Energy Means Business for Mexico

By Kent L. Barry

Building on commercial ties first forged in the kerosene trade nearly 120 years ago, ExxonMobil is exploring new ways to help Mexico strengthen its vital energy sector while also growing the company's resident businesses. Mexico's current position as a leading crude oil supplier to the United States (ranking second only to Canada) underscores the significance of the role it plays on the global energy stage.

In concert with Petróleos Mexicanos, or "Pemex" as the state-owned oil company is also known, ExxonMobil is assessing novel approaches for creating strategic alliances that can maximize the long-term economic value of the country's vast oil and gas resources. Pemex is the largest company in Mexico. In 2003, according to the Petroleum Intelligence Weekly, it was the eighth-largest oil and gas company in the world and the third-largest crude oil producer.

Mexico's earnings from oil exports last year exceeded $16 billion, a critical funding stream that annually provides about one-third of the revenues for the federal budget. Of this amount, about $4 billion involved transactions with ExxonMobil, making the company one of Mexico's largest trading partners.

About 90 percent of Mexico's crude oil exports come to the United States, where ExxonMobil is the largest purchaser (435,000 barrels per day) of Pemex crude oil for the company's Gulf Coast refineries. When combined with sales to Mexico of high-octane lead-free gasoline, natural gas, propane, lubricants and chemicals, the company's business activities totaled more than $5 billion last year.

Toward a Sound Energy Policy

Mexican President Vicente Fox voices strong support for greater private-sector investment in Mexico's energy sector. The former chief business executive for Coca Cola's Mexican operations and Harvard Business School graduate is unequivocal in championing the view that Mexico's economic development is directly related to the soundness of its energy policies. As he puts it, "Without energy there can be no development, without energy there can be no quality of life, without energy there can be no future."

Pemex Director General Raul Munoz Leos (DuPont's president in Mexico for 12 years before being asked to serve in the Fox administration) echoes the need to seek progressive approaches to Mexico's future energy development. According to Munoz Leos, "The participation of the private sector is needed in the production of hydrocarbons since its investment resources, experience and skills are essential for the national oil industry to achieve the development allowed by its potential."

Devising the best structure for strategic alliances in Mexico's energy sector is challenging. But ExxonMobil is no stranger to the country's business community or to its energy landscape. In fact, the company has maintained a continuous business presence in Mexico since 1885, and throughout that period it has worked to expand energy trade and provide economic and employment opportunities.

Building on a Storied Past

Mexico is a place steeped in history. Highly advanced cultures, including those of the Olmecs, Mayas, Toltecs and Aztecs, existed for hundreds of years prior to the Spanish conquest led by Herenandez Cortez in 1521. Spanish rule prevailed for three centuries before Mexico won its independence early in the 19th Century.

Today's Mexico remains inextricably linked to its storied past, even as its thriving economy and growing population continue to drive the pace of its extraordinary progress in modernization and development. Its colossal capital, Mexico City, is home to more than 21 million people, ranking it by some estimates as the largest urban area in the world.

Mexico City's broad thoroughfares, renowned cultural amenities, unique archeological treasures, and bustling commercial activity continue to draw people and businesses alike as a good place to live and work. The company’s main offices are located in the heart of the city's legendary business district, and a lubricants blending, packaging and distribution plant facility is not far away in the Vallejo industrial zone.

In addition to Mexico City, the company's more than 260 employees throughout the country work in areas ranging from operations, sales and marketing to administrative support activities. The sales force is located in key metropolitan areas, providing effective market coverage throughout the country.

Standard Oil's upstream activities in Mexico began in the early 1900s in the Gulf Coast region of the State of Veracruz, where oil and asphalt seepages were often mentioned in the writings of Spanish explorers centuries before. By 1911, the first shipments of Mexican crude were made from Tampico to the United States, and production jumped that year from four million to more than 13 million barrels.

After the restructuring of Standard Oil in 1911, Standard Oil of New Jersey continued to operate in Mexico as a crude oil producer and petroleum products marketer. Vacuum Oil Company, another successor to the Standard Oil business, entered Mexico through a distributor in 1928.

A Defining Act

Mexico entered yet another defining period in its energy history when, on March 18, 1938, the Expropriation Act became law. The petroleum industry was nationalized, the producing properties of the international oil companies were confiscated and Pemex was entrusted with the management of Mexico's petroleum industry. In short order, most foreign oil companies ceased all operations in Mexico. Owing to the nature of its operations, Vacuum Oil Company remained in Mexico, since its activities were not covered by the Act.

In 1955, the Vacuum Oil Company changed its name to Mobil Oil de México, and began purchasing Pemex base stocks for lubricating oils. Two years later, Exxon Corporation (formerly, Standard Oil of New Jersey) began to import chemical products from the United States, including solvents, hydrocarbons, plasticizers, polyethylenes and additives. In the years that followed, the company's commercial activities within the country have been largely concentrated in lubricants and chemicals sales and marketing.

Lubricants and Chemicals Thrive

According to Juan Carlos Marroquin, ExxonMobil's Lead County Manager and Lubes Manager, the company's largest Mexican-based operations are in the lubricants sector, where the *Esso* and *Mobil* brands have established an excellent reputation for quality and value. ExxonMobil Lubricants & Petroleum Specialties is the largest private sector supplier of lubricants to the Mexican market, with more than a 20 percent share.

ExxonMobil is also an important supplier of unbranded lubricants to the automotive, factory and service-fill sectors. "Our premier synthetic lubricant, *Mobil 1*, is the undisputed leader in the automotive synthetic lubricants category in the market," says Marraquin. "Our products and services play an important role in the country’s industrial and consumer sectors, and we also market to and serve the aviation and marine lubricants business sectors."

In Marraquin's view, "the company's success is based on a strategy that maintains focus on well-defined target sectors and channels while leveraging and integrating our channel partner network of branded distributors. We strive to always maintain safe operations and flawless execution across all operations in order to maintain our license to operate."

Complementing the company's strong position in lubricants and petroleum specialties, ExxonMobil is one of Mexico's most important suppliers of petrochemicals through its polymer, intermediates and film divisions. In the historic port city of Tuxpan, situated northeast of the capital on the Gulf Coast, ExxonMobil Chemical's affiliate owns and operates a storage terminal that receives imports and distributes many of the products supplied to Mexico's rapidly growing chemicals markets.

Jose Luis Ledesma, who heads the company’s chemical affiliate, has worked in Mexico’s chemical industry for 25 years. “Markets here are benefiting from the country’s increasing number of trade agreements with others,” he says.

Ledesma notes that Mexico has negotiated 11 free-trade agreements with 32 countries on three continents since 1994.   Ten years after the implementation of the North American Free Trade Agreement (NAFTA), the growth in bilateral trade between Mexico and the United States has outpaced even the most favorable predictions. U.S. exports to Mexico have more than doubled, and Mexican exports to the U.S. have risen nearly 250 percent.

“We see excellent opportunities ahead as the Mexican economy keeps growing,” says Ledesma, predicting that, "Mexico will continue to prosper because it is more trade-oriented than ever before.”

Fostering a Brighter Energy Future for Mexico

Joe Newhart concurs with the optimism about Mexico's future.   In his role as president of Exxon Mobil Ventures Mexico Ltd., Newhart is working with Mexico's business leaders and government officials to foster strategic alliances to ensure that Mexico's energy sector continues to prosper.

"As the Mexican economy continues to grow," Newhart explains, "it will need more and more of the country's oil reserves to satisfy the demand. If Mexico is unable to grow that production, then they will have less oil for export and reduced revenues for the federal budget."

Asked to describe the challenge he would most like to resolve, Newhart says that if ExxonMobil is given the opportunity to help Mexico meet its needs using the company's unmatched financial strength, operational expertise and industry-leading technology in the deepwater areas that hold the greatest potential for significant future discoveries, the benefits for North American energy security would be substantial. When that opportunity does arise, he concludes, ExxonMobil will be there to serve the people of Mexico by helping its energy sector remain strong for decades to come.

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Call-Out

"Without energy there can be no development, without energy there can be no quality of life, without energy there can be no future." -- Mexico President Vicente Fox