# The Social Importance of Oil

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Mexican society, the true owner of the country's oil, has benefitted little from this great resource, since public policies' supposed appropriate use of oil surpluses has not been reflected in social well-being. Most of the population is clear that oil rent is one of our country's main sources of income and the most promising option, *par excellence*, for obtaining public revenues and finding immediate solutions to all the economic, social, and political problems in Mexico's history.

Oil should be a lever for economic and social development in the twenty-first century because it brings in hard currency from abroad and because, linked up with other industries, it is a good that can increase its value importantly, creating many jobs. In addition to this, it can be very useful as a means to cut the costs of oil-derived inputs, such as fuels, if they are produced in Mexico, and, of course, since it generates more tax and financial earnings that go into the state coffers, the government could use them for economic and social growth and development.

With foreign capital's entry into oil exploitation, the economy and oil's social significance undergo drastic changes. Given the magnitude of the oil deposits, the proximity to the United States, its main consumer, and the advantageous conditions granted investors by Mexican administrations, the flows of foreign capital are so high that in a short time they will cause the beginning of the decomposition of traditional society.

Oil rent should serve to reinvent the future, but this has not happened, or has only happened in a poor way in our country. And, as is the case in general with the import-substitution model, the main problem is that the concept of development is not fully understood or the country's economic and political actors do not perceive it in the same way.

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That is, economic development can be understood as a phenomenon that implies social development, in which most people improve their quality of life; gain access to better health, educational, security, and housing services; and enjoy greater well-being with more and better job opportunities in productive, profitable companies in an economy characterized by macro-economic equilibrium, visible both in the balance of payments (which implies trade balance, payment of factoring services, and balance of capital) and in sustained, long-term growth. If we understand economic development in this way, we can conclude that this has not happened in Mexico, despite the fact that the conditions existed for achieving it.

Why has oil, for more than 74 years the property of the nation and administered by the state, not been clearly an engine for growth in Mexico? Among other reasons, this is because Pemex became the state's main source of income, given the inefficiency of other revenue sources. This has meant that the parastate company could not reinvest part of its profits in modernization, exploration, drilling, production, and refining, at the same time that the resources that it provided to the the state are often distributed inappropriately. Thus, oil has served for getting loans from abroad, but, when its price and/or production drops, those same loans have strangled public finances and caused economic chaos in the country, precisely because the desired economic development has not been achieved.

## Oil Surpluses and the Country's Development

Pemex gives the government the revenues that it has not been able to collect through other taxes. According to the Federal Auditor's Office, between 2001 and 2008, the country received oil surplus income of Mex$1.28 trillion; however, 71 percent of that money went into operating costs (that is, wages, bonuses, Christmas bonuses, employee benefits, office supplies, coffee, cookies, etc.).[1] In early 2011, the National Manufacturing Chamber (Canacintra) denounced that oil surpluses continued to be used for operating expenses instead of to "modernize and expand the industry toward levels that would today put the country at the forefront in oil matters, given their extraordinary size."[2]

What could the oil surplus revenues have been invested in if the government had not frittered them away on running expenses? They could have built 10 refineries, each at a cost of US$10 billion;[3] or paid for 10 years of deepwater exploration —US$200 billion are needed for 20 years;[4] or built 1 600 specialized hospitals, each at a cost of Mex$800 million;[5] or 10 600 university campuses, for Mex$120 million each.[6] Unfortunately, the oil economy enormously benefits a few, increasing the existing great social inequalities.

Mexico got rich on oil and has been squandering that wealth for three decades, and the consequences have intensified in recent years. For at least four years, production by Mexico's main oil producer, the Cantarell Complex, the victim of over-exploitation by all the administrations since its discovery, has been declining, with pumping dropping to less than half. "Cantarell closed 2010 with a production of 501 000 barrels a day (b/d), but it began 2011 at 469 000 b/d in February, 459 000 b/d in May, and 443 000 b/d by September, a drop of 13 percent."[7] By January 1, 2012, Mexico had proven reserves (called 1P) of almost 13.8 billion barrels of equivalent crude, a 0.1 percent increase *vis-à-vis* 2011. Proven and probable reserves (2P) came to 26.2 billion barrels, and when added to possible reserves (3P), they came to 43.8 billion.[8]

These figures show the urgency of taking action. It is time to look beyond economic interests; it is true that making changes to current policies will affect the public initially, since the revenues now supplied by Pemex will have to come from other taxes, if fiscal policy were to be modified. But, if those changes are not made now, Mexico will go into a crisis that it will not be able to extricate itself from because, without oil to maintain the country and pay all the debts, the government will not be able to pay all its workers, and taxes, which will inevitably increase, will not be paid simply because the citizenry will not have the money to pay them.

Despite being oil- and gas-rich, Mexico has not been able to foster the social development of its population in accordance with the standards set by international bodies. This has led some economists to minimize the potential of natural resources as driving forces for development not only for Mexico, but for any nation. Jeffrey Sachs considers that the existence of oil and natural gas seems to have an influence in decreasing the economic and social well-being of countries that have them, calling this theory "the natural resource curse."[9] Colin Campbell, for his part, states that countries rich in energy sources have already reached peak oil and that from now on, production will decline.[10] The implications of this include pressure on the World Bank in 2008 to withdraw its financial support to energy-resource-rich countries whose economies have not developed. In the case of Mexico, I think there are four important aspects to be considered in the design and management of public economic policy that have caused the energy sector's deficit:

1. *An erroneous federal fiscal policy*. It has been a mistake for federal revenues to continue to be highly dependent on the tax on oil instead of seeking new sources of income; this is why a fiscal reform is urgent.
3. *The decision to levy high taxes on Pemex*. This has meant that, since 1980, the company has lacked the cash it needed to invest in exploratory drilling.
3. *Pemex's lack of efficient refineries*. Mexico needs to increase the value added of its exports.
4. *The lag in technological research*. The discovery of the country's largest oil deposit, Cantarell, in the Gulf of Mexico, with oil in shallow waters, contributed to Pemex's not moving ahead to develop other kinds of exploration techniques, as has been done elsewhere. Now that Cantarell has entered into an accelerated process of decline, Mexico needs other sources, but it does not have the appropriate technology for exploring and sinking wells in difficult conditions or deeper waters.

Mexico is one of the world's most important oil-producing countries. The value of its crude exports exceeds almost every year the income from foreign direct investment or remittances. Oil resources represent about 33 percent of income, but how the monies from the oil surplus are used is of capital importance for evaluating its true potential as a tool for development and a mechanism for redistributing income.

According to data from the National Statistics and Geography Institute (INEGI), from 2001 to 2011, the exports of oil and its derivatives tripled their contribution to the Mexican economy, soaring from US$13.19 billion to US$56.32 billion. Given that, the participation of oil exports in the GDP rose from 2.5 percent to 5.0 percent from 2001 to 2011, reconfirming that Mexico's dependence on oil earnings has sharpened.[11]

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In short, what will happen when our oil runs out or when national production is insufficient? Before that happens, Pemex needs to be turned into a lever for the overall growth of the economy, without abandoning its important role as an aid for the national coffers. We must stop thinking of oil as the guiding axis of the national economy, overcome that dependence, and change the paradigm. What is needed is careful planning to guarantee the rational use of oil surpluses. In this sense, one fundamental aspect that must be reviewed is the real distribution of those surpluses, essential for strengthening the government's financial capacity and making its participation in the economy more effective. Development plans will be very hard to put into practice if the state does not maintain significant participation in the productive process so that it can have the capability of opting for the modes it might consider appropriate. The largest part of the resources should be earmarked for long-term productive projects, social development, and savings, and not for superfluous payments or increasing government spending obligations. Preferentially, the state should earmark oil surplus monies to investments in energy, in the creation of scientific and managerial capabilities, and in social cohesion. VM

## Notes

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[2] *La Jornada* (Mexico City), February 27, 2011, http://www.jornada.unam.mx/2011/02/27/economia/026n2eco.

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[4] "Inversión en aguas profundas, prevista en US$200 000 hasta el 2025," *Business News Americas*, February 22, 2005, http://member.bnamericas.com/news/petroleoygas/Inversion_en_aguas_profundas_prevista_en_US*200,000_hasta_el_2025.

[5] "Sin fecha aún, construcción de Hospital de Alta Especialidad," http://www.elsiglodetorreon.com.mx/noticia/409079.sin-fecha-aun-construccion-de-hospital-de-alt.html.

[6] "Construirán unidad de la UACM en Gustavo A. Madero," *El Universal* (Mexico City), June 25, 2006.

[7] Comisión Nacional de Hidrocarburos, "Reporte de indicadores de explotación al 30 de septiembre de 2011," http://cnh.gob.mx/_docs/Re portes _IH/Reporte_CNH_30_Sep.pdf.

[8] "Petróleo seguro para hoy…¿y mañana?" CNN *Expansión*, http://www.cnnexpansion.com/economia/2012/02/29/petroleo-seguro-para-hoy-y-manana.

[9] Jeffrey Sachs is an economist, professor, and director of the Earth Institute at New York's Columbia University.

[10] Geologist and founder of the Association for the Study of Peak Oil and Gas.

[11] Edmundo Sánchez, "Crece en una década dependencia petrolera," *El economista* (Mexico City), January 15, 2012, http://eleconomista.com.mx/industrias/2012/01/15/crece-decada-dependencia-petrolera.

# Pemex-PMI: A Black Hole

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Germán Romero/Cuartoscuro.com

This article is directed at each and every reader interested in understanding how Pemex, a company that belongs to all Mexicans, operates, what interests it benefits, and what to do with it.

## Energy in 1938 and 2012

Mexican Petroleum (Pemex) is the powerful Mexican company that emerged from the expropriation of British oil companies on March 18, 1938. It has historically been managed by a technocracy appointed by each federal administration, and in recent decades, it has been subordinated to the world's oil mecca controlled from Washington and Houston, based on the February 1995 accords that mortgaged Pemex for US$52 billion given to the Mexican government. Since then, Pemex operations have been opaque, effected via agreements to satisfy concrete interests of multinational companies until today, when it is close to collapse.

The big discoveries of crude oil and gas from the Mesozoic era in Chiapas-Tabasco and the Campeche Sound in the late 1960s, when crude was being imported, grew Pemex to a historic maximum unequaled until today. This made it one

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