

## U.S.-MEX: ENERGY

# Cárdenas: Reforming Pemex

I think most Mexican political actors agree that there will be no constitutional reform: Article 27 will stay as it is; there will be no privatization of Pemex or of those activities the Constitution reserves to the Mexican state. I expect, after a deep discussion, there will be no opening on exploration, exploitation, refining, transportation or any of the activities that are reserved by the Constitution to the Mexican government, that is, no opening to private investment in these areas.

It is possible for the Mexican state, through Pemex, to change our oil policies and do what has to be done. For me, the main problem is the need to carry out a real fiscal reform. The fiscal system which is applied to Pemex strips the company of every benefit and every resource. We have a situation in which 40 percent of the state's fiscal resources come from the export of crude oil. Until the mid-1970s, our oil policy was oriented to satisfy internal demands. Mexico exported some petrochemicals, but it didn't export crude oil.

In the second half of the 1970s, giant deposits were discovered and began to be exploited. This changed the focus of oil policies. By the beginning of the 1980s, this change had become much more drastic. Since that time, Mexico has had an oil policy which prioritizes the exportation of crude oil. Pemex abandoned the effort to extend its productive chains and create an integrated industry: it hasn't continued to invest in the petrochemical industry or in new refineries, leaving internal markets to imported products. Right now, about 40 percent of our gasoline is imported



Photo by Lee Panich.

A Pemex Station in Ojos Negros, Baja California.

from abroad.

This policy change also caused Pemex to drastically reduce its investment in exploration. As a consequence, there has been a serious fall in the life expectancy of proven reserves: while in the 1970s and 80s Mexico had oil reserves for 40 years of supply, at the present rate of extraction it now has proven reserves for only nine years.

I think what the oil industry needs is investment. The state needs to let Pemex keep some of its windfall profits. With oil prices rising, there has been a significant difference between the projected price of oil in the federal budget and the actual price of oil. In 2007, Pemex made \$18 billion more than anticipated. And it has made about \$10 billion more than projected every year for the past five or six years.

If those resources had been left for Pemex to invest, the company could have built the needed refineries and modernized, integrated and expanded the industry.

My position is that if Pemex is given the resources, it can have access to the technology needed to explore for oil in very deep waters, or for any other industrial process, without having to go to risk contracts. Risk contracts are prohibited by our Constitution.

**Cuahtémoc Cárdenas** is President of the Fundación para la Democracia. He was the mayor of Mexico City from 1997-99. This article was adapted from his comments at the 2008 U.S.-Mexico Futures Forum.