

7-22-2015

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Recommended Citation

Navarro, Carlos. "First Auction of Oil Fields under New Energy Privatization Scheme Draws Little Interest." (2015).
<https://digitalrepository.unm.edu/sourcemex/6182>

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First Auction of Oil Fields under New Energy Privatization Scheme Draws Little Interest

by Carlos Navarro

Category/Department: Mexico

Published: 2015-07-22

The first effort to lure investors to Mexico's oil and gas sector under the government's energy privatization scheme fell far short of expectations, with only two of 14 blocs opened to the private sector in mid-July drawing interest from Mexican and overseas investors. Congress set the process in motion in December 2013 with a vote to open up exploration and development to private investors, allowing an influx of foreign capital to Mexico's undercapitalized oil and gas sector ([SourceMex, Dec. 18, 2013](#), and [Aug. 6, 2014](#)).

The initial phase of the privatization scheme, called Ronda Uno, opened up 169 oil and gas fields to private domestic or international companies or Mexican-foreign consortia. The round, which consists of five phases, drew ample interest from private entities, with 34 companies pre-qualifying to bid for the 14 fields auctioned in phase 1 of Ronda Uno. However, only nine of those 34 companies registered for the initial phase, and only two fields, drew any actual bids. The two bids were submitted by the same consortium—a partnership formed by Mexico's Sierra Oil & Gas, US-based Talos Energy, and Britain's Premier Oil.

Despite the very low interest, President Enrique Peña Nieto's administration put a positive spin on phase 1 of Ronda Uno. "Without doubt, the start of round one didn't have the momentum we were hoping for," said Juan Carlos Zepeda, president of the Comisión Nacional de Hidrocarburos (CNH). Still, Zepeda called the process a "solid start," suggesting that an important aspect of the initial tender was its transparency.

Finance Secretary Luis Videgaray took the same approach in explaining the results of phase 1 to a business group in Paris. "We recognize the interest in the fields that we put up for auction was below expectations," the Mexican official told members of the Mouvement des entreprises de France (MEDEF). "What met our expectations was the quality of the process and the transparency of the auction."

Private analysts were more cautious in describing the process. "I would not say that [phase 1] was a success, but I would not say it was a failure either," Guadalupe Campuzano, an officer with the energy services company EnergeA, said in an interview with CNNExpansión. "This was an important step for [Mexico's energy sector], and some of the fields were auctioned successfully."

Investors avoid risky fields

Others suggested that phases 2 through 5 of Ronda Uno could meet with more success as long as PEMEX and the Secretaría de Hacienda y Crédito Público (SHCP) are aware of the realities of the market.

"The industry recognized that [bidding for these fields] was a high risk, and it appears that the SHCP did not incorporate that risk into its methodology," said Gonzalo Monroy, who noted that the blocs auctioned did not represent a good business proposition at the prices set by the government.

Analysts concurred with Monroy that the 14 fields that PEMEX initially put out for auction were not very attractive to investors as they were essentially exploratory sites with little guarantee that they contained much oil.

"The investors are reacting with the necessary sensibility and objectivity," columnist Ángel Verdugo wrote in the daily newspaper *Excélsior*.

"What those fields lack are size and quality," said Campuzano. "The exploratory phase carries a much greater risk. The later auction could attract more attention because these are fields that have been studied to a greater extent and are already connected with infrastructure."

The one field that attracted strong attention was Bloc 7, off the coast of Tabasco. "This bloc had a good geologic profile," said Luis Miguel Labardini, an analyst at the consulting firm Marcos & Asociados.

Bloc 7 was one of the two sites that the Sierra Oil & Gas-Talos Energy-Premier Oil consortium bid on.

Another issue for the bidders was the percentage of operational profits that would go to the Mexican government. The SHCP has requested a 40% share, but some companies are balking at that percentage, particularly in connection with the risky fields. Some companies countered with proposals that included a lower take for the government, particularly for risky fields like Bloc 6 and Bloc 4, which led the SHCP to reject those bids.

Analysts said the 40% rate set by the Mexican government should not be a deterrent for more productive fields. "If the conditions of production and price improve down the road, the amount that the government receives can be adjusted," said Campuzano. "The problem is that things are very tight now."

Analysts say PEMEX started its auction at a time when the global oil market is beginning a possible decline after recovering in recent months. Prices are under pressure because of increased global competition and the possible return of Iran to the market (following a nuclear agreement with the US and the West).

Analysts said Mexico must compete for limited global investments with rival producing countries such as Brazil and Colombia, which opened their energy sectors to international investment long ago. "The cost of the uncertainty for new companies entering an unknown environment should be discounted," David Enriquez, a Mexico-city based partner at energy consultant Goodrich Riquelme & Asociados AC, said in an interview with Bloomberg news service.

More interest expected in later phases

Still, there is some optimism that global oil prices are certain to rebound at some point in the future. "While it is very clear that oil prices are not at favorable levels, the energy market by nature is variable," columnist Humberto Zurita Eraña wrote in the daily newspaper *Milenio*. "What is important now is that Mexico has the legislation in place that allows private companies to invest in the energy sector, which should bring economic benefits to the country's oil-producing regions."

Some analysts said the large number of companies that pre-qualified for phase 1 of Ronda Uno could indicate good news for the later phases of the process, including phase 2 of Ronda Uno, which

is scheduled for Sept. 30, and phase 3, set for Dec. 15. The final two phases of Ronda Uno still have no established timetable.

Many potential bidders are said to have their eye on the higher-quality fields that will be auctioned off in the future. "I expect the second phase to be more attractive [to investors] because these fields are located in shallow waters and contain proven reserves," said Labardini. "They have a good geological and economic profile."

The participants in the second phase will likely be medium-sized companies, as the bigger players are looking at fields in deeper waters.

"The large companies like Shell, Exxon, and BP, among others, have a greater interest in participating in the deep waters and in projects that involve extraction of shale gas," analyst David Franco of Banco Santander told the daily business newspaper *El Financiero*. "They have very little interest in the shallow waters."

Some experts believe that the government will tweak the process to ensure greater participation. "We believe that there will be some modifications in the next phases of Ronda Uno with an eye on attracting a larger number of participants and increasing the number of bids on the table," said a report from experts at Acciones y Valores Banamex (Accival), which was quoted by *El Financiero*.

El Financiero said many of the large multinationals—including Statoil, ENI, Exxon, Chevron, BP, and Diavaz—are pleased with the manner by which the SHCP has structured the process to ensure transparency.

"We congratulate the Mexican government for the manner in which phase 1 of Ronda Uno was conducted. This was a transparent process that was open to everybody," said Helge Hove Haldorsen, Statoil director in Mexico.

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