

**STATEMENT OF
SPECIAL ENVOY, AMBASSADOR CARLOS PASCUAL
BUREAU OF ENERGY RESOURCES, DEPARTMENT OF STATE
BEFORE THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES UNITED
STATES SENATE**

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**“U.S. – Mexico Transboundary Hydrocarbon Agreement and Moving
Towards Implementation**

Chairman Wyden, Ranking Member Murkowski, and other Members of the Committee on Energy and Natural Resources, I appreciate the opportunity to appear before you today.

I know that each and every Member of this Committee is concerned about our nation`s energy security, and I can assure you that Secretary Kerry and the Department of State share that concern. For that reason, I am happy to be here today to discuss the Transboundary Agreement between Mexico and the United States. The Administration supports the swift passage of legislation to allow for the implementation of the Transboundary Agreement signed by Mexico and the United States on February 20, 2012 and we appreciate the Chair and Ranking Member for their leadership in introducing legislation. We look forward to working with Congress on Senate Bill 812 to accelerate the safe and effective development of hydrocarbon resources that cross the maritime boundary between Mexico and the United States in the Gulf of Mexico.

Let me begin by stressing the importance that the State Department assigns to fostering a stable energy partnership with Mexico. Our energy trading relationship with Mexico is an important component of North American energy security. Mexico is our third largest supplier of imported crude oil and the largest export market for U.S. refined petroleum products; in fact, energy-related trade with Mexico totaled \$65 billion dollars in 2012. Mexico is also a growing market for U.S. natural gas exports. By establishing greater legal clarity for the development of reserves that traverse the U.S.-Mexico maritime boundary in the Gulf of Mexico, the Transboundary Agreement would bring significant benefits to the United States and Mexico.

The United States and Canada have experienced an increase in energy production as a result of private investment, entrepreneurial ingenuity, technological innovation and strong commodity prices. In 2012, domestic oil production climbed to the highest level in 15 years. In contrast, Mexico has 10.2 billion barrels in proven reserves, but its production fell by over one third from 2004 to 2012, and projections forecast Mexican production will continue to decline in the short-term. This significant trend is often attributed to the maturation of major fields and the challenges for the national oil company, Petróleos Mexicanos (PEMEX), to maintain the necessary levels of investment in the sector.

Mexican President Peña Nieto has made energy reform a priority. His party submitted legislation for comprehensive energy reform in August 2013 and, with passage of the reform, Mexico could attract international investment and expertise to help develop its hydrocarbon resources and reverse the decline in oil production. The Transboundary Agreement could be a down payment on the promise of more fundamental reform. With entry into force of the Agreement, companies would have a framework to develop resources crossing the U.S. maritime boundary with Mexico as the current lack of a framework renders these resources too risky to tap. The projects that would be enabled by the Agreement would demonstrate that cooperation between PEMEX and international oil companies, including those based in the U.S., has the potential to produce significant resources and revenues to benefit the Mexican people and economy.

Despite the challenges facing Mexico in the near term, the exciting story here is that North American energy production as a whole could boost our respective national and global energy security. North American energy resources provide the prospect not only of assuring our own energy supply, but of contributing to global market supplies and helping promote the stability in global energy markets that we need to support our domestic economic growth. Such opportunities, including the Transboundary Agreement between the United States and Mexico, could support increased Mexican and North American production capacity and could be critical to world supplies and economic growth.

Background

The Transboundary Agreement between the United States and Mexico addresses the development of oil and gas reservoirs that cross the maritime boundary between our two countries in the Gulf of Mexico (excluding submerged lands under Texas jurisdiction). The Mexican Senate overwhelmingly approved the Agreement in April 2012. The Administration previously proposed legislative

language that would provide the Secretary of the Interior the necessary authority to implement the Agreement. S. 812 closely resembles this language, and its passage would allow implementation to commence quickly.

Role of the Agreement

The Transboundary Agreement is an important step in our national efforts to secure our energy future and, at the same time, promote a stronger and long-term cooperative relationship with Mexico in meeting each country's energy security goals. We believe the agreement would help facilitate the safe and responsible management of offshore petroleum reservoirs that straddle our maritime boundary and strengthen overall our bilateral relations.

The Agreement would enable meaningful energy sector collaboration between the United States and Mexico (and in particular between U.S. operators and PEMEX), which we believe would provide U.S. operators the opportunity to demonstrate the benefits of their participation in the Mexican energy market, potentially leading to deeper and more meaningful collaboration over time.

This Agreement will make nearly 1.5 million acres of the Outer Continental Shelf more attractive to U.S. operators by unlocking areas for exploration and development along our maritime boundary within U.S. jurisdiction . The Agreement would eliminate the moratorium on drilling along the boundary in the Western Gap, and provide legal certainty needed for investment in the boundary region. It would allow American companies to enter into unitization agreements with PEMEX for the joint exploration and development of resources in the areas covered by the Agreement. The development of a reservoir as a single unit allows companies to agree how to manage the reservoir jointly in the most efficient manner, generally reducing the amount of required drilling and therefore reducing environmental impact. Each unitization agreement would be required to comply with applicable safety standards. As a package, these arrangements could increase revenues and provide greater energy security, while mitigating safety and environmental risks that could result from unilateral development along the boundary.

We are pleased that the Agreement would advance safety and environmental protection in the Gulf. First, it provides for a system of joint inspections for all activity that takes place under the agreement. Though Mexican law would apply to operations under Mexican jurisdiction and U.S. law would apply to operations under U.S. jurisdiction, each side would have the ability to work with the other to

ensure that all activity that takes place under the Agreement – wherever it occurs – meets all applicable laws and standards. In addition, under the Agreement our two countries would continue to work together to ensure that our respective standards and requirements are compatible where appropriate for the safe, effective, and environmentally responsible implementation of the Agreement.

In all aspects, the Transboundary Agreement offers the United States and Mexico significant benefits. It would, for the first time, establish a framework that would facilitate the development of hydrocarbon reservoirs that cross our maritime boundary with Mexico. This is a business friendly arrangement with strong safety and environmental provisions.

S. 812-H.R. 1613

We welcome S.812 and the interest of both the Senate and the House in passing legislation providing the Secretary of the Interior the authority to implement the Transboundary Agreement. As noted in the Statement of Administration Policy on H.R. 1613, we support passage of legislation focused specifically on the Agreement, without the inclusion of provisions such as those relating to Section 1504 of the Dodd-Frank Act that would directly dilute U.S. efforts to increase transparency and accountability. We look forward to working with the Department of the Interior and the Committee on expeditious approval of this important piece of legislation.

Conclusion

In conclusion, we are encouraged by the accelerating pace of interest and movement on implementing this agreement, which provides a much needed mechanism to facilitate the responsible and efficient exploration and development of hydrocarbon resources along the U.S.–Mexico maritime boundary. As many Congressional Members have stated, it is a “win-win” for the United States and Mexico and a win for North American energy security because it fosters stronger relationships in the development of our shared energy resources.

I appreciate the time you and your staff are devoting to this issue and hope that we addressed to your satisfaction your requests for information on the many potential benefits for both the United States and Mexico, should the Agreement be brought into force.

Thank you again for this opportunity to testify before this Subcommittee and I would be pleased to answer any questions the subcommittee might have.