

Mexico's Challenge

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Four months after major oil reform was approved in Mexico, the country's oil industry is struggling. Oil production in the country—one of the world's top producers and suppliers—peaked in 2003 at 3.46 million BOPD, with the heralded Cantarell field supplying approximately two-thirds of that total. But by February of this year, production had declined by almost a third to 2.64 million BOPD with Cantarell's share dropping to just over 700,000 BOPD.

Located in the Gulf of Campeche, Cantarell is one of the largest oil fields in the world and has been the backbone of Mexico's production strength. Output at the field began in 1979 but gradually declined because of falling reservoir pressure. In 1997, state oil company Pemex began a massive nitrogen-injection project designed to maintain reservoir pressure and reverse the decline. The plan worked and, by 2004, output at the field had doubled to more than 2 million BOPD. But the field soon began to decline again and its faster-than-expected drop may be irreversible. Now, Pemex, as well as the government, which relies heavily on oil revenue, are searching for ways to develop new resources to compensate.

Pemex is seeking outside financing to fund an ambitious investment program. It wants to spend a total of USD 19 billion this year, primarily on upstream exploration and development, and is hoping to maintain overall country production at 2.75 million BOPD and gas output at 65 billion cubic ft/D. Its most promising oil targets are the offshore Ku Maloob Zaap field, where output has grown to 800,000 BOPD—now Mexico's largest field—and Chicontepec, a complex onshore field that currently produces only 145,000 BOPD but has great potential. Pemex plans to drill 1,000 new wells at Chicontepec this year, and also plans to explore more in the deepwater Gulf of Mexico.

Upstream development and Pemex's operations have been hamstrung by the country's constitution, which has all but prohibited private investment in the oil sector since 1938 when the oil industry was nationalized. Significant reforms are now taking place but their success depends on how, and how quickly, the reforms are implemented and whether they will be enough to attract outside investment.

After considerable debate, the government made several key regulatory changes last November, including provisions that reduce Pemex's tax burden, allow the company more oversight of its budget, enhance its ability to raise debt, and give it more flexibility in licensing terms. In addition, four independent members will join Pemex's board, which will create new contract models. Analysts believe that service companies and local firms will find the changes promising, but international oil companies may need more enticement before they invest in Mexico's upstream. Already, the Mexican state oil company has awarded contracts totaling more than USD 5.39 billion this year, a boost for service companies during a year when many companies are making major spending cuts. **JPT**

JPT is always eager to hear from its readers. If you have any comments or suggestions, please contact me at jdonnelly@spe.org or by phone at +1.713.779.9595 ext. 616.

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