

Letter

Dear Robert,

I refer to the article on Pemex versus PdVSA in the last issue of Oxford Energy Forum. Both national oil companies have been facing structural managerial, operational, technological and financial problems for too long, yet in contrast to the scenarios presented by Mr Lajous in which PdVSA is essentially heading to a crash whilst Pemex is likely to face a soft landing, an emerging view is that Pemex could be due to face bigger challenges over the next ten years than PdVSA. In part this is because PdVSA is already there whilst Pemex is not, and in part to the lack of diversification of the Pemex upstream portfolio. The long-term portfolio of opportunities of Pemex may be more diverse and promising than that of PdVSA (even if the ultimate recoverable reserves are smaller), but not the current portfolio. The present is what needs to be reconsidered in order to have a different future.

Mr Lajous starts the section on Mexico by reminding us that the Mexican oil industry is at a critical juncture and that all key operational parameters have deteriorated. He goes further to say that three strategic initiatives are recommended (focus on brown field developments in existing production core areas, develop Chicontepec and intensify offshore exploration in deepwater), but none can be executed without large capital inflows and organisational changes. Technology is not an issue, according to the article. Finally, he concludes that long-term security of supply is a matter of urgency for the Mexican state and that the most innovative solution the politicians can find is to regulate production.

In the section on Venezuela, he essentially questions the statistics coming out of PdVSA as well as secondary sources. He points out that the company lacks capital, technology and managerial expertise and that the important projects in the Faja, Venezuela's only future option, will slow down due to uncertainty. The

article indicates that production and exports of both Pemex and PdVSA to the critical US market are likely to stagnate or further contract, but the issue appears to be more imminent for PdVSA than for Pemex.

If we consider the above points and other external evidence, we infer that Pemex is in fact more exposed today than PdVSA to the mistakes of the past and lack of reforms. Firstly, the Venezuelan oil industry enjoys far more diversification than Mexico's from an upstream and downstream point of view. The simple fact that over 50 percent of Mexico's production comes from the Cantarell complex, while in Venezuela there are over 200 fields or field complexes and several operators, is the major difference. Furthermore, the statistics of both national oil companies are questionable; they are just presented differently and with different time lags. The bottom line is that exploration performance trends have been poor in both companies and management has been unable to reverse them over many years. It is surprising that technology appears not to be an issue for Pemex in the article. It depends how you define technology. Although anybody can go out to the market and contract a deepwater rig, equipment to pump extra heavy oil, or purchase the latest reservoir modeling package, the fact is that the years of experience with these technologies are

more important than having access to the toolkit. In truth, neither of the companies are technology leaders even in their core areas at the present time. Looking ahead, Pemex cannot go solo to deepwater areas, and PdVSA cannot go solo to exploit the Orinoco extra heavy crude and the evidence is pretty clear on that, otherwise the government would not be talking to more parties for Orinoco developments.

There is no denying that from a strategic perspective both companies are losing importance as other companies such as Aramco and Petrobras continue to grow. Pemex and PdVSA have been strong competitors in the US Gulf market and reliable suppliers. But this may not be the case in the future. Until the politicians realise that they are losing the projected revenues and economic benefits each country needs (for their own survival as well), pressing issues will continue to be hidden. I guess that the articles published in the last issue should have stated more clearly that Pemex and the Mexican congress should not waste any more time whatever they choose to do, and that PdVSA would be better advised to begin telling the truth to President Chavez.

Yours sincerely
Ivan Sandrea
Vienna

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