

## Mexico Secretary: Will Have To Double Oil Exploration Spending

*Energy is needed all over the world in large quantities.*

Associated Press  
July 25, 2006

Mexico may have to spend twice as much to find and extract oil in coming years as the country is forced to turn to smaller deposits and searching in deep water, energy officials said Tuesday.

The changes are due to the decline of the huge Cantarell field in the southern Gulf of Mexico, where production has started falling by an average annual rate of 5% to 6%, officials said.

"The era of easy oil is over in our country," Energy Secretary Fernando Canales told a news conference.

Canales noted the Mexican Constitution bars the state-owned oil monopoly Petroleos Mexicanos, or Pemex, from forming strategic alliances with foreign companies with more deep-water experience, limiting "the speed with which we can drill these exploratory wells."

Officials said Mexico needs to drill 30 to 50 such exploratory wells.

Mexico's three existing deep-water wells have so far produced more natural gas than crude oil, but Canales added "we need gas as well as oil, so it's not a waste."

Assistant Energy Secretary Hector Moreira said "I think the (production) costs will probably double" for Mexico's crude mix. But he added that "even if the cost reaches \$15 or \$16 (a barrel) ... it continues to be very, very profitable" with current high oil prices.

Crude was trading Tuesday at around \$74/bbl on international markets.

Canales said Saudi Arabian officials recently told their Mexican counterparts that some of the current boom in prices is due to international conflicts and the uncertainty they create.

"They estimate that oil is overvalued by 20 dollars (per barrel) due to geopolitical concerns," Canales said.

High oil prices "benefit us in the short term," Canales said, "but in the medium and long term, this is not something that benefits Mexico, because very high oil prices could result in a reduction in the growth of the world's economies."

While Mexico faces a problem in replacing production with the discovery of new oil reserves, Canales said the country had reached a 59% replacement rate, up from around 21% in 2000.

He also said studies suggested Mexico has 54 billion barrels in unproven reserves.

In the meantime, he said Mexico was studying adding more nuclear power capacity, including a possible second reactor next to Mexico's only existing plant, at Laguna Verde in the Gulf coast state of Veracruz.

Canales also sought to reassure Central American nations that an ambitious regional energy project would go ahead regardless of who is declared the winner of Mexico's still-disputed presidential elections.