

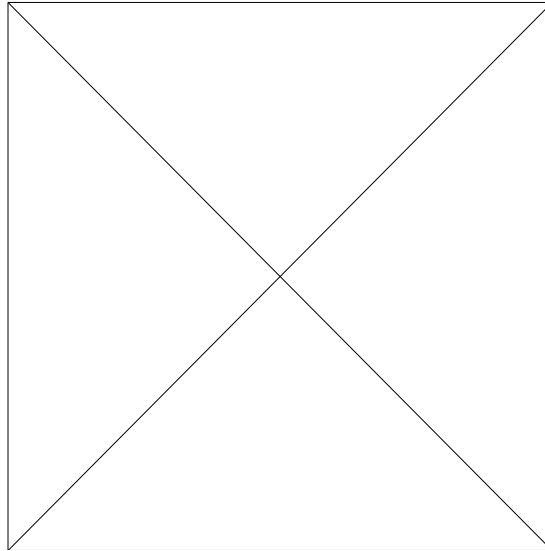
# Mexico's Pemex wrestles with oil decline

By Carola Hoyos in Campeche, Mexico

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The tongues of fire soaring into the sky high above the platforms dotting the horizon across Mexico's Cantarell oil field give away the problems plaguing Pemex, the country's national oil company

The flames, the product of burning unwanted gas, are a visible sign that Cantarell, once the world's third biggest oil field, is ageing and its oil production is declining.



The severity of Cantarell's decline, which began its dramatic acceleration in 2007, caught Pemex off guard. In the past two years the company has raced to catch up, installing equipment such as compressors and turbines, to more than triple its capacity to re-inject the gas into the rocks 2km beneath the surface of the Gulf of Mexico's azure sea.

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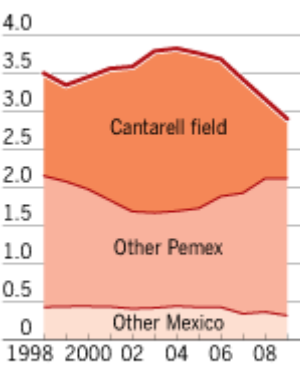
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But still, all around the Panuco drilling rig, Pemex continues to resort to environmentally unfriendly gas flaring.

Pemex says it is getting Cantarell under control, noting that the field's decline has stabilised at 12 per cent per year – a number many analysts find difficult to believe.

## Mexican oil production

Barrels per day (m)



Sources: company; BP Statistical Review; IEA

Cantarell's production peaked seven years ago at 2.2m barrels a day. Today the field struggles to produce a quarter of that.

Even if Cantarell's decline has improved, it is not enough. Pemex must find new sources of oil to turn its fortunes around. If it fails, Mexico's government faces having to dramatically reduce its national budget. That is because Pemex's revenue – a large part of which comes from the sale of Cantarell's oil – makes up 40 per cent of the government's income. For the government, [broadening the country's tax base](#) is not an easy option because so many Mexicans work in the informal economy and pay no taxes at all and politicians are loathe to introduce unpopular consumer taxes.

Realising its predicament, congress in 2008 passed reforms to improve Pemex's situation. Those reforms could give Pemex the ability to reward a contractor for each barrel of oil it produces once legal hurdles are cleared and gives the company a little more freedom from political interference.

But many analysts and energy executives say those reforms are not enough to entice international oil companies, such as [ExxonMobil](#) of the US and the UK's [BP](#), to help Pemex find and produce more oil. Pemex needs that help especially badly to search for oil in its unchartered deep waters and to develop its tricky Chicontepec field, which, despite huge drilling efforts, still pumps only 30,000 barrels a day, far short of expectations.

Pemex has challenges in every aspect of what it does, says David Shields, an independent energy analyst based in Mexico City. "The biggest challenge Pemex faces is finding more oil reserves and proving oil reserves that can guarantee production over the next 20-30 years."

But, he adds, "Pemex also has the problem that Mexican law does not allow for joint ventures. It does not allow for the kind of work that needs to be done and the kind of agreements and incentives that deep-water production require. Recent reforms definitely have not gone far enough."

Carlos Morales, head of Pemex's exploration and production company, agrees that Pemex, and Mexico as a whole, would benefit from a tax regime attractive enough to persuade international oil companies to accept the geological risk of exploring Mexico's deeper waters.

"It will benefit the country to bring in additional capacities to help Pemex, keeping Pemex as the one that has the mandate in maximising the value," he said in an interview, adding: "That certainly will help to speed up the process and maximise the value."

But even he sees it only as a "possibility" that the government's latest reforms will attract international oil companies.

He added that it would be up to the government to make additional reforms if Pemex was unable to improve its performance under the current ones.

"If they do not see any results from Pemex, people have the freedom and congress will necessarily respond to the position of the people by making additional changes. But that's a decision for them. I am the operator," he said.

But Mr Shields sees little chance of a change in the political winds. Instead, he paints a bleak picture of Mexico's future.

"Right now we are exporting more than about 1m barrels a day, which is much less than before, and that is a number that is going to slowly move down towards zero over the next 10 years," he said.

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