8-30-2011

State-Run Oil Company PEMEX Awards First Exploration Contracts to British, Mexican Companies

Carlos Navarro

STATE-RUN OIL COMPANY PEMEX AWARDS FIRST EXPLORATION CONTRACTS TO BRITISH, MEXICAN COMPANIES

By Carlos Navarro

In what President Felipe Calderón's administration is calling a historic move, the state-run oil company PEMEX awarded its first-ever contracts to foreign and Mexican private companies to conduct oil exploration and extraction activities in the Carrizo, Magallanes, and Santuario fields in Tabasco state. The move to bring in private investors to primary activities was made possible by reforms the Congress approved in 2008 to overhaul PEMEX . But critics are suggesting that the contracts go beyond what is allowed under the 2008 changes and therefore violate the Mexican Constitution.

Even though PEMEX is venturing into new territory by offering contracts for extracting crude oil, there are precedents for the oil company to hire private companies for primary activities. During the administration of former President Vicente Fox, PEMEX awarded multiple-services contracts to private consortia to explore for natural gas in the Burgos Basin in northeastern.

The newly approved exploration and extraction contracts are built on incentives, with private companies risking their own capital for exploring and constructing infrastructure. Any oil that is extracted is sold exclusively to PEMEX at a price established during the bidding process.

The new contracts involve some of PEMEX's smaller crude-oil fields, representing only about 1.5% of Mexico's proven reserves. The company said it plans to open up much larger projects, including exploring for deep-water reserves, sometime in 2012 or 2013. There has been no direct mention of opening bids for the Cantarell and Ku Maloob Zaap fields, which together account for more than half of Mexico's crude-oil reserves.

PEMEX awarded the contract for the Magallanes and Santuario fields to Britain's Petrofac Facilities Management, while Mexico's Administradora en Proyectos de Campos (APC) won the Carrizo concession. Both companies received concessions for 25 years, winning the contracts over such prominent multinational companies as Halliburton, Schlumberger, and Repsol.

The three mature fields currently produce about 15,000 barrels of oil per day, and PEMEX hopes that the private companies that won the concessions can boost combined output from the three sites to 55,000 bpd. "We are sure that we will be able to significantly increase the recovery of these reserves for the benefit of all Mexicans," said Carlos Morales Gil, director of the exploration and production division at PEMEX.

Petrofac, which has pledged to invest US$500 million in developing the Magallanes and Santuario fields, is a company that designs, builds, and maintains facilities used in extracting and processing oil and gas. The British company helped its cause by offering to sell crude extracted from the two fields to PEMEX at US$$5.01 per barrel, well below the ceiling price set by the state-run oil company.

While analysts were not surprised that PEMEX decided to grant the concession to Petrofac because of its strong international reputation, the award to APC to explore and develop Carrizo was somewhat surprising. "The Monterrey-based company surprised the other businesses and representatives of large oil companies who were competing for the contracts offered by PEMEX," said the Mexico City daily newspaper *Excélsior.* "They were surprised because few in the industry had heard about this company before."

APC won the concession by offering to sell the oil extracted from Carrizo to PEMEX at US$5.03 per barrel.

Nearly 50 companies participated in the first bid, and there was general agreement that the process was smooth. "This was a good start for PEMEX...we are hoping this will open doors for more companies to exploit these reserves that have been passed over," Manuel del Villar, director of GPA Energy, told Reuters. GPA submitted one of the losing bids for Santuario.

PEMEX officials were also pleased. "This is the beginning of a new phase. We want companies to help us exploit this resource by working hand-in-hand with us," said PEMEX director Juan José Suárez Coppel.

Critics say PEMEX might have violated Constitution

But there is some concern that PEMEX might have made the contracts too flexible in order to attract participation. The contracts contain a clause allowing participants to opt out after two years if exploration activities indicate that the fields will not be productive. "These contracts are exempt from any legal risks," acknowledged Mario Gabriel Budebo, PEMEX's deputy secretary for hydrocarbons. "We do not expect any legal conflict with any company. This was entirely a transparent and exemplary process."

Critics say the terms of the contracts do not comply with the 2008 law and technically violate Article 28 of the Constitution. Deputy Ramón Jiménez López, a member of the energy commission (Comisión de Energía) in the Chamber of Deputies, said the manner in which the contracts are structured gives the private companies ownership of Mexican oil, even though they are required to sell it to PEMEX. "These contracts violate PEMEX's patrimony and threaten our energy sovereignty," said Jiménez López.

"This is a regrettable step backward," said Deputy Laura Itzel Castillo, a member of the center-left Partido del Trabajo (PT). "By turning over the Carrizo, Santuario, and Magallanes oil fields, the administration had developed a sort of pilot project to ultimately turn over our natural resources [to private entities]. This is a model they plan to use for all our oil fields."

Another objection raised by Jiménez and others is that PEMEX hired private companies for activities that it could have conducted itself. "PEMEX could have easily carried out the activities stipulated by these contracts. It has the engineers, technicians, and capacity to carry out the tasks," said Jiménez, a member of the center-left *Partido de la Revolución Democrática (PRD).*

Syndicated columnist Miguel Ángel Granados Chapa agreed. "The contracts allow the companies to explore and develop oil in fields that PEMEX already had in operation," said Granados Chapa. "The contractors will receive a fixed payment for their efforts, independent of the final result of activities."