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FEATURED Q&A

Is Pemex Taking Good Advantage of High Oil Prices?



Pemex has increased its crude oil exports since the rise in international oil prices, moving away from its December commitment to cut 2022 exports in half. A Pemex worker at the Madreñil 141 oil well in Cunduacán, Tabasco is pictured. // File Photo: @Pemex via Twitter.

Q Mexican state oil company Pemex posted a 13 percent increase in crude exports in April as compared to March, reaching more than more than million barrels of crude oil per day (bpd) on average. Since the rise in international oil prices over the last few months, the company diverted from its December commitment to cut its 2022 exports by 50 percent in order to pursue “self sufficiency,” choosing instead to increase crude exports. Why did Pemex change its strategy, and was it a good move for the company’s financial health and Mexican state coffers? What is the outlook for Pemex’s 2022 export and production figures, and how does it compare to those of private oil companies operating in Mexico?

A Raphael Portela, principal research analyst in corporate analysis at Wood Mackenzie: “The main story behind Pemex curtailing exports has always hinged on the improved processing capacity of its downstream portfolio. There are two drivers behind this potential reinvigoration: the construction of the brand-new Olmeca refinery in Dos Bocas, Tabasco and the revamping of its six existing plants. Indeed, the government has postponed the Olmeca refinery start-up from July to December 2022, and a start-up further into 2023 is not out of the question. Though delays in project delivery could have contributed to the change in stance, market signals are likely driving most of the uptick in export volumes. High oil prices have tilted the profitability balance away from downstream players and toward upstream operators. Pemex’s move allows it to capture that transient crude barrel

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TOP NEWS

RENEWABLES NEWS

Kerry Urges Mexico to Speed Climate Efforts

Following a meeting Tuesday with Mexican President Andrés Manuel López Obrador, U.S. climate envoy John Kerry urged Mexico to accelerate its efforts to address global warming.

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OIL & GAS NEWS

Puerto Rico Suspends Gas and Diesel Tax

Puerto Rico Governor Pedro Pierluisi on Tuesday signed a measure that suspends taxes on gasoline and diesel for 45 days.

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OIL & GAS NEWS

Maduro Signs Cooperation Deal During Iran Visit

In his first visit to Tehran, Venezuelan President Nicolás Maduro on June 12 signed a 20-year cooperation agreement with Iranian President Ebrahim Raisi to expand ties in the oil and petrochemical industries, the military and their economies.

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Maduro // File Photo: @NicolosMaduro via Twitter.

OIL & GAS NEWS

Venezuela's Maduro Signs Cooperation Deal on Iran Visit

In his first visit to Tehran, Venezuelan President Nicolás Maduro on Sunday signed a 20-year cooperation agreement with Iranian President Ebrahim Raisi to expand ties in the oil and petrochemical industries, the military and their economies, the Associated Press reported. Iran recently sent tankers carrying badly needed fuel to Venezuela, skirting U.S. sanctions on both nations. Iran's state-funded PressTV quoted Maduro saying the two men would discuss "the need to well inform the Iranian and Venezuelan nations about the war of sanctions and find ways to counter them

The Maduro government will further move to 'de-westernize' its oil sector..."

— Luis Vicente León

with steadfastness," according to the report. "Caracas and Tehran have shaped the strategy of [a] resistance economy and are working to expand it," he said. An Iranian delegation led by Oil Minister Javad Owji last month met with Maduro and other high-ranking Venezuelan officials in Caracas to discuss closer energy cooperation. Although Venezuela's devastated economy has been recovering from a historic contraction over the past year, its oil exports dropped 8 percent in April as compared to March. Some experts warn that Venezuela's embrace of nontraditional partners such as Iran could backfire in the long term. "What seems evident now is the deepening of [their] relationship to improve Venezuela's refining capacity, with Iran participating in a project to help revitalize the El Palito Refinery, deliver refined oil to world markets and probably design new collection mechanisms for these exports, in which Iran has years of experience," Luis

Vicente León, political analyst and president of Datanalisis in Caracas, told the Energy Advisor in a Q&A last month. "The Maduro government will further move to 'de-westernize' its oil sector—an incredible geopolitical error that should be stopped immediately," he added.

RENEWABLES NEWS

Canadian Solar Gets \$28 Mn in Financing for Brazil Project

Canadian Solar announced on Wednesday that it obtained a nonrecourse project financing of 136 million reais (\$28 million) from Banco do Nordeste do Brasil (BNB) to fund its Lavras solar project in Brazil, which is set to produce 79 megawatts peak (MWp). The funding will go to the construction and operation of the Lavras II solar project, which is set to reach commercial operation by the end of June. Canadian Solar obtained the project in a 2019 private auction held by COPEL Energia, Canadian Solar said in a statement. "This financing once again demonstrates our capabilities and commitment to the Brazilian market, where we are a market leader with more than 2 Gwp of backlog projects that have secured power purchase agreements," said Shawn Qu, Canadian Solar's CEO. "BNB's continuing participation in our solar portfolio reinforces our confidence in the long-term potential of Brazil's renewable energy sector," he added. Canadian Solar on June 6 signed an agreement with power generation company SPIC Brasil, selling a 70 percent stake in Canadian Solar's stake in its Marangatu and Panati-Sitiá projects.

Kerry Urges Mexico to Speed Efforts on Global Warming

U.S. climate envoy John Kerry on Tuesday urged Mexico to accelerate its efforts to address global warming following a meeting

NEWS BRIEFS

APA Reports Unsuccessful Drilling Attempt at Well Off Suriname's Coast

Oil and gas producer Apache's parent company, APA Corp., said on Monday that an exploratory well off of Suriname's coast struck water, marking an unsuccessful drilling effort at the Rasper well, Reuters reported. The company will move its drillship to the next well in Block 53, of which APA holds a 45 percent stake. "We think the more impactful news will be the results from the Krabdagu flow test that should include a resource assessment," said RBC Capital Markets analyst Scott Hanold.

Puerto Rico Suspends Gasoline, Diesel Taxes for 45 Days Amid Price Surge

Puerto Rico Governor Pedro Pierluisi on Tuesday signed a measure that suspends taxes on gasoline and diesel for 45 days, the Associated Press reported. The decision, made amid an international surge in the price of oil, will suspend the territory's 16- and four-cent tax per gallon of gasoline and diesel, respectively. Pierluisi added that \$25 million will be added to the government's general fund in an effort to offset the tax moratorium's loss of revenue, the wire service reported.

Venezuela's Maduro Meets With Algerian President

Venezuelan President Nicolás Maduro and Algerian President Abdelmadjid Tebboune met June 9 in Algiers and agreed to increase their countries' economic cooperation, Agence France-Presse reported. The countries will work more closely, especially on issues regarding oil and gas, as they are both members of the OPEC oil cartel and rely heavily on energy exports. Maduro's stop in Algeria followed a visit to Turkey, where he met with President Recep Tayyip Erdoğan.

with Mexican President Andrés Manuel López Obrador, Reuters reported. Kerry said Mexico's plentiful natural resources can aid it in creating and exporting clean energy. He also emphasized Mexico's responsibility to address the climate crisis as the 15th-largest economy in the world, the wire service reported. "The president has been very clear about his readiness to transition but to do so in a way that meets the needs of the people of Mexico," Kerry said about López Obrador's efforts to address global warming. Kerry added that the Mexican president is committed to involving major actors such as foreign energy companies in the process of producing energy. "He has made the decision to facilitate those companies being able to move forward and do business and sent a message that the private sector will be able to take part in various ways," Kerry said. "Follow-up was given to commitments in energy and the environment," López Obrador said of the meeting in a Twitter posting. On Friday, Mexico is planning to announce 10 steps to address climate change, said Foreign Minister Marcelo Ebrard, Reuters reported.

POWER SECTOR NEWS

Brazil's Eletrobras Raises \$6.9 Billion in Share Sale

Eletrobras, Brazil's state power company, was effectively privatized in a stock offering on June 9 that raised 33.7 billion reais (\$6.9 billion), Bloomberg News reported. The power company and Brazilian government bank BNDES together sold more than 697 million shares at 42 reais each, which was a discount of 2.4 percent from the June 9 close, according to unnamed people close to the matter. The stock offering still must be approved by Brazil's audit court and Congress. Those approvals would reduce the Brazilian government's stake in the company to less than 50 percent, Bloomberg News reported. Leftist former President Luiz Inácio Lula da Silva, who is polling as the front-runner ahead of Brazil's upcoming

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premium from the global market while outsourcing refining to more streamlined companies such as U.S. Gulf Coast refiners. For reference, Mexico's state budget was based on a crude oil price of approximately \$55 per barrel (September 2021), and Mexican crude is now at about \$99 per barrel.

“Relying more aggressively on domestic refining could have backfired, compromising Mexico's energy security...”

— Raphael Portela

This income surplus is cushioning fuel subsidies going into gasoline (approximately \$1.50 per gallon) and diesel (approximately \$2 per gallon). Setting aside the challenges with Pemex's downstream playbook, even if Pemex's refineries were ready to increase utilization rates within the scheduled time frame, the abrupt change in flows would have been risky in such a period of high volatility. Relying more aggressively on domestic refining could have backfired, compromising Mexico's energy security and potentially increasing costs to consumers.”

A Gonzalo Monroy, managing director of GMEC in Mexico City: “AMLO has floated the idea of ‘reducing exports, sending oil to the Mexican refineries’ since his 2018 presidential campaign. The rationale was that Mexico, as an oil producing country should not be importing its fuels. In AMLO's vision, fuel imports are equivalent to a loss of sovereignty. As president, AMLO pushed the grandiloquent expectation and its ensuing narrative of ‘rescuing Pemex;’ however, oil production and reserves have dwindled. When looking closer, Mexico's oil production is a history of two tales: since 2016, Pemex

has lost almost 600,000 barrels per day of oil, while private parties took its production to 90,100 barrels from scratch. In refining, the evident push to increase domestic production has mixed results: the utilization rate has increased from a historic low of 37 percent in 2019 up to 44.4 percent in 2022, but gasoline and diesel production have not been the largest contributors, but rather high-sulfur fuel oil. As per AMLO's aspirations, his idea was to reduce—and eventually cut off—all oil exports, so production could be sent to the seven refineries (including Dos Bocas, under construction) and Deer Park. The reversal in his statements is an implicit acknowledgment that existing refineries will not increase their processing capacity as expected, nor that Dos Bocas will enter commercial operation on July 2.”

A Dino Barajas, chair of global project finance practice group at Baker Botts: “Pemex is acting as a rational market price taker and is simply reacting to international market opportunities. In the case of Pemex, these periods of sharp market increases will bolster its annual profitability numbers, which in turn will assist the Mexican government to fund much-needed social programs as the Mexican economy rebounds from Covid-19 downward pressures that have affected the global market. Increases in short-term profitability may also provide Pemex with capital reserves. The company can utilize those reserves to reinvest and modernize its production and refining facilities, which is necessary in order to adequately compete with other international market players.”

A Fluvio Ruíz Alarcón, Mexico-based oil and gas analyst: “The possibility that Mexico stops exporting crude depends on at least three factors: the level of production, the effective processing capacity in the National Refining System (SNR) and

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October presidential election, is assessing different routes to reverse the privatization of Eletrobras, according to his advisors, Reuters reported. Lula has opposed the privatization of state companies, arguing that they threaten national security, leaving Brazil's resources vulnerable to exploitation by foreign companies. Guido Mantega, a former finance minister, said it is possible to reverse the privatization.

POLITICAL NEWS

Man Confesses to Killing Journalist, Indigenous Expert

A fisherman has confessed to killing British journalist Dom Phillips, 57, and Brazilian Indigenous expert Bruno Pereira, 41, in a remote area of the Amazon, Brazilian police said Wednesday night, the Associated Press reported. The man, Amarildo da Costa de Oliveira, 41, led police officers to the location deep in the forest where he said he buried the men's

“We would have no way of getting to that spot quickly without the confession.”

— Eduardo Alexandre Fontes

bodies, and investigators found human remains at the site, the wire service reported. Search teams transported body bags to the docks at the city of Atalaia do Norte and said autopsies would be carried out to determine whether the remains are those of Phillips and Pereira, who went missing on June 5. Oliveira told officers that he fatally shot the two men, the AP reported. “We would have no way of getting to that spot quickly without the confession,” said federal investigator Eduardo Alexandre Fontes. He added that the remains would be identified within days and if confirmed to be those of the missing journalist and Indigenous expert, that they “will be returned to the families of the two.” Family members of Oliveira previously

SUBSCRIBER NOTICE

Stevens Joins as Director of the Dialogue's Energy Program

Daniela Stevens on Wednesday joined the Inter-American Dialogue as the new director of its Energy, Climate Change & Extractive Industries Program.



Stevens

Before joining the Dialogue, Stevens was assistant professor in the international relations division of the Center for Research and Teaching in Economics (CIDE) in Mexico City, where she taught Latin American studies and international relations, coordinated faculty seminars, served on the Board of Professors and was an active member of the anti-discrimination committee.

Stevens has published widely in specialized environmental and climate journals, such as *Global Environmental Politics* by MIT Press, and she has written opinion pieces for *Nexos* and commentary for *El Universal*.

Prior to working at CIDE, Stevens was a research fellow at Yale University, where she performed research on coalition-building in Latin America, energy reform in Mexico and pension reform in Brazil.

A Mexican national, Stevens has experience in local and federal public administrations. Her work as a liaison between the public and academic sectors at the Federal Ministry of Public Security was critical in launching a research center on security, where she served as deputy director.

Stevens has performed extensive fieldwork in Mexico, Brazil and Colombia, where she has built strategic relationships with public officials, private sector representatives and civil society leaders regarding climate and energy policy.

Stevens holds a master's degree in political science from El Colegio de México and a PhD in comparative politics from the School of Public Affairs at American University, where she was also an adjunct professor of comparative politics and a guest lecturer of the climate policy honors class.

said he denied wrongdoing and claimed that police tortured him in order to get a confession. “Our first mission was to find them alive, but unfortunately we bring this sad news to the family, to friends and the international press,” said detective Guilherme Torres, *The Washington Post* reported. Pereira was working with Indigenous groups in the area, and Phillips was investigating illegal invasions targeting Indigenous groups. Local Indigenous organization

Univaja called the developments “an incalculable loss.” In a statement Wednesday, Brazilian President Jair Bolsonaro said Phillips was “disliked in the region,” newspaper reported. “He did a lot of stories against gold mining and on environmental issues,” said Bolsonaro. “In that region, a region extremely isolated, not a lot of people liked him. He should have redoubled his focus on taking care of himself. But he decided to make this excursion,” the president added.

NEWS BRIEFS

Ecuadorean Indigenous Leader Freed, Vows Continued Protests

Ecuadorean Indigenous leader Leonidas Iza was freed from police custody on Tuesday and vowed that protests against President Guillermo Lasso's government would continue, Reuters reported. Iza had been detained for about 24 hours after the government accused him of orchestrating road blockades. Protesters have demanded that Lasso freeze gasoline prices and take other economic actions, the wire service reported.

Brazilian Court Allows Home-Grown Cannabis for Medical Uses

A Brazilian Superior Court of Justice panel on Tuesday agreed unanimously to authorize three patients to grow cannabis for their own medical treatment in a decision that may be applied nationwide, the Associated Press reported. Currently, the law in Brazil only allows for the medical use of cannabis-derived products from imported goods. Judge Rogério Schietti said the five-person panel made its decision because the Brazilian government has not taken a scientific position on the issue. "The discourse against this possibility is moralistic," he said.

LATAM Airlines Seeks Approval for New Loans to Exit Bankruptcy

Chile-based LATAM Airlines Group on Monday requested that a judge approve \$2.75 billion in new loans in an effort to fund the company's exit from Chapter 11 bankruptcy, Reuters reported. U.S. Bankruptcy Judge James Garrity in Manhattan is expected to review the request on June 23. The company has commitments to Goldman Sachs, JPMorgan Chase Bank, BNP Paribas and Barclays Bank, among others, the wire service reported.

Western Hemisphere Leaders Sign Deal on Migration at Summit

The Summit of the Americas closed June 10 in Los Angeles with Western Hemisphere leaders signing a migration pact that they said would provide a framework for countries hosting large numbers of migrants and refugees, the Associated Press reported. The agreement, known as the Los Angeles Declaration, involves principles on legal pathways for migrants to enter countries, as well as on aid to communities affected by migration, coordinated emergency responses and humane border management. "Each of us is signing up to commitments that recognize the challenges that we all share," said U.S. President Joe Biden. "This is just a start ... Much more work remains," he added. The United States will commit \$314 million to helping countries that host migrants and refugees, and it will resume or expand efforts to reunite Cuban and Haitian families. Several Latin American countries have also announced new commitments. Costa Rica will extend protections for migrants from Cuba, Nicaragua and Venezuela who arrived before March 2020. Mexico will extend an additional 20,000 temporary worker visas for Guatemalans annually. And President Guillermo Lasso announced that Ecuador would grant temporary status for the some 500,000 Venezuelans.

ECONOMIC NEWS

Lula Eyes More Public Spending in Economic Plan

Former Brazilian President Luiz Inácio Lula da Silva, who is currently leading incumbent President Jair Bolsonaro in electoral polls, said that he will scrap the country's constitutionally mandated spending cap, boost government spending and overhaul tax policy if he wins the October presidential election, according

to a draft economic plan, the Financial Times reported June 9. The plan has 90 primary points, which include Lula's commitments to combating corruption and reconstituting the Bolsa Família social welfare program, Folha de S. Paulo reported. The plan, written by Aloizio Marcadante, a co-founder of Lula's Workers' Party, emphasizes the former president's interest in addressing poverty and inequality in Brazil. "Let's put the poor and workers back into the budget," it says, the Financial Times reported. "For this, it is necessary to revoke the spending ceiling and review the current Brazilian tax regime, which is dysfunctional and has totally lost its credibility," it added. Viktor Szabó, an emerging markets debt investment director at Abrdn, characterized the plan as "more state, less private sector and potentially looser fiscal policy." He added, "The only problem with public spending in Brazil is it's not really efficient and, furthermore, we've learnt that it's the prime source of corruption."

Chilean Government to Present Tax Reform Proposal

Chilean President Gabriel Boric's administration is set to present a tax reform plan, including a bill on mining royalties, on June 30, according to Giorgio Jackson, the minister secretary-general of the presidency, Reuters reported Thursday. Jackson said the government will announce the entire plan at the end of the month and begin to submit a few bills to Congress, including that of the mining royalty, which could affect the country's copper production. A tax reform is a "necessary condition" for Boric to follow through with his campaign promises, said Jackson. In recent weeks, the Chilean president has seen a decrease in popular support after a strong electoral win in December, with a May 29 Cadem poll showing a 57 percent disapproval rating, Bloomberg News reported. "When you're in a bonanza and good times or in bad times, they always say why are you going to do it now? There's never a good time to do tax reform," Jackson said, arguing that now is a good moment for the reform, Reuters reported.

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the impact on public finances. The country's oil production has been falling since 2004, when it peaked at 3.4 million barrels per day (mmbd). Currently, the total production of the country, that is, the sum of the production of Pemex and that of private operators, barely exceeds 1.7 mmbd, with the national oil company being responsible for more than 98 percent of that volume. Regarding the processing capacity in the SNR, Pemex will be processing around 800,000 barrels per day, as there are no signs of solving in 2022 the bottleneck that fuel oil production represents, combined with a very limited storage capacity, which makes it very difficult to sustain adequate rates of use of installed capacity. Regarding public finances, it does not matter whether the crude is exported or processed in the SNR, as the payment of the shared utility right is made based on the volume of oil extracted, regardless of its destination. Thus, the approach of reducing crude exports and only extracting what is necessary for Pemex to refine it at its facilities seems to be a discursive way to cover the failure to meet the production goals set throughout the current administration."

A **Leonardo Beltran, nonresident fellow at the Institute of the Americas and former Mexican deputy secretary of energy for planning and energy transition:** "Although April's 2022 crude export data result reduces financial pressures on Pemex, it is rather difficult to say that Pemex has changed its strategy from one data point. In fact, if we observe the last decade's data, on average Pemex has exported 1.148 million barrels per day (10.9 percent higher than April's result: 1.023 million bpd). Moreover, if you take the peak in exports over the last 10 years, February 2019 (1.475 million bpd), Pemex has registered a 4.3 percent monthly reduction in its annual exports over the

last 39 months. That is welcome but far insufficient to alleviate the financial position of the company. Furthermore, if you add to the picture trade in refined products, this year between January and April, the national oil company has augmented its imports 21.1 percent, representing \$4.878 billion-worth of gasoline (85 percent higher than last year's first four months' \$2.6 bil-

“Certainly, geopolitics is one of the explanations for market pressures, and the government could act strategically to reduce pressure...”

— Leonardo Beltran

lion), adding pressure to the overall results of the company and especially to the fiscal position of the Mexican government, which has decided to compensate this fuel price increase. Certainly, geopolitics is one of the explanations for market pressures, and the government could act strategically to reduce pressure in this convulsive environment with the war in Ukraine. There is an immediate interest to find new sources and diversify from existing sources of fuels. If Mexico would like to position in the international arena, one possibility would be to open new rounds of onshore hydrocarbon tenders that could in the very short term be substituting Russian production, and at the same time improving Pemex's finances and the Mexican state's coffers."

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

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