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Researchers conclude Mexico could become oil importer by 2020 without new investment

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Without sufficient investments in upstream oil field activities utilizing new and advanced technologies, Mexico faces the prospect of becoming a net oil importer in 10 years, according to new research by Rice University's James A. Baker III Institute for Public Policy and Oxford University. The stakes of the current political stalemate over oil are quite high, the study concluded. Were Pemex, Mexico's national oil company, able to fully develop its oil in line with international standards and technology, Mexican citizens could earn $1,055 per capita per year by 2020, versus $546 if current trends continue.

The two-year study will be released April 29 at a roundtable in Mexico City, co-hosted by Mexican Council on Foreign Relations. The study consists of 14 specialized academic papers authored by scholars from Oxford University, Rice University, Centro de Investigación y Docencia Económicas, National Autonomous University, Instituto Technológico Autónomo de México, Instituto de Investigaciones, Instituto Mora and Monterrey Institute of Technology and Higher Education.

Mexican petroleum production has been falling -- more than 25 percent since its peak in 2004 of 3.9 million barrels per day. Mexico produced 2.98 million barrels per day in 2010. The giant Cantarell field, in particular, has seen a significant drop in production. Meanwhile, domestic demand for oil has grown from 500,000 barrels per day in 1971 to roughly 2.15 million barrels per day in 2010. At present, Mexico is a net oil exporter, with total net exports in 2009 running at just under 1 million barrels per day.

These two trends -- lower overall production and growing internal demand -- pose serious challenges for the Mexican government. The Baker Institute study examines three basic questions: What does Mexico want from its oil policies? What are the Mexican oil sector's medium- to long-term prospects? And how can Mexico best manage the foreseeable obstacles to achieving its underlying goals for the future of oil in Mexico?

Mexico, the study found, has "three fundamental long-term objectives for its oil sector: to retain ownership and control of subsoil resources ('resource nationalism'); to protect the national economy from external shocks and predation ('energy security'); and to distribute any surpluses generated from this national patrimony to the benefit of the Mexican people as a whole." These goals could generate conflict, the study noted. But despite these goals, the study also concluded, a more equitable distribution of oil revenues could wipe out poverty in the country and thereby create more grassroots political backing for energy reforms. Instead, existing federal spending practices benefit the country's most wealthy citizens.

Mexican leaders are keenly aware of the potential problems caused by falling oil exports and rising public expectations. Pemex has taken steps to slow the declining production by increasing investment in two newer fields. However, the study warned, enhanced recovery techniques for both onshore and offshore oil take years to have an effect.

Moreover, the study questioned whether the Mexican leadership has the will and the ability to reach long-term energy goals. "Political decision-making in the Mexican energy sector, like in many democratic societies, can become highly captive of vested interests," the study said, "with outcomes that are less than optimum for the stakeholder, in this case, the Mexican people." The study argued that for many of those vested interests, the status quo is quite advantageous.

The study's final determination is that the decline in Mexican oil revenues is likely to be gradual rather than rapid and reduce the chances that a sudden, deep crisis will create the political will to make hard choices or unpopular reforms. For instance, if Pemex is able to maintain production levels through new finds and better efficiency, it could postpone the export crisis for three decades. But even with this expanded time frame, it is not assured that Mexico will undertake an orderly adjustment. Rather, the study's authors concluded, "it can also generate incentives to postpone it or adjust to the fall in government revenues through the least-costly short-run solution, such as cutting public investment, which can, at the same time, generate the greatest adverse effects in the long run."

More information: bakerinstitute.org/energy-forum/mexico-oil-2011

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