



Institute of
the Americas

ENGAGING THE AMERICAS IN SHAPING SOLUTIONS TO PROMOTE
SOCIAL WELL-BEING AND PROSPERITY ACROSS THE HEMISPHERE

In-depth interview

The short-term hurdles for Pemex's long-term plans



Jeremy Martin

Director, energy program
Institute of the Americas
Mexico

Pemex is gearing up to drill its first well in the deepwater Perdido fold belt that the company has long touted for its promise. The Mexican NOC is also set to launch its second tender for incentive-based contracts at mature fields in what is meant to serve as a preamble for targeting the more challenging Chicontepec and deepwater areas.

These new goals are not without their challenges to Pemex's long-term aspirations. On the deepwater side, Pemex has turned up mostly gas instead of the oil it so desperately needs to boost production, so the burden is on the company to prove Perdido will be different. Furthermore, Pemex executives charged with carrying out the incentive-based contract tenders were suspended in October for three months due to "irregularities," and this could prompt delays.

***BNamericas** spoke to Jeremy Martin, director of the Institute of the Americas' energy program, to hear his outlook on Pemex's ability to rise to these challenges.*

BNamericas: Pemex keeps talking about deepwater, working on deepwater, but so far the NOC has turned up gas and as yet has not proved they can find oil. Regardless, they paint this as a success; how do you see it?

Martin: They have increased some of the drilling. By many standards, it is still pretty minimal, but at least they have started to do more. But there is no doubt that they have really got to deliver. We have heard about the treasure at the bottom of the sea and so far it has been good if the treasure you're seeking is natural gas. Let's not be completely dismissive. It has been natural gas that has now led the government to be able to say they're abandoning nuclear power expansion plans. It has been productive for sure, but let's get back to the basics here: Pemex has always been about producing oil. Finding gas is not to be dismissed outright, but it is not the core of its business. Never has been, probably never will be. The key issue here is how does Pemex become a more efficient, capable oil company, state-owned or otherwise. Finding and producing oil is key to that equation, and they have had severe and well-documented difficulties with this over the last eight or so years.

BNamericas: What do you think will happen if Pemex does not turn up significant oil in Perdido?

Martin: It is hard to consider what they might do, other than say they will have to go back to the drawing board. But clearly that is what they have done several times already anyway. So how do you go back to the drawing board when you have repeatedly redrawn the drawing



Institute of
the Americas

ENGAGING THE AMERICAS IN SHAPING SOLUTIONS TO PROMOTE
SOCIAL WELL-BEING AND PROSPERITY ACROSS THE HEMISPHERE

board already? I do not want to suggest deepwater oil is the last entry on the page of options that they have come up with, but it is pretty close. If they do not finally and significantly tap that black gold treasure in the deepwater, it is unclear what they are going to do to recoup the production they have lost in the last several years.

BNamericas: Do you think Pemex's move to up its stake in Spanish oil major Repsol is a roundabout way to get its hands on deepwater technology, or is it really just trying to increase the value of their stake in the company?

Martin: Let me first state the obvious: I am not privy to internal deliberations at Pemex on this issue. With that said, I would sum up my take on the Repsol deal in one word, and that's "baffling." Beyond my bafflement, it seems clear that Pemex, which has long had an economic interest in Repsol, sought to further their return on that stake so they increased it with the idea of leveraging it into access to deepwater technology and know-how. But they had to finance a large part of that investment to increase their stake which does not exactly coincide with what we have long heard about how strapped they are financially and otherwise to be able to greatly expand their deepwater drilling efforts.

What happened after the fact seems to only make it more curious as Repsol doesn't appear to be exactly a willing partner in all of these great designs. If the true crux of the idea is to partner up to get more access to technology and deepwater coordination, but you have the chairman of this company upset by your actions, it seems to me a unique way to go about it. If the real endgame is access to technology to better your deepwater capabilities and expertise, it seems that there might be better ways to spend a couple billion dollars.

A few years ago, I remember [former Pemex CEO Jesus] Reyes Heróles talking about the idea of replicating the Deer Park refinery concept but in the upstream. That is for Pemex to seek out a joint venture outside of Mexico. If that wasn't entirely feasible, perhaps they could have also considered a minority stake in a deepwater project outside of Mexico. If you have US\$2bn to increase your shares of Repsol, it seems reasonable that the same sum could be put toward acquiring a stake, say a farm-in, in an existing deepwater project in the US Gulf of Mexico or even Brazil for that matter. It would be a lot more tangible than what seems to be unfolding in terms of the Repsol deal. Pemex would have a direct stake and produce some of its own deepwater oil. Indeed, as we talk about this issue, Brazil's Petrobras and its partners Statoil of Norway and Ecopetrol of Colombia announced an important new deepwater oil find in the US Gulf of Mexico.

So maybe I'd append my one-word summary to include that the Repsol deal is an unnecessary diversion for Pemex.

BNamericas: Regarding the incentive-based contracts, do you think the three-month suspension of the Pemex officials may cause a delay in the tender for the northern region that Pemex intended to launch before end-2012?

Martin: I would hope not, but it seems to me that they really were critical to managing and implementing the bid rounds. I would hope it would not have an impact, but it is hard to see how it wouldn't. Regardless of what happened with those executives, if Pemex does not get going with the next bids and get the process rolling by the first quarter of 2012, the election in July is going to come up fast. Despite what some candidates have said publicly about opening up Pemex, I fear the possible further politicization and the delays that would cause for the contracts and bidding process if it were to get pulled into the election season. So they really have to move with some alacrity to get the incentive contract train back on track and chugging down the line before July gets too close.



Institute of
the Americas

ENGAGING THE AMERICAS IN SHAPING SOLUTIONS TO PROMOTE
SOCIAL WELL-BEING AND PROSPERITY ACROSS THE HEMISPHERE

About Jeremy Martin

Martin is a frequent commentator and writer on Latin American and energy issues. He has testified before the US congress on energy issues in Latin America.

He graduated from The Citadel in Charleston, South Carolina, and attained a master's degree in international affairs/international development from the American University in Washington, DC.

About the company

Founded in 1983, the Institute of the Americas is an independent nonprofit inter-American organization which plays a role in promoting frank and dialogue on key issues in the western hemisphere. The institute provides a platform for networking and business opportunities by organizing executive roundtables, conferences and professional training sessions at its complex on the University of California, San Diego, campus and in cities throughout the Americas. The primary focus of the institute's programs is energy, climate change and clean technology development.