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THEDIALOGUE

FEATURED Q&A

Does Pemex's Gulf Oil Discovery Herald a New Era?

Mexican state oil company Pemex last month announced the discovery of significant oil fields in the Gulf of Mexico, some located near the Campeche Sound pictured above. // File Photo: Pemex.

Q Mexican state oil company Pemex announced June 10 that it had found "significant" deposits of oil in shallow waters in the Gulf of Mexico, with expectations for a fairly quick ramp-up to extract an estimated 200,000 barrels of crude oil a day. For years, Mexico's monopoly oil producer has faced dire forecasts of falling production and criticisms for not being proactive enough in making new discoveries. Does the new find show that Pemex has turned a corner on production? What has the company been doing right and wrong under the leadership of CEO Emilio Lozoya? How well have Mexico's energy sector reforms been progressing this year, and what have they meant for Pemex?

A David Shields, independent energy consultant based in Mexico City and editor of Energía a Debate: "Exploration is an ongoing task at any major oil company. Pemex has long underinvested in exploration, and that is reflected in results. There are always some new discoveries to announce—at least once in each six-year government term—but nothing to suggest that Pemex is about to turn the corner yet on oil production, which has declined from 3.4 million barrels per day a decade ago to under 2.3 million bpd today. The four fields announced by Lozoya may help stem the decline—which is 'significant' in itself—but they are in the mature basin of the Campeche Bay, where the giant and supergiant fields are now largely depleted, with no reason to believe that they might be replaced by anything of similar size. Pemex is stumbling along in a slow restructuring as part

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TODAY'S NEWS

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Backers of Colombia Peace Talks Call for De-escalation

Four countries supporting the government's peace talks with the FARC rebels expressed concerns about the recent escalation of violence in the country.

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Carnival to Begin Cultural Cruises to Cuba

The Florida-based cruise line said its cultural cruises to the island could begin as early as next year.

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POLITICAL

Ex-Guatemalan Dictator Ruled Unfit for Trial

The Central American country's forensic institute ruled that Efraín Ríos Montt, who ruled from 1982-1983, is not able to understand the charges against him. Ríos Montt had been convicted of genocide charges in 2013, but the conviction was thrown out on a technicality.

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Ríos Montt // File Photo: Guatemalan Government.

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POLITICAL NEWS

Ex-Guatemalan Dictator Ruled Unfit for Trial

Guatemala's forensic institute on Tuesday ruled that former dictator Efraín Ríos Montt, 89, who has been accused of genocide during his 1982-1983 rule, is mentally unfit to stand trial, Reuters reported. "He does not have full use of his mental faculties, and he is not capable of correctly understanding the charges against him," the National Forensic Science Institute said in a statement. In 2013, Ríos Montt was convicted of genocide and crimes against humanity in ordering the killings of 1,771 Ixil Mayas during Guatemala's civil war and was sentenced to 80 years in prison. However, Guatemala's Constitutional Court later threw out the conviction on a technicality. A retrial began in January, but it was halted after the judge in the case was removed for having previously written a student thesis containing opinions about genocide. A retrial had been set for July, but the forensic institute's ruling Tuesday may mean it will not take place.

Backers of Colombia Peace Talks Call for De-Escalation

Four nations backing Colombia's peace talks with the Revolutionary Armed Forces of Colombia, or FARC rebels, on Tuesday called for an "urgent de-escalation" of violence that has threatened the peace negotiations, which have been going on for more than two and a half years, Reuters reported. "We urge the parties to strictly restrict any actions that cause victims or suffering in Colombia, and to step up the implementation of confidence-building measures," said the statement by Chile, Cuba, Norway and Venezuela. "We consider these steps essential." In March, Colombian President Juan Manuel Santos called a halt to

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of Mexico's energy reform, but remains a vast bureaucracy. It is still stuck in a fiscal trap, accounting for over a quarter of fiscal revenues, is overstaffed and cannot raise equity. The collapse in oil prices has hit sales and export revenues hard, but Pemex has not yet streamlined to reduce costs and make profits. The outlook for Mexico's oil industry now rests on the Round One bidding process, which will take time to play out and add new output. The jury is still out on how successful it might be. The first awards on July 15 will be an indicator. Another key issue is whether Pemex can soon enter into major joint ventures as part of the energy reform."

Jeremy M. Martin, director of the energy program at the Institute of the Americas: "There was no fisherman involved this time. But the catch appears worth hanging on the wall. And hang it on the international energy wall Pemex and Mexico's energy authorities have done. Announcement timing aside, anyone with an interest in Pemex and Mexico's energy future surely rejoiced over the discovery off the coast of Campeche and Tabasco. Touted as the most important discovery in the last five years, psychologically it feels like the most significant since Mr. Cantarell, the fisherman who reported an oil slick leading to the discovery of the Cantarell field in the 1970s, insisted that

> **"Anyone with an interest in Pemex and Mexico's energy future surely rejoiced over the discovery..."**
>
> **— Jeremy M. Martin**

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NEWS BRIEFS

Pope Heads to Bolivia on Second Stop of South America Tour

Pope Francis heads today to Bolivia, the second country on his three-nation tour of South America, Agence France-Presse reported. The pope's first stop on the tour was Ecuador, where nearly 1 million people attended an outdoor Mass he held in Quito. He called for unity among Ecuadoreans and for better protection of the Amazon rainforest.

Two Killed at Petrobras Construction Project

Two workers died Tuesday at a construction project run by Brazilian state oil company Petrobras, the FUP oil workers' union said in a statement, Reuters reported. The workers drowned at the end of a pier run by pipeline and shipping unit Transpetro when the scaffolding they were erecting, to which they were connected by security belts, dragged them under water. FUP affiliate SindipetroNF also said Tuesday there was a quickly-contained fire on the P-453 oil platform northeast of Rio de Janeiro, another in a spate of recent deadly or life-threating accidents.

Uber Would Need to Have Permits, Pay Fees to Operate in Mexico City

Uber drivers in Mexico City will need permits to operate there, and the company will have to pay into a transportation fund, Reuters reported today, citing a draft government plan. The proposal, which would be the first such regulation for a ride-sharing app in Latin America, also stipulates that Uber and similar companies cannot accept cash, offer prepaid plans or use taxi stands and would have to pay the government an annual fee to license each vehicle, an official told the news service, adding that the plan is still under negotiation and could be altered.

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aerial bombings, but violence broke out again in April when a rebel attack killed 10 soldiers. Santos ordered aerial attacks to resume, and both sides have carried out more attacks since then. The FARC has renewed attacks, including sabotage against roads, utilities and pipelines.

ECONOMIC NEWS

Venezuela Allows Uruguay to Pay Oil Debt at Discount

Uruguayan President Tabaré Vázquez announced Monday that Venezuela will allow the smaller South American nation to pay off a $400 million energy debt at a 35 percent

Vázquez // File Photo: Uruguayan Government.

discount, Reuters reported. After meeting with Venezuelan officials in Montevideo, Vázquez said Uruguay will pay $262 million to settle the debt. During the decade-long oil boom, Venezuela provided oil to other countries in the region on generous financing terms, but last year's sharp drop in oil prices has left Caracas short of cash and eager to make deals to write-down the debt in exchange for cash. In January, the Dominican Republic paid Venezuela $1.93 billion to settle a $4 billion debt it accrued under Venezuela's Petrocaribe oil alliance. Vázquez also said that Uruguay has $300 million deal with Venezuela to send agricultural products including rice, soy and chicken through the end of the year, and in return, Venezuela will immediately settle its outstanding debt to some Uruguayan agricultural companies, El Universal reported. The deals will be signed on July 17 in Brasília.

BUSINESS NEWS

Carnival to Begin Cultural Cruises to Cuba

Florida-based Carnival Corp., the world's largest cruise shipping company, announced Tuesday that it has received U.S. government approval to begin cultural cruises from Miami to Cuba, BBC News reported. The company said it is still seeking the go-ahead from the Cuban government, but added trips could begin as soon as next year. After decades of strained relations, the United States and Cuba in December announced a détente. Last week, the countries announced that they will restore diplomatic ties and move ahead with reopening their embassies on July 20, however most trade with Cuba remains illegal. Americans can visit the island, but only for purposes such as cultural exchange, seeing relatives or humanitarian purposes. Carnival said its cultural exchange trips, which circumvent the ban on Americans traveling to Cuba for tourism, will cost about $3,000 before taxes and that its educational tours will be focused on culture, art, the environment and Spanish-language courses. The company plans to use a 710-passenger ship for the seven-day cruise, The Wall Street Journal reported. "This will be the first time in well over 50 years that a cruise line can take passengers to Cuba and return," Carnival chief executive Arnold Donald said. The news comes at the same time that the U.S. State Department has expressed concern about the detention of around 100 people on Sunday in Cuba, where short-term detentions of dissidents occur regularly, BBC News reported. State Department spokesman John Kirby said the detentions would not derail the push for better relations. "In fact, it reinforces the need to move forward with re-establishing diplomatic relations because opening that embassy, we believe, will advance our human rights agenda by opening up channels of official engagement," he said.

> **Trips to Cuba could begin as early as next year, said Carnival.**

Subscriber Notice

A Conversation With
Juan Fernando Cristo,
Colombia's Minister of Interior

Tuesday, July 14
9:00 - 10:30 a.m.

Inter-American Dialogue
1211 Connecticut Ave. NW, Suite 510
Washington, D.C.

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Pemex do something about his ruined nets. Indeed, Pemex could not have chosen better timing. The company has been hammered over the last few months by a slew of horrific offshore accidents, as well as by accusations of an excessively deliberate pace with its corporate restructuring outlined by the reform. The motivational effect of the discoveries hopefully will translate to the projections of reserves and timing for much needed new production. At the same time, the estimated boost in oil output still leaves Mexico far below its peak production hit in 2004. But worse, the 200,000 barrels per day falls short of half the energy reform target of 500,000 bpd of new production by 2018. Yet the news should aid a more positive narrative for Mexico and Pemex. The discovery is an important notch on Pemex's shallow-water belt and proves it retains a relevant role in Mexico's new energy landscape. In March, Pemex announced an important partnership for the Las Ramones II pipeline project. Some have called it the tip of the iceberg for such deals, but observers remain eager for further announcements and particularly in the upstream. Delivering on all of these expectations is critical in the next 12-18 months for Mexico and Pemex alike."

George Baker, publisher of Mexico Energy Intelligence: "As a result of the fire on the production platform Abkatún-A on April 1, Pemex lost 200,000 bpd of output, so any new field brought into production anytime soon would help make up for that loss. As for it being a new discovery, since Pemex has been drilling in this area for 30 years, it is more likely that the structure had been identified decades ago and that an appraisal well recently showed it to be commercial. In more than 30 years, Pemex has not made a significant oil discovery in areas where it has the capability to produce, so its strategy of seeking farm-out relationships with top-tier international oil companies to develop its discoveries along the U.S.-Mexico maritime border makes sense. Pemex has not yet faced up to the need for global hiring or to the need for an upstream office in Houston and the imperative to compete outside Mexico. The benefits from the centralization of procurement are likely more attractive in PowerPoint than in practice. The plans to develop shale gas in the northern basins have been upset by the injunctive relief given on Jan. 6, in favor of AHMSA, the steel conglomerate, that prevents the government from auctioning onshore fields and that prevents Pemex from 'migrating' existing risk-service contracts to one of the new contract models. The federal court ruling calls into question the legal authority of the government to carry out lease auctions in areas where there are coal concessions. It may be the Supreme Court that will decide on the course of energy policy in Mexico."

> **"In over 30 years, Pemex has not made a significant oil discovery in areas where it has the capability to produce."**
>
> **— George Baker**

Editor's note: The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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