

WALL STREET JOURNAL, Letters, July 27, 2013

Mexico Needs Big Oil-Policy Change

Pemex's freedom of maneuver has been held hostage for a half-century by a national narrative that misunderstands the global dynamic of the oil industry.

Letter to the Editor, "Mexico's Petro-Flop," July 20, 2013

Mexico's energy policy—amen, Pemex's freedom of maneuver—has been held hostage for a half-century by a national narrative that misunderstands the global dynamic of the oil industry. Article 6 of the Petroleum Law of 1958 eliminated the figure of a private oil mineral interest; and no subsequent administration has sought to restore this component of a robust energy policy.

Since 2003, Pemex has devised contractual schemes by which a contractor is paid according to his accredited oil production; but only with the energy reform of 2008, and the procurement rules of 2010, has it been possible to scale payment to production.

The hitch for an oil company is that "payment" is a species of management fee (expressed as \$/barrel), not a share of the oil or gas the production of which he has been accredited.

In the recent Chicontepec bid round the surprising feature was not that three of the six blocks received no bids (two of six in the bid round in 2012 also received none). The surprise was that three of the bidders, led by Halliburton, effectively decided to waive the fee, and thus be awarded the desired block on the basis of 100% cost reimbursement.

This outcome is undesirable for many reasons: creating a profit stream inside the billing for services that are provided by related companies is not an option open to a deepwater oil company that has only arms-length relationships with contractors.

It is clear that the current contract model will not work for deepwater blocks, where Pemex believes there are upwards of 30 billion recoverable barrels of oil and gas.

It is not clear, however, that the current administration has the courage to restore the legal figure of a private oil mineral interest.

This letter was published in the Saturday edition, July 27, 2013

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