Oil and Gas in Federal Countries: Mexico

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1. Historical Background
2. Federal Context
3. Constitutional and Legal Issues
5. Revenue Powers and Revenue Collection
6. Revenue sharing and transfers
7. Fiscal and Economic Stabilization
8. Horizontal balance, regional development
9. Transparency and accountability
10. Conclusions
1. Historical Background

- **1870s**: first private firms

- **1890s**: boom
  - Porfirio Diaz, giving loose contracts with few constraints
    - Source of income for his government

- **1901**: first oil law

- **1911-1913**: taxes imposed to firms based on oil production

- **1917**: Constitution
  - Mexican State is the owner of all reservoir of hydrocarbons

- **1938**: Nationalization
  - Union problem
  - Nationalism
1. Historical Background

- **1938:** centralized planning in the sector
  - Oil industry develops
  - Supply oil for transportation and industry
  - Better conditions for employees

- **1944:** tough problems
  - Payment to foreign firms for expropriation
  - Market for its oil (embargo)

- **1945-194:** good period
  - Second World War

- **1950-1970:** bad period
  - Low prices, economic and political problems
1. Historical Background

- **1972-1974: exploration in new fields**
  - mainly in the southeast
  - existence of large oil fields

- **1975-1981: crises and new oil fields**
  - World Energy crisis
  - Important oil field (Cantarell)

- **1982: Economic crisis**
  - Excessive government spending
  - Nationalization in the banking system
  - Unfavorable Public Policies

- **1994-1995: economic crisis**
  - Failure in the banking system
2. Federal Context

- **31 States and the Federal District**
  - Three levels of government

- **President of the Mexican Republic is elected by population**
  - S/he is elected for six years
  - There is no re-election

- **Senators and Deputies are elected by population**
  - Senators are elected for six years
  - Deputies are elected for three years
  - There is no re-election

- **Local Presidents are elected by population**
  - They are elected for three years
  - There is no re-election

- **Three main parties**
  - PAN, PRI and PRD
2. Federal Context

- Federal government collects most of the taxes
  - Income tax
  - Value added tax
  - Oil taxes
  - Special taxes for some goods and services
    - Gasoline

- Local governments collect property (real state) tax

- Federal governments makes transfers to states and municipalities
  - No distinction among sources of tax income
Table 3. Political control of Congress: Percentage of Deputies and Senators

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<thead>
<tr>
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<th>Diputados (lower house)</th>
<th>Senadores (upper house)</th>
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3. Constitutional and Legal Issues

- **Mexican Constitution**
  - States that Mexican government is the only owner of the hydrocarbons
  - States that it is the only allowed to participate in the refining process of these hydrocarbons

- **Chapter 5 in NAFTA**

- **Secondary Laws**

- **PEMEX is the State Owned Enterprise in the sector**
  - “All process” is done by PEMEX
    - Exploration
    - Extraction
    - Refining
    - Sales

Total Reserves (Crude oil, condensates, Liquids Plant and Equivalent Dry Gas)

The graph shows the production, exportation, and participation of the petroleum industry from 1984 to 2006. The production line (■) peaks at around 3,000 miles of barrels diarios in 1990 and then gradually decreases. The exportation line (○) shows a more stable trend, with slight fluctuations around 0.55. The participation line (△) remains the lowest, fluctuating around 0.44.
Petroleum Industry in the Federal Context. Oil

monthly production of crude oil in Cantarell
(million barrels per day)

- Type of energy more exploited, 70% since 1980 to 2007
- In 2007, oil production was 3,082 thousands of barrels per day
- Refining capacity is 1,269 thousands of barrels per day
- Ranked at the top of oil producers

- **Shallow Waters:**
  - Explored and exploited Areas
  - Managing the decline
  - Exploiting Infrastructure

- **Deep Waters:**
  - Lack of infrastructure, experience

- **Ultra deep Waters:**
  - 70% of the prospective resources
  - Lack of infrastructure, experience

EXPORTS IN MEXICO

OIL EXPORTS
NON-OIL EXPORTS

Natural Gas

Million cubic feet

- Limited and inefficient production
- Main production is associated gas
- Significant changes since 1992
Balance of Natural Gas (Million cubic feet per day)
6. Revenue sharing and transfers
6. Revenue sharing and transfers

Componentes del Ingreso Federal

![Graph showing the components of federal income from 1990 to 2007.](image)

- **Ingresos petroleros**
- **ISR Total**
- **Impuesto al valor agregado**
6. Revenue sharing and transfers

- Federal transfers to all states according to rules for each state

- Government spending on health, social programs, and education

- Price and subsidy programs
  - Electricity (USD 7 billion)
  - Gasoline (USD 20 billion)
  - PEMEX sold fuel oil to the power sector at around 30% of its opportunity cost
    - Implicit subsidy: USD $1.5 billion a year
6. Revenue sharing and transfers
6. Revenue sharing and transfers

![Graph showing production and consumption trends over years.](graph.png)
Federal expected income is based on an expected average price
- Budget purposes

If actual price is higher, the extra income is distributed
- Stabilization fund
- Transfers to states
- Investment in PEMEX
Fiscal and Economic Stabilization

- Oil Investment as a % of the GDP
- Oil Investment as a % of the public investment
Fiscal and Economic Stabilization

Billion dollars
8. Horizontal balance, regional development

- Pollution in states that have oil and money transfers to states that have not

- Poor income distribution
  - Rich: from Mexico City to North
    - Mexico State, DF, Nuevo Leon, Jalisco and Chihuahua
  - Poor: from Mexico City to South
    - Guerrero, Chiapas, Oaxaca, Veracruz
9. Transparency and accountability

- Corruption in the Union and PEMEX
- Lack of transparency in administrative and contracting issues
- “Leakage” of gasoline in the pipelines
- Poor accountability to society
- No accountability about the extra cash received by all states
10. Conclusions

- Oil economy
- Only 10 years of production
- Energy reform
- Fiscal reform
- Social contract
10. Conclusions

- Institutional framework and poor regulatory structure
- It is needed a significant changes in its corporate structure
- Nobody knows what will happen
- Next 3-4 weeks will be crucial for the future of PEMEX