

**STATEMENT OF
SPECIAL ENVOY, AMBASSADOR CARLOS PASCUAL
BUREAU OF ENERGY RESOURCES, DEPARTMENT OF STATE
BEFORE THE
SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES
COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES**

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**“U.S. – Mexico Transboundary Hydrocarbon Agreement and Steps Needed
for Implementation”**

Chairman Lamborn, Ranking Member Holt, and other Members of the Subcommittee on Energy and Mineral 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. We look forward to working with you on the legislation introduced last week to accelerate the safe and effective development of hydrocarbon resources that cross the maritime border between Mexico and the United States.

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 as evidenced by the fact that Mexico is our third largest supplier of imported crude oil and the largest export market for U.S. refined petroleum products. It is also a growing market for U.S. natural gas exports. The Transboundary Agreement, by establishing greater legal clarity for the development of reserves that traverse the U.S.-Mexico border, 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. U.S. oil production has increased by about 35% in the past five years. In contrast, Mexico has 10.2 billion barrels in proven reserves, but its production fell by 23 percent from 2004 to 2011, 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, and if it is successful, Mexico could attract international investment and expertise to 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. Private investors would have a framework to develop cooperatively resources crossing the U.S. maritime border with Mexico. Such commercial engagement could capture resources that are currently not being developed because of legal uncertainty, and demonstrate that private investment produces resources and revenues that 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. In North America, our energy resources give us the prospect to assure our energy supply. Just as important, North American resources will contribute to global market supplies, help balance global markets, and help promote the kind of 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 international 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 has proposed legislative language that would provide the Secretary of the Interior the necessary authority to implement the Agreement, and this proposed language has been shared with the Subcommittee.

Role of the Agreement

The Transboundary Agreement is an important step in our national efforts to better 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 U.S. and Mexico (and in particular between U.S. operators and PEMEX). We anticipate that this collaboration under the Agreement would provide U.S. operators with the ability 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 outside of the Western Gap. It would allow American companies to enter into agreements – unitization agreements – with PEMEX for the joint exploration and development of resources in specific areas. The development of a reservoir as a single deposit generally reduces the amount of drilling. Activities under unitization agreements would be required to comply with appropriate safety standards. As a package, these arrangements will potentially increase revenues and provide greater energy security, while mitigating safety and environmental risks that could result from unilateral development by each country along the boundary.

We are pleased that the Agreement would advance safety and environmental protection in the Gulf and provide significant safety and environmental benefits that would not occur without it. 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

their 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 payoffs.

H.R. 1613

We welcome H.R. 1613, The Outer Continental Shelf Transboundary Hydrocarbon Agreements Authorization Act that was introduced late last week. It is a promising step forward to implement the U.S. – Mexico Transboundary Agreement. We support the goal of this legislation to grant the Secretary of the Interior general authority to implement the Agreement and to provide Congressional approval of the Agreement. We look forward to working with the Department of the Interior and the Committee on this important piece of legislation for expeditious approval.

Conclusion

In conclusion, we are encouraged by the accelerating pace of interest and movement on implementing this agreement. It is one that 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 House Members have stated, it is a “win-win” for the United States and Mexico and also a winner 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.