

Pestel analysis of mexicos oil market



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ENI is an Italy's largest oil company and seventh largest oil company in the world. Head quartered in Italy operates in oil, natural gas, electricity generation and sale, oiled services construction, petrochemicals, and engineering. ENI policy is to “ more based on making the most of people, contributing to the development and well-being of the communities with which it works protecting the environment, investing in the technological innovation and energy efficiency, as well as mitigating the risks of climate change.” ENI is well established company in the oil industry with of \$680 million worth of assets around the globe, operating in 77 countries with 78400 employees. ENI is more towards exploration and production of oil and gases. The mission and vision seems to be of the company as follows.

Mission

“ We are a major integrated energy company, committed to growth in the activities of finding, producing, transporting, transforming and marketing oil and gas.

Eni men and women have a passion for challenges, continuous improvement, excellence and particularly value people, the environment and integrity.”

Vision

“ Eni is an integrated energy company, committed to developing its activities in research, production, transport, transformation and marketing of oil and natural gas”

Eni plans to sustain a strong production growth in the near future forcing upon internal development and targeting over 1. 8 million barrels on

equivalent /day in 2011 (a yearly average increase of approximately 6%).

Eni's confirmed reserved achieved over 7 billion barrels on equivalent. Even though

Mexican oil market

Mexico is the seventh largest oil producer in the world producing almost 3.8 million barrels per day. State owned company PEMEX holds large no. of oil in Mexico and plays a monopoly role in the Mexican oil market therefore any difference in PEMEX will have direct impact on the country's economy. Oil industry plays a vital role in the Mexican economy, and oil industry generates 15% of country's exporting earnings. Apart from that the Mexican economy relies mostly on oil earnings about 40% of government's revenues. The Mexican offshore consists 10.5 billion oil barrels as proven reserves.

According to oil report on Mexico it states " Mexico's total energy consumption in 2006 consisted mostly of oil (55 percent), followed by natural gas (32 percent). All other fuel types contribute smaller amounts to Mexico's overall energy mix. Natural gas is increasingly replacing oil as a feedstock in power generation. However, Mexico is a net importer of natural gas, so higher levels of natural gas consumption will likely depend upon higher imports from either the United States or via liquefied natural gas (LNG)."

The problem was Mexico has been a clause in the constitution stating that PEMEX has exclusive rights to the exploration and production of natural gas. In 1995 the Mexico passed the Natural gas law, allowing private investors to be involved in the storage and distribution of natural gas, while still reserving ownership with PEMEX. In 2004, Mexico invited foreign companies in the

country to expand its natural gas production. PEMEX offered these companies seven block in the Burgos basin in the northeast. Overall Mexico has taken a leading role in natural gas development among oil producing countries through its decision to invite private oil companies instead relying on PEMEX.

The Mexican government is hopeful that with a Expanding oil and gas industry and the reduction of corruption, Mexico's economic situation will improve.

Most of the exploration and production is produced in Gulf of Campeche; the area includes two main production centres known as Cantarell and Ku-Maloop-Zaap (KMZ). According to the Energy information administration it state that " The Cantarell oil field is one of the largest oil fields in the world, but production there has declined dramatically in the past several years. In 2008, Cantarell produced 1. 0 million barrels per day of crude oil, down over 30 percent from the 2007 level of 1. 47 million barrels per day and down nearly 50 percent from the peak production level of 2. 12 million barrels per day in 2004. As production at the field has declined, so has its relative importance to Mexico's oil sector: Cantarell contributed 36 percent of Mexico's total crude oil production in 2008, versus 62 percent in 2004."

PEST Mexico

Political

The Mexican oil industry started to boom in 1970's and till now the Mexican oil industry has a rich history in oil production.

According to the statistics of oil of Mexico the country has 10.5 billion of proven oil in its offshore.

The oil sector is a crucial component of Mexico's economy, the country, the oil sector still generates over 15 percent of the country's export earnings.

The country mostly relies on U.S. because the 30% of Mexican oil comprises 10% of U.S. oil and natural gas.

The offshore of Mexico oil and gas industry almost generates \$70 billion and offers more than 400,000 jobs.

The industry also provided about \$20 billion in revenues to federal, state, and local governments through royalties, bonuses, and tax collections.

The Mexican government establishes the general accounting principles in Mexico. This has introduced to the permit holders and includes an accounting principle in Mexico. This directive is intended to standardize the information that PEMEX and permit holders submit energy regulatory commission, in order to facilitate its regulation and comparison.

After the economic crisis in 1994 the country initiated a program called PIDIREGAS for the purpose of attracting private sector capital and long term financing to develop strategic and highly profitable projects and more flexible governmental budgetary instruments to carry out strategic projects.

NAFTA agreement contributed a lot of advantage to the Mexican economy.

Tax revenues as a percentage of GDP stand at 12% far behind the OECD average. A fiscal reform bill was approved in 2007 to increase the tax revenues by 2% of GDP over the current six year administration.

Petroleum revenue still accounted for approximately 40% for the whole Mexican economy.

Economy

At present, with slowly deteriorating petroleum production capacity in western nations, the possibility of significantly deteriorating production capacity in the Soviet Union and petroleum demands increases due to economic growth.

According to the statistics the PEMEX is the largest contributor to the economy. In 2002 it provided 38 percent to the fiscal revenues, 1.2 percent of the GDP and employed 141,628 employees.

The statistics shows that the country has 10.5 billion oil proven reserves which will last for 25 years and total energy reserves i. e. hydrocarbon, natural gases which will result in 18 years of total reserves.

The Mexican economy is free market economy. The country has modern technologies as well as outdated industries and agriculture, the economy is mainly dominated by private sector.

The government has invested in providing transport facilities and expanded services of railroad, seaports telecommunications, electricity generation, natural gas distribution, and airports.

“ Mexico has free trade agreements with over 50 countries including, Guatemala, Honduras, El Salvador, the European Free Trade Area, and Japan, putting more than 90% of trade under free trade agreements.”(www.CIAfactbook.com)

Although there were several issues in the country's GDP due to recession, now it has been performing well compared to the past, apart from that the current government is trying to provide better facilities by upgrading infrastructure facilities, modernizing labour laws, and nurturing private investment in the energy sector.

Social

The government spend huge amount of money to safeguard the environment, and it's an economic and social development of oil and energy producing regions.

PEMEX spend significant resources to provide cleaner fuels and also to preservation and road development for the benefit of rural communities, and to the preservation of ecological reserves.

The Mexican government has imposed strict rules and regulation to protect its environment since its dealing with the nature, recently BP oil spill, was the highlight because the company has spend millions to the government as compensations of spoiling the environment and affecting the wild life.

Technological

Today's globalized world technology has become an essential element for firms that hope to compete and prosper. Gulf of Mexico is a technological innovative country.

Since Mexico is dealing with crude oil production the country has to have the knowledge to continue to grow, country has been ranked at 71st for technological efficient country.

According to the statistics the Mexico's performance in individual variables demonstrates how far the country has to go catch up with the world's networked economies; also it continues that, the country has ranked 92nd in technology availability and the ability of its firms to absorb technology.

Mexico is an OECD country which has invested in ICT. Fixed and mobile telephony and internet hosting have grown dramatically in the last five years by 21% and 67% respectively.

Though internet remains fairly low of 16.5% according to the international telecommunication union,

Mexico also been ranked 60th for the variable of FDI technology transfer.

Poor education standards the lack of centralized innovation policy, under developed ICT infrastructure all stand as obstacles.

Competitive Analysis

ENI mainly concentrate in exploration and production of crude oil. It's one the largest oil company in the world ranked 7th and function is 77 countries, Employs approximately 78,400 people across the world, The ENI reported <https://assignbuster.com/pestel-analysis-of-mexicos-oil-market/>

revenue from its core business for 2009 seems to be 83. 23 billion Euros, investment and acquisition amounted to 16. 02 billion Euros. ENI is the leading supplier of gas in terms in the European market. Its strong market positioning is underpinned by extensive gas supplies. ENI refine and marketing is the market leader in Italy's oil refining company and competitively positioned in the European market. ENI operates in 15 countries of the African continent with a 53% of total hydrocarbon production. Since its functioning in 77 countries it has a competitive advantage over its global presence and a strong brand image. Initially AGIP was the state owned Oil Company until ENI was formed in 1953, after formation of ENI, AGIP was enacted to the company which was a strong decision for the company and ENI became the oil gas empire in Italy, AGIP was the main sector for exploration and production of oil. They also trying to reduce air pollution of Installation of high technology in several of its production facilities, and continuously processing to reduce CO2 emissions, in reduced to 8% in 2008. The production performance of the ENI facilities or reservoirs has an impact of the company performance and this is unpredictable improper to the rules and regulation amendments in the host country. The company's refining and marketing segment is considerably affected by the changes in European refining margins. The company have the capacity to expand its business internationally, due to its financial performance and investment ability and because of its operating experience since it has been working in 77 countries. There is a good opportunity for the ENI engineering sector in the area of hydrocarbon treatment. The fastest growing area was Middle East in this sector. Now there are opportunities to meet the demand in Latin America, Africa, Russia, and Caucasus countries.

Offshore business seems to be the key segment for ENI with a highest growth rate. ENI tends to develop in this particular area; ENI be likely to focus more on West African off shores of long term commercial policies. ENI should focus on its activities in area where it has been present for a long time and search of opportunities in the emerging markets such as china and India. Also the company tends to arise from the hydrocarbon segment therefore the company is focusing more towards providing quality and high tech facilities for its clients.

Marketing Strategy

Market Size

Mexico is sufficiently a huge market in central improving productivity. It allows firms to benefit from economies of scale in turn encouraging them to invest in research and development, innovate, and constantly improve their production in process. In terms of domestic market, the Mexico population has nearly 100 million and purchasing power is growing. Recently reached macroeconomic stability, stronger, growths, expanding credit and social programs for the poor have contributed to a market reduction in percentage of Mexicans under poverty line. The size of Mexico's foreign market is boosted by its extensive network of free trade agreements,

NAFTA has provided Mexico with free access to its main market, the U. S, from NAFTA's inception to 2005, regional trade in north America grew by 128%, also it as a catalyst for attracting FDI to Mexico and helped it diversity its exports.

Marketing Mix

The company reorganized its activities to cater the market effectively by opening six branches around Italy. ENI adhere to its customer requirements and its well aware customer needs, the marketing strategy of ENI is aimed at customer satisfaction, all the way through the setting of a new commercial offer customized needs. ENI provides wide range of technical service to its industrial customers, the main service includes

Studies on co-generation and technical testing of the solutions suggested in case of construction or upgrade of a co-generation plant.

Combustion analysis and energy control of existing plants for evaluating their proper use and efficiency.

Tests of compliance with safety regulations, environmental impact.

(Source, ENI)

Since ENI has a strong brand value and its global presence will be an advantage to be competitive in the Mexican market

Place

Mexico is a substantially a large market with 100 million of population, ENI mainly focuses on Exploration and production, therefore ENI should focus on obtaining permission to starts its operation in the offshore. The Mexican statistics shows that there is 10. 5 billion barrels of proven oil reserves in the offshore therefore this the right time for a company like ENI to invest and increase its markets share.

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Price

Prices are mainly determined by the OECD, despite the global economic scenario the prices of the commodities have increased considerably, further more the prices may increase in raw materials and oil, with risk of negotiating the economic growth.

Product

ENI final product will be crude oil

Promotion

Market positioning

Target market

ENI Strategies

ENI always set its strategic plans for future performance according to the ENI their 2009-2012 was as follows.

Production growth: 3. 5% CAGR to 2012- its strategy delivering in exploration and production with an average annual rate

Reserves replacement ratio: 130% in the 2009-2012 period- reserve replacement is calculated by dividing the reserve oil capacity with the extracted oil reserves, if it 100% its sustainable, more than 100% means the company can grow

Strengthen European gas market leadership

G&P cumulative 2009-12 EBITDA proforma adjusted: €20 billion- strategic plan to increase gas and power earnings up to 20 billion Euros

Enhance R&M profitability: 2012 +€400 million EBIT vs. 2008- increase the overall profit of refine and marketing by 400 million Euros.

Efficiency program successfully realized in 2006-2008 to double to €2 billion by 2012- efficiency program is developed to cost cut the company unnecessary bills.

(Source: www.eni.com)

Conclusion

The Mexican country has opened its market through free trades, it has made impressive pace for the country's economy, liberalizing and improving the efficiency of its economy. Though there some weaknesses remain such as poor education, poor public governance, rampant corruption, low level of citizen trust politicians, and difficult tax system with small tax base, at the same time the Mexico has great potential for its geographical location and young population and rapidly expanding market, this potential must and can be utilized by join effort of government and civil society, which will lead to great diverse competitive advantage for its citizen.

Based on the analysis done in accordance with the company, its visible that ENI has the potential in investing for further oil production in Mexico, because the country has huge proved reserve oil in its offshore, and also certain weakness tend to remain on company performance in certain areas such as profit margin decrease due to instability of oil production, apart from <https://assignbuster.com/pestel-analysis-of-mexicos-oil-market/>

that there is great potential for a company such as ENI for starting its exploration in Gulf of Mexico.

According to the MMS report it states that “ Eni is well suited for the deepwater Gulf of Mexico because it is a “ demand side company” (in a cycle of aggressive acquisition). Therefore to the analyze carried out in regarding the country Mexico and ENI the report suggests that ENI should invest and increase its market share.

Recommendation

Eni is probably more interested in exploration than other bidders on the same assets, and therefore less risk-averse. It is an important step in Eni's strategy of international expansion of gas activities

I suggest that ENI has to invest in gulf because according to statistics the country holds 10. 5 billion barrels of proven oil reserves

The company should consider investing in alternative energy sources e. g. solar energy because the global oil industries are stepping into alternative energy sources.