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A Slippery Moment for Mexican Oil

Output is tanking, but there's fierce opposition to a plan that could reward Big Oil for helping find new reserves

by Geri Smith

MEXICO CITY

- Mexico's normally staid Congress was in disarray. The doors were chained shut, with desks piled up against the dais. Opposition politicians camped out in sleeping bags, and one kicked around a soccer ball with his son. The reason for the blockade that kept both houses of the legislature closed for more than two weeks? An energy reform bill that opponents call a back-door effort to privatize state-run oil company Petróleos Mexicanos (Pemex). "Taking over Congress was the only way for us to call attention to this threat," says Ricardo Cantú, a deputy from the Workers Party holed up in the chamber.

The proposal by President Felipe Calderón would give Pemex far greater autonomy. If it's approved, international oil companies might be allowed to help Pemex find new sources of oil for the first time in 40 years. Calderón said he wouldn't try to change the constitution, which bars anyone but the state from owning oil reserves or sharing in profits from big discoveries. But the government hopes to come up with incentive payments that reward private partners with performance bonuses.

Reform is urgent: Oil output in Mexico, the world's No. 6 producer of crude, is plummeting. At the Cantarell field, the country's main source of oil, production is declining 15% annually. Pemex pumped 2.85 million barrels a day in March, down from 3.18 million a year ago, and proven reserves have fallen from 25 billion barrels in 1999 to just 14 billion today. Unless new reserves are found quickly, Mexico—which accounts for 11% of U.S. oil imports—could stop exporting within a decade.

The problem is Pemex lacks the expertise needed to find and produce oil in the most promising areas, which lie thousands of feet below the Gulf of Mexico. Even if oil is found there, it would take at least 10 years to start pumping. And it's unclear whether oil companies with deepwater experience would join such complex ventures unless they could share in the upside of large oil finds. "The political risk of a possible constitutional challenge is way too high to make it worth our while," says the Mexico representative of a large foreign oil company.

CLASHES TO COME

The biggest beneficiaries of this legal limbo are likely to be oil field service companies. The government says these outfits drill two-thirds of all wells and perform nearly 100% of seismic work. In recent months, Schlumberger (SLB), Halliburton (HAL), and Fluor (FLR) have inked contracts with Pemex worth $3.5 billion.

The protests, meanwhile, illustrate how Mexico remains hostage to polarized political forces capable of paralyzing debate on issues vital to maintaining its competitiveness. After the standoff in Congress, the Senate agreed to delay a vote for more than two months to hold public meetings on the issue. Opponents, though, didn't immediately agree to vacate the chambers and planned to keep up the pressure with a massive demonstration on Apr. 27. "They are planning to sell off Pemex," says 58-year-old homemaker Concepción Guerrero. "That's unconstitutional and fraudulent."

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