bonanza starts to dry up](#).

As a result of these conditions, production infrastructure is deteriorating and subject to world supply shortages and competition. In addition, experienced oil field workers are in short supply. Back at the end of March of this year, TOD published [From an Insider: Rig Prices, Rig Depth, and How to Get a Job](#) from which I quote.

Someone who works for Pemex has said they have a large backlog of undrilled wells due to a manpower shortage at the rig sites, especially those near Reynosa and along their border with the US....

Pemex is also having trouble securing steel pipe (they used to get it from Korea) due to Chinese demand and their (Chinese) willingness to pay more than double what the Mexicans originally contracted for...

I thought it was important to relay what our open borders are doing to Texans and to the oil drilling business on BOTH sides of the border. Again, so many things are rearing their ugly heads around the country it's hard to keep track of them!!

Things are a mess. As if this weren't enough, there was recently an [explosion](#) last July in Benito Juarez II on antiquated pipelines.

The Recent Presidential Election

The recent election pitting the "conservative" candidate Felipe Calderon (35.88%) and the

"leftist" candidate Andres Manuel Lopez Obrador (35.31%) was not primarily over oil but perhaps it should have been. The election is being contested by Obrador. Generally speaking, Calderon espoused the position that Mexican production should be increased through allowing foreign investment to support more E&P and increasing exports. Obrador wants to maintain the current PEMEX monopoly and "turn inward", using the oil to produce refined products for domestic consumption or export. However, throughout his entire tenure, current president Vicente Fox tried to reform the PEMEX state monopoly and allow foreign investment without success. And would it make any difference? I repeat the warning by our unnamed PEMEX executive at the top for emphasis: *"the next president [should] be told as soon as possible that we may soon not have enough oil for our own requirements and none for exports"*.

The Consequences?

This story is not meant to be comprehensive. My goal here is to touch on the main issues. But here's my take on what's happening.

If the anticipated decline in Mexico's oil production should occur in the next few years, it appears that the consequences could be

- A possible collapse of the Mexican economy, which is already shaky. If some of you think we have an illegal immigration problem now, think again. It's not hard to imagine *many more* refugees from Mexico attempting to enter the United States.
- The problem in the US would be two-fold. The refugee problem just mentioned and the fact that we've lost a large percentage of our oil imports in a world where there is no spare capacity. This could precipitate a crisis which, as far as I know, no one has anticipated or is prepared to deal with.

I hope TOD has some Mexican friends and they will not be shy about speaking out regarding this story. As far as I can see, the situation is bad and could spin out of control very soon.



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