



Oil and Gas in Federal Countries: Mexico

Victor G. Carreon

Centro de Investigacion y Docencia Economicas, A.C.

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1. Historical Background
2. Federal Context
3. Constitutional and Legal Issues
4. Petroleum Industry in the Federal Context
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6. Revenue sharing and transfers
7. Fiscal and Economic Stabilization
8. Horizontal balance, regional development
9. Transparency and accountability
10. Conclusions

1. Historical Background

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- 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

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- 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

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- 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

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- **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

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- 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

2. Federal Context

Table 3. Political control of Congress: Percentage of Deputies and Senators

	Diputados (lower house)				Senadores (upper house)			
	PRI	PAN	PRD	Others	PRI	PAN	PRD	Others
1964	83	10	0	7	100	0	0	0
1967	83	9	0	8	100	0	0	0
1970	84	9	0	7	100	0	0	0
1973	82	11	0	7	100	0	0	0
1976	82	8	0	10	100	0	0	0
1979	74	11	0	15	100	0	0	0
1982	75	13	0	12	100	0	0	0
1985	72	10	0	18	100	0	0	0
1988	52	20	0	38	94	0	6	0
1991	64	18	8	10	95	2	3	0
1994	60	24	14	2	74	20	6	0
1997	48	24	25	3	60	26	12	2
2000	42	42	10	6	47	36	12	5
2003	45	31	19	5	47	36	12	5

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

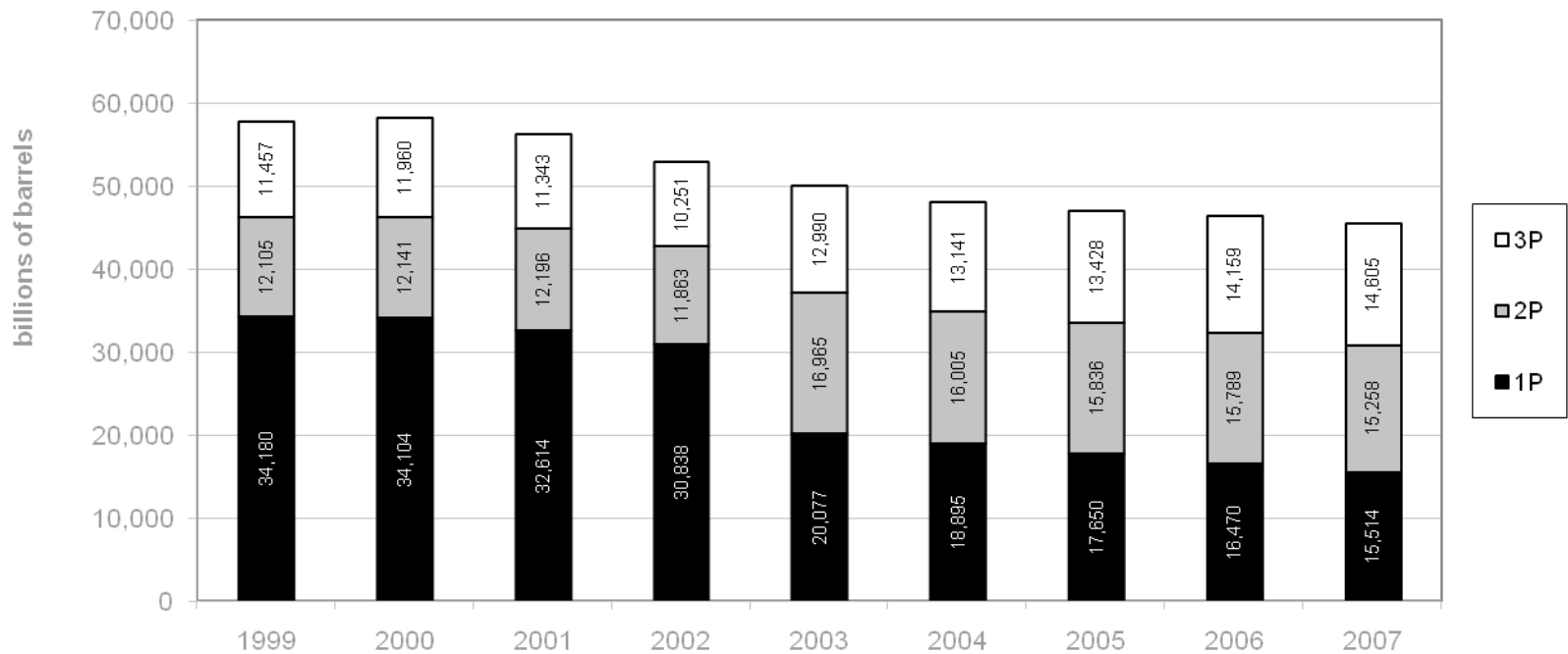
- Secondary Laws

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

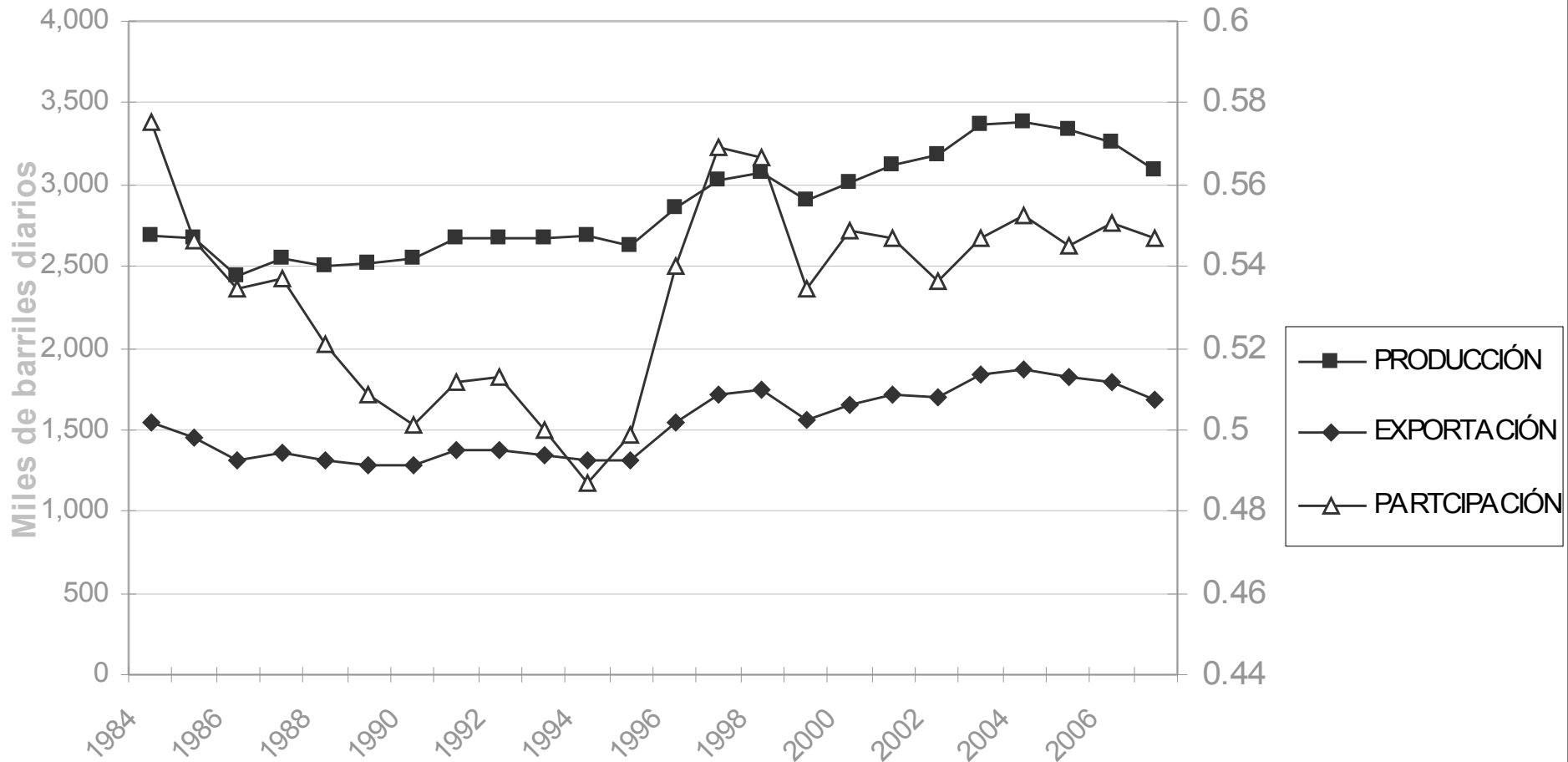
4. Petroleum Industry in the Federal Context. Oil

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

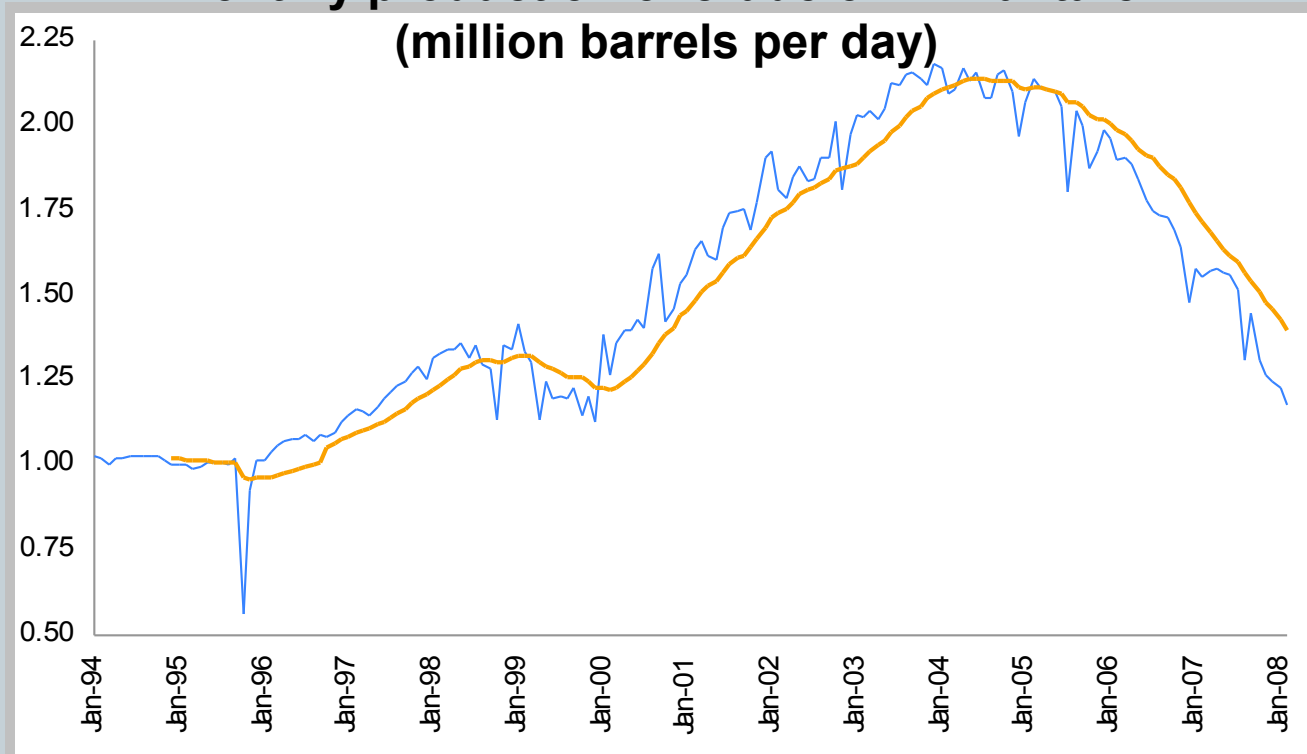


4. Petroleum Industry in the Federal Context. Oil



4. Petroleum Industry in the Federal Context. Oil

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



4. Petroleum Industry in the Federal Context. Oil

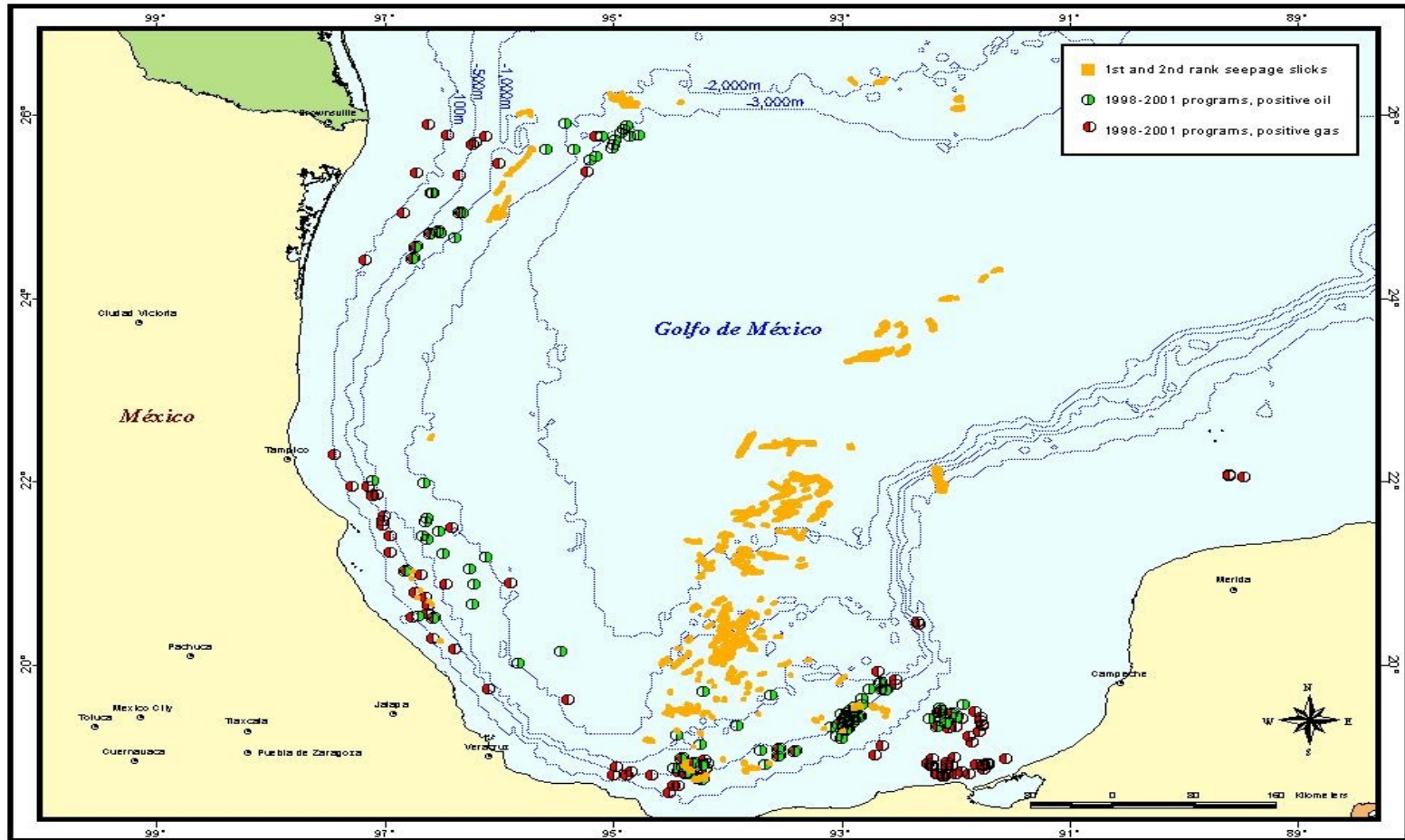
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- Type of energy more exploited, 70% since 1980 to 2007
- In 2007, oil production was 3,082 thousands of barrels per day
- Refining capacity is 1,269 thousands of barrels per day
- Ranked at the top of oil producers

- **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

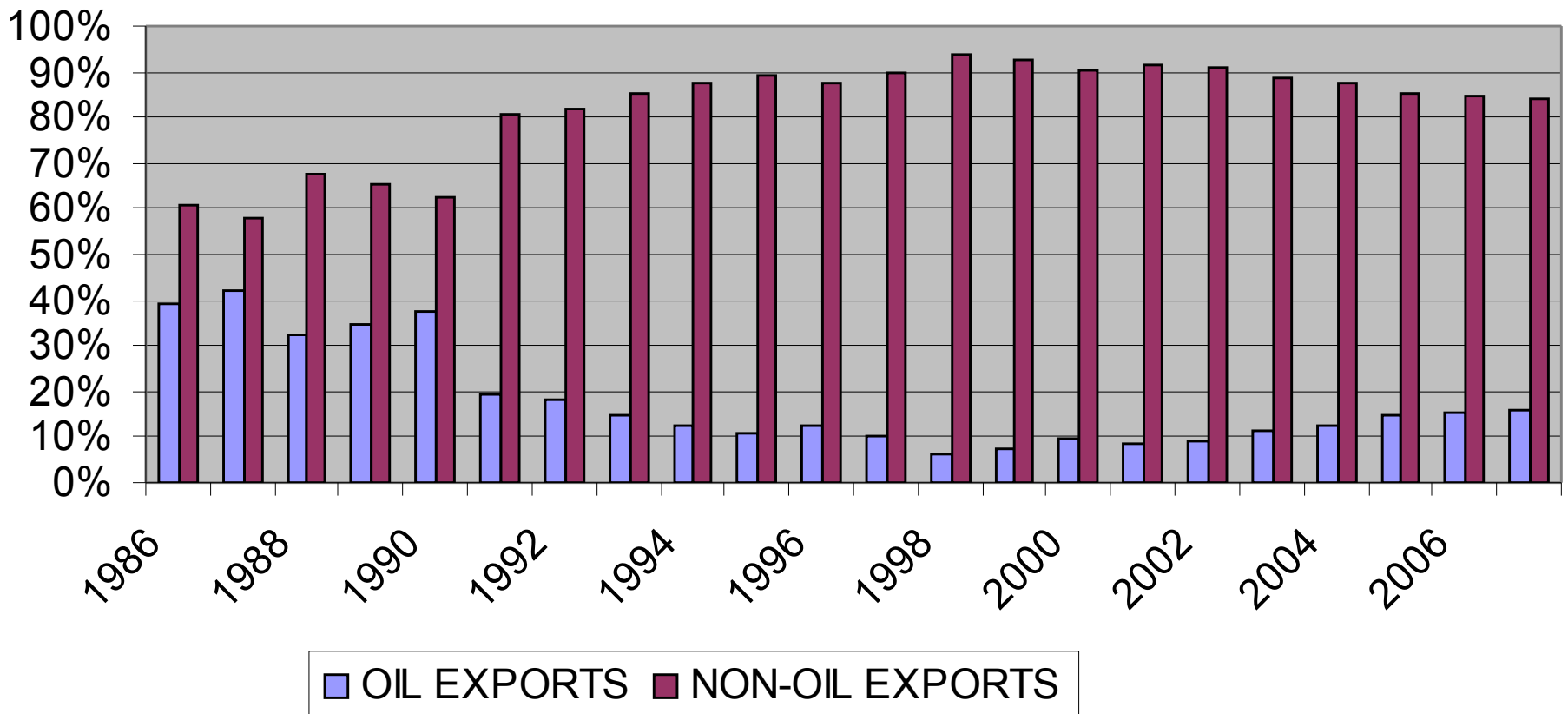
4. Petroleum Industry in the Federal Context. Oil

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4. Petroleum Industry in the Federal Context. Oil

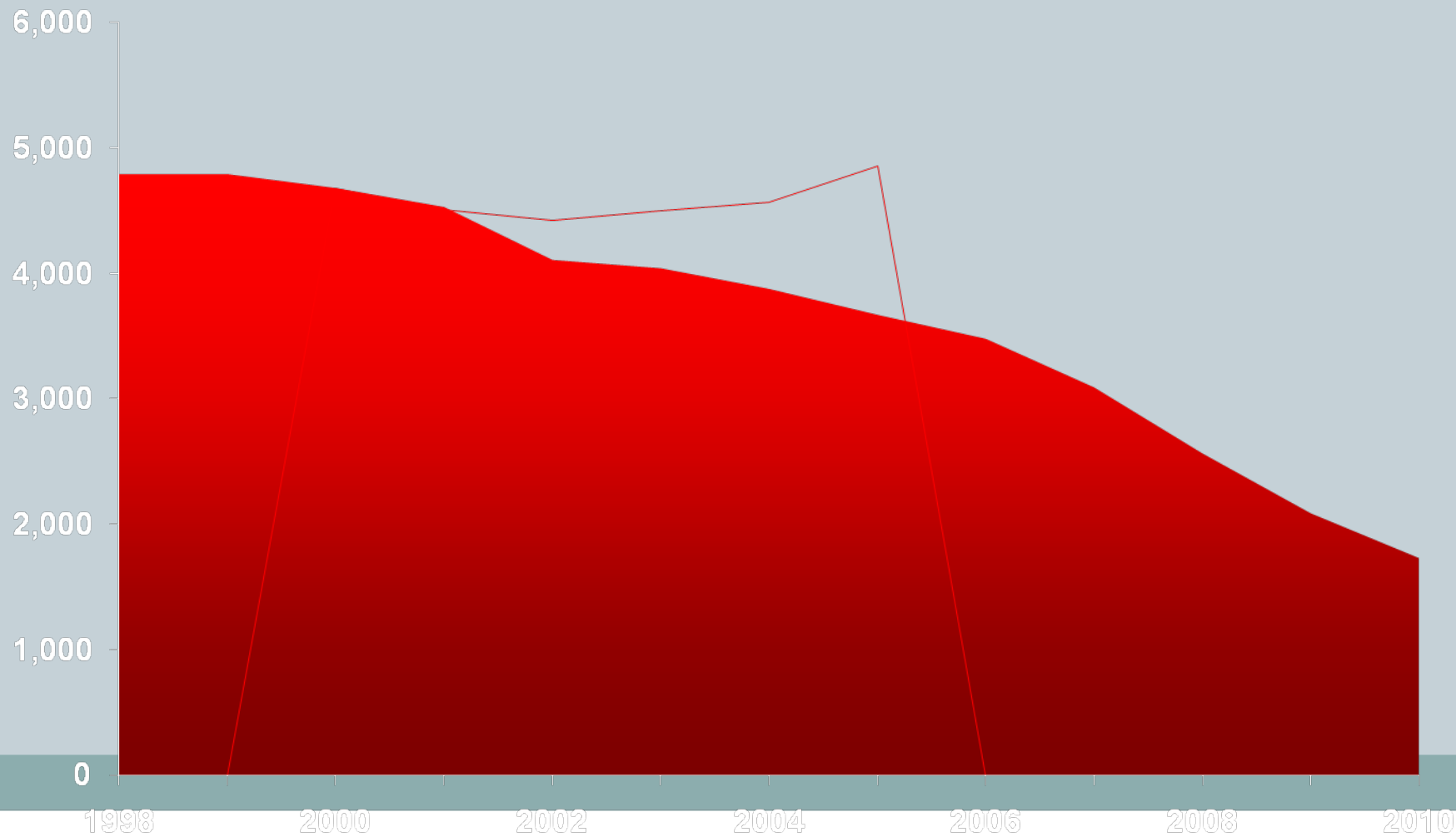
EXPORTS IN MEXICO



4. Petroleum Industry in the Federal Context. Natural Gas

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Million cubic feet

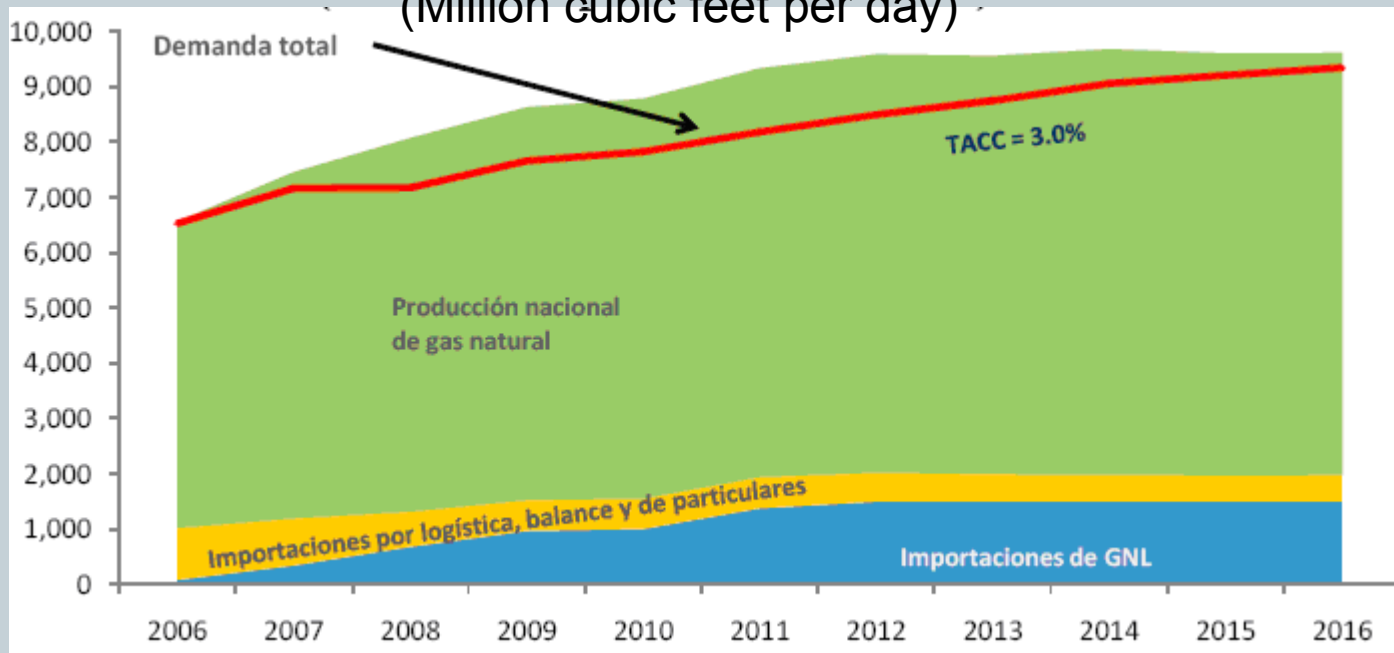


4. Petroleum Industry in the Federal Context. Natural Gas

- Limited and inefficient production
- Main production is associated gas
- Significant changes since 1992

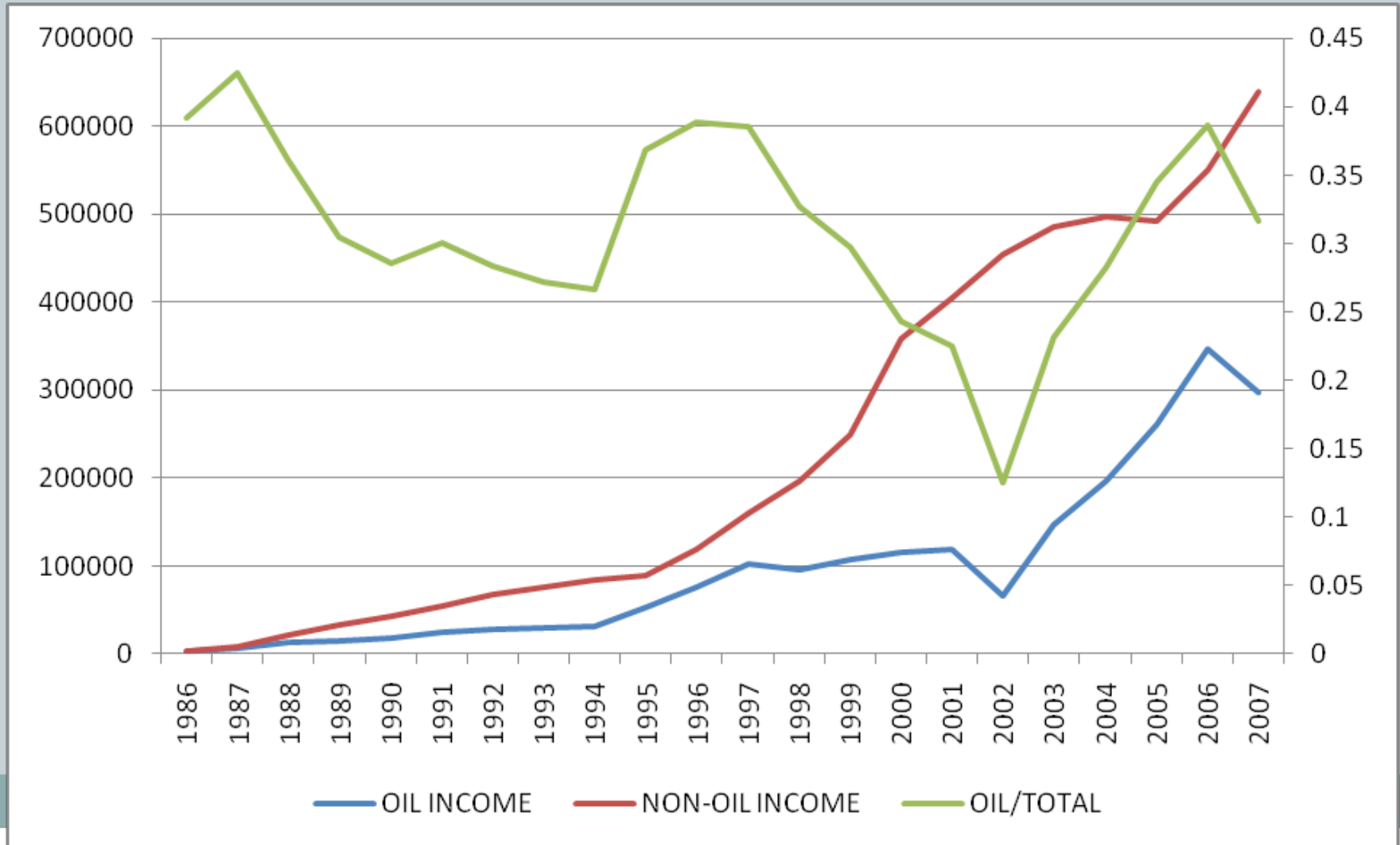
4. Petroleum Industry in the Federal Context. Natural Gas

Balance of Natural Gas
(Million cubic feet per day)



6. Revenue sharing and transfers

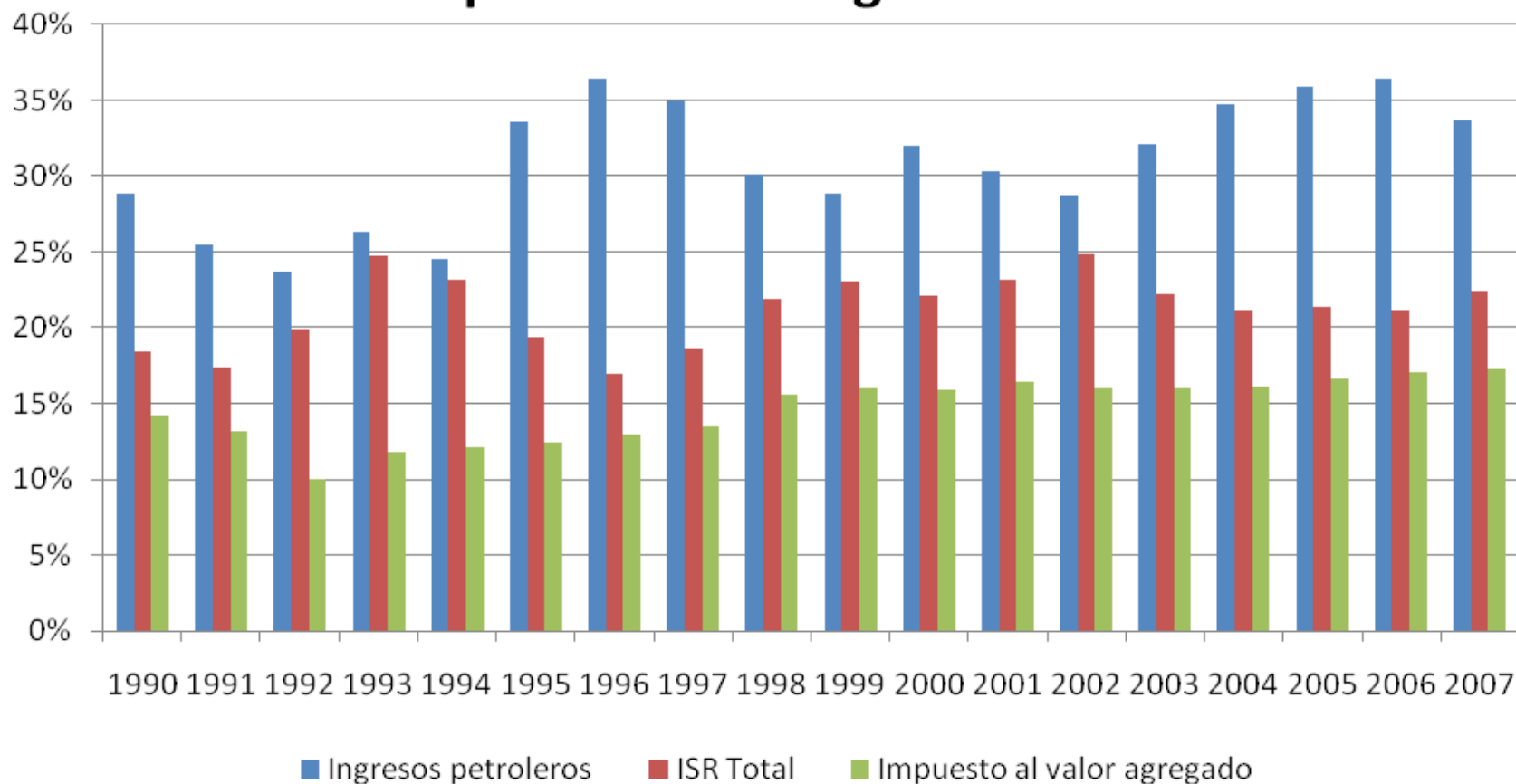
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6. Revenue sharing and transfers

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Componentes del Ingreso Federal



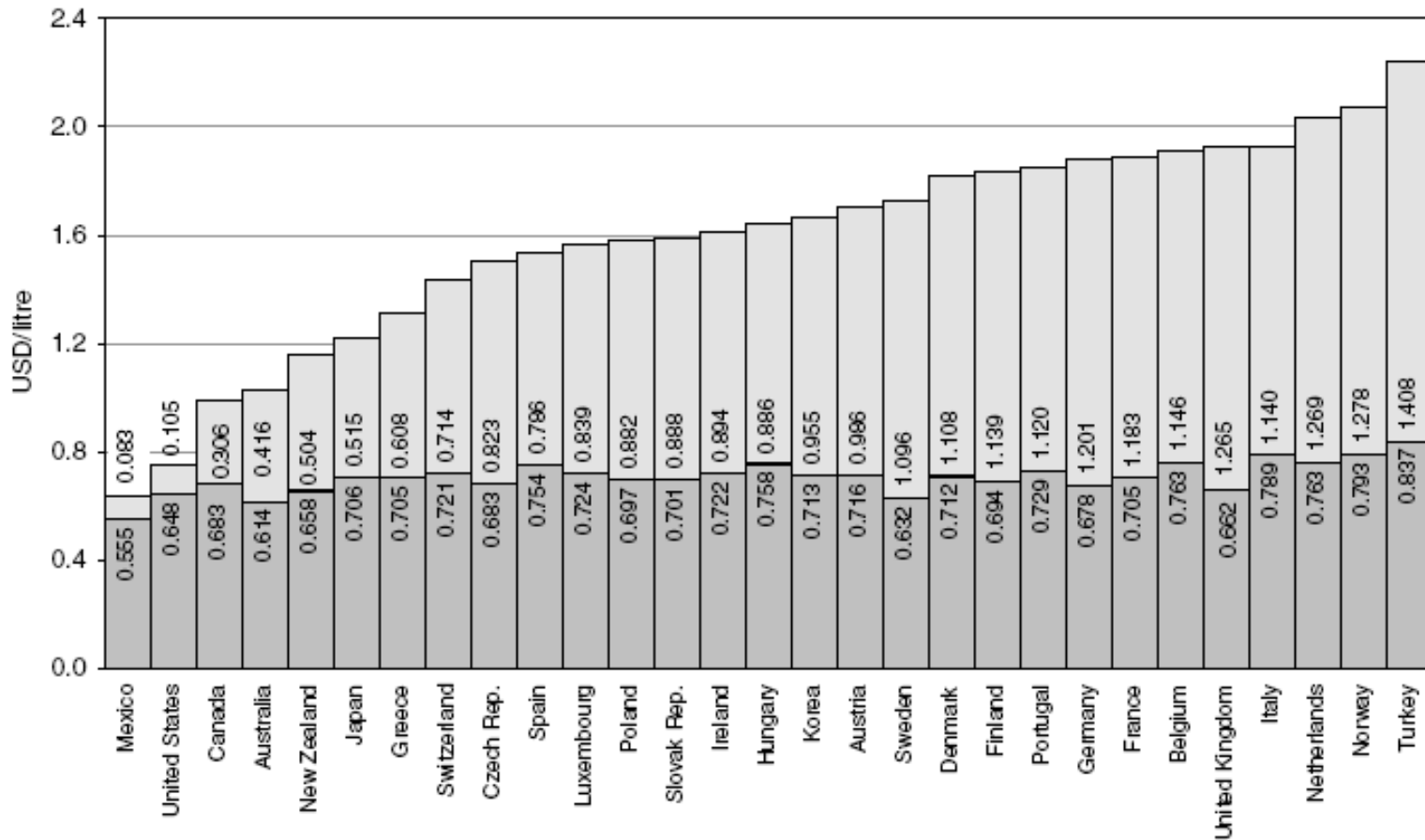
6. Revenue sharing and transfers

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- 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

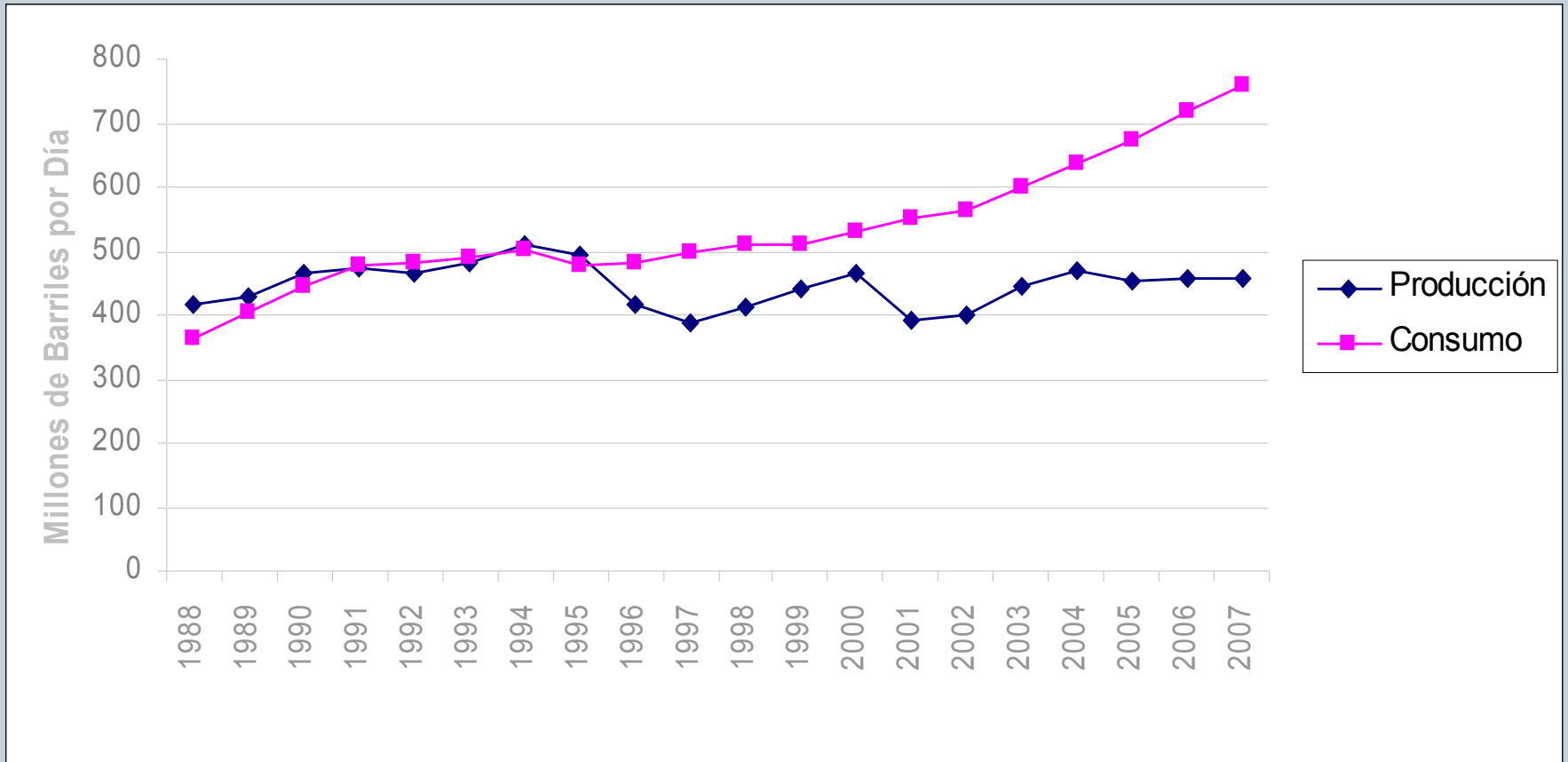
Figure 8 - Unleaded Gasoline Prices and Taxes

4Q2007 *

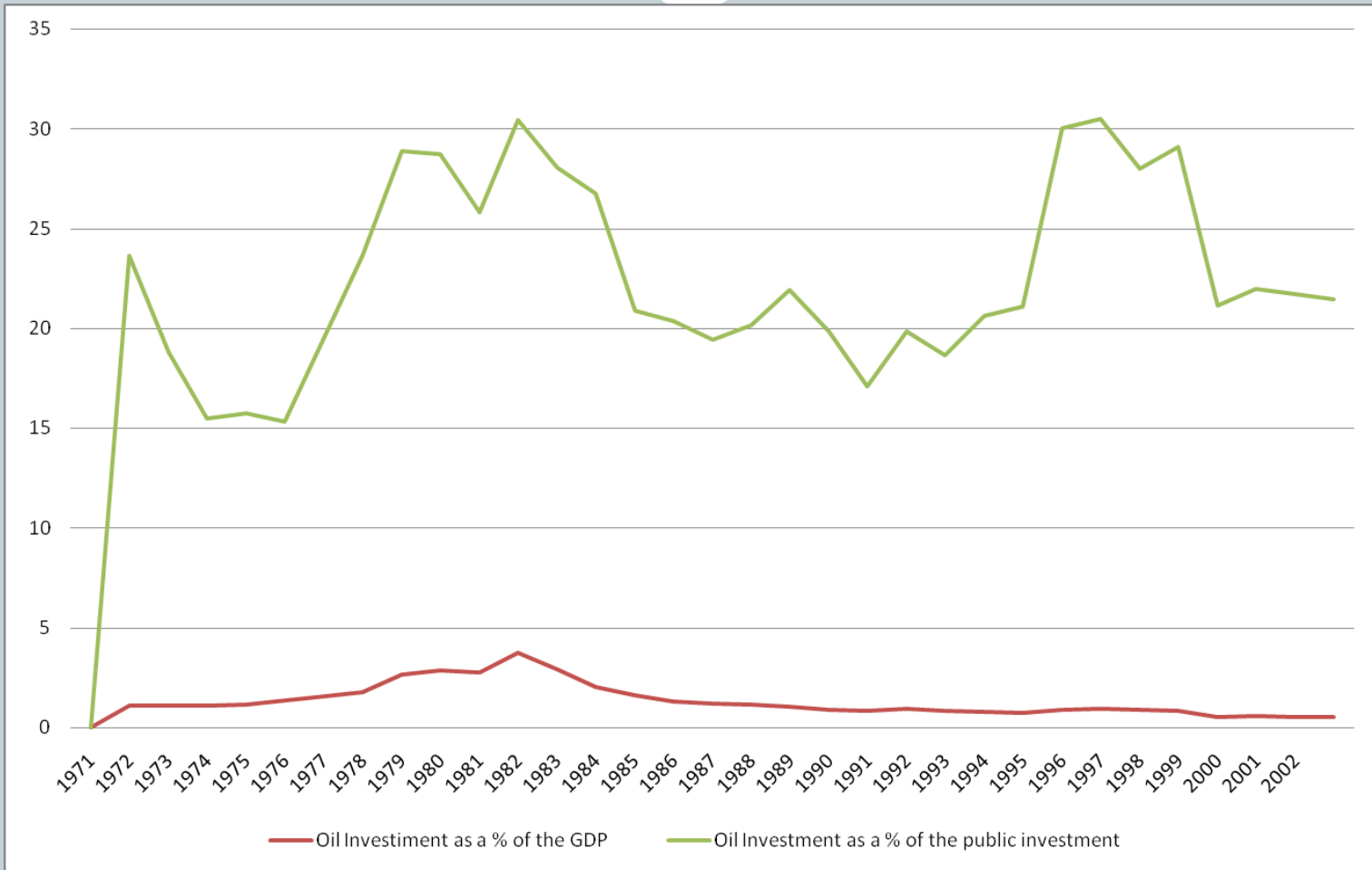


6. Revenue sharing and transfers

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- 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



Billion dollars



8. Horizontal balance, regional development

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- 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

- 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

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

10. Conclusions

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- 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