10-14-2015

President Enrique PeÃ±a Nietoâ€™s Administration Highlights Participation of Mexican Companies in Concessions for Oil, Gas Fields

Carlos Navarro

LADB Article Id: 79791
ISSN: 1054-8890

President Enrique Peña Nieto's Administration Highlights Participation of Mexican Companies in Concessions for Oil, Gas Fields

by Carlos Navarro
Category/Department: Mexico
Published: 2015-10-14

President Enrique Peña Nieto's administration is encouraged by the growth of a domestic private-energy sector in Mexico in the aftermath of the energy reforms approved by Congress in December 2013 (SourceMex, Dec. 18, 2013). Energy Secretary Pedro Joaquín Coldwell said 39 of the 59 applicants that registered for phase 3 of the current round of privatizations (Ronda Uno), scheduled for Dec. 15, 2015, are Mexican companies. These companies are participating in the process with foreign partners.

Phase 3 offers some very attractive opportunities for private companies to extract natural gas in the Burgos Basin. The fields that will be available for auction include Campo Benavides, Calibrador, Carretas, Duna, Mareógrafo, Peña Blanca, and San Bernardo in Nuevo León state and Campo Ricos in Tamaulipas state.

"The Burgos Basin contains 72% of the inventories of shale gas in Mexico," analyst Alik García of Casa de Bolsa Intercam told the daily business newspaper El Financiero. "[The area] has geologic structures very similar to those in the US—so, in a way, there is already some industry experience dealing with this type of site."

The interest in bringing private capital to exploit the resources in the Burgos Basin preceded the energy reforms. The administration of former President Vicente Fox (2000-2006) provided multiple-service contracts to private companies to extract natural gas in northeastern Mexico (SourceMex, July 23, 2003, and Jan. 28, 2004).

Coldwell did not mention the Mexican companies that have shown interest in participating in Phase 3, but one company that is likely on the list is Sierra Oil and Gas, which includes Carso Oil and Gas and Carso Energy, two companies owned by Mexican billionaire Carlos Slim Helu. Sierra Oil and Gas was the only successful bidder in the disappointing phase 1 of Ronda Uno in July of this year (SourceMex, July 22, 2015).

The Slim-owned operation also participated in the second phase of Ronda Uno. The enterprise owned by Slim Helu submitted bids for two of the areas that the government had opened to the private sector, but the Comisión Nacional de Hidrocarburos (CNH) chose other bidders. The Fieldwood Energy-Petrobal consortium, which had some Mexican participation, was one of the successful bidders in phase 2 of Ronda Uno.

Phase 2 of Ronda Uno deemed successful

The Peña Nieto administration and independent observers agreed that phase 2 was much more successful than phase 1. The CNH had opened up five areas in the shallow waters of the Gulf of Mexico for exploration bids, and three of the areas drew considerable interest.

LADB Article Id: 79791
ISSN: 1054-8890

Coldwell attributed the success of the second phase of Ronda Uno in large measure to the strong potential of the new fields and the relative lack of risk compared to the areas auctioned off in phase 1 of Ronda Uno. As opposed to the first phase, the second phase offered bidders blocs where oil and gas had already been confirmed.

Coldwell said the decision to add flexibility to the rules also helped make the bidding more attractive. For example, the government eased restrictions for companies to form a consortium to submit the bids and changed the formula to determine financial responsibility for each individual operator or consortium. The CNH took into account what each party offered in additional investment, expressed as a percent increase over the minimal work program, and the government's share of operational profits.

"The economic conditions applicable to these contracts were extraordinary, and even the international financial media was impressed. In one contract, the profit for the Mexican government will be 90%, a second one will yield 84%, and a third one will be 82%," said Coldwell. "Additionally, the state will not be making any direct investment or assuming any risk."

Coldwell noted the process was that much more successful, given the state of the global oil market. "[The process] was a success in an international market where prices are depressed and the financial resources available to private companies are restricted, which has obligated them to remain selective on any new projects," said the energy secretary.

Financial observers were also impressed by the results. "Let there be no doubt about it. The auction conducted by the CNH and the Secretaría de Energía was a resounding success for two reasons," business columnist Maricarmen Cortés wrote in the daily newspaper Excélsior. "First, bidders were found for three of the five sites. Second, the prices that winning bidders offered were twice as high as the minimum reference price set by the SHCP on Sept. 14."

The one bloc that attracted the highest participation comprises three fields: Amoca, Miztón, and Teocalli, spanning 67 sq km. ENI International—which has significant participation from the Italian government—submitted the successful bid for this bloc. Eight other companies or consortia also submitted bids for this bloc, including the Netherlands-based company Lukoil Overseas, which came in second in the process.

A consortium comprising Argentine companies Pan American Energy and E&P Hidrocarburos y Servicios won the bid for the second bloc, which consists primarily of the Hokchi field. Seven other companies submitted bids for this bloc, including Sierra Oil and Gas.

The Fieldwood Energy-Petrobal consortium won the fourth area, which comprises the Ichalkil and Pokoch fields. Fieldwood Energy is based in Houston, Texas, while Petrobral is a company owned by Mexican entrepreneur Alberto Baillères.

There were no bidders for bloc 3, the site of the Xulum field, and bloc 5, which contains the Misón and Nak fields.

"It is important to point out that investments of US$1 billion are expected in each of the areas that were auctioned and that most of the money will be spent in the first three years of the 30-year contract," columnist Luis Adrián Muñiz wrote in El Financiero.

LADB Article Id: 79791
ISSN: 1054-8890

Some private-sector organizations, however, called on the government to ensure that the winning bidders actually make good on the investments that they have pledged as part of the project. There are two variables to consider, said Juan Pardinas, director of the Instituto Mexicano para la Competitividad (IMCO). The first consideration is the amount of money that the government will receive from the projects and the second is the extent of investment that each company will make to develop the fields. "If a company invests little, the reward is going to be small," said Pardinas.

Politicians are also looking forward to the economic impact of the projects. Manlio Fabio Beltrones, president of the governing Partido Revolucionario Institucional (PRI), said the municipalities and the states where the fields are located—primarily Campeche and Tabasco—should experience a nice economic windfall from the projects.

Beltrones said, however, that the infusion of private capital into the oil sector would benefit the entire country. "Only with increased investment, technological innovation, and productivity are we able to [obtain the resources] to combat poverty and inequality with greater efficiency and generate the types of employment opportunities that all Mexicans are demanding," the PRI leader said at a gathering of the party.

Still, some observers cautioned against becoming overly optimistic. "We must not forget that the international scene is extremely unfavorable," said Excélsior columnist Cortés. "Let us remember, for example, that the export price of Mexican crude oil remains below US$40 per barrel."

US House votes to lift ban on exports of crude oil to Mexico

The energy reforms that Mexico approved in 2013 are also expected to help promote trade in the oil sector between Mexico and the US. Analysts say one possibility is for the two countries to develop a mechanism for Mexico to swap heavy crude oil with the US in exchange for lighter crude.

This possibility came closer to becoming a reality when the US House of Representatives voted overwhelmingly on Oct. 9 to approve a bill to end a ban on crude-oil exports that has been in place since the 1970s.

Supporters in the US Congress, primarily Republicans, contend that the embargo on exports, which was imposed in the 1970s during a period of scarcity of global supplies, is obsolete and unnecessary in the current market of oversupply (SourceMex, May 27, 2015). Even though the measure was approved by an overwhelming margin of 261-159, US President Barack Obama has threatened to use his veto pen. The Obama administration and Democratic Party allies believe the US should take other initiatives to promote energy independence and protect the environment. "Congress should be focusing its efforts on supporting our transition to a low-carbon economy" and ending billions of dollars a year in federal subsidies to oil companies, the White House said in a statement.

In Mexico, some observers believe an oil swap with the US could help stabilize prices for Mexican crude, which dropped below US$40 per barrel in October. According to CNNExpansión, Mexico could mix the light crude with heavy crude and sell this mix on the global market. "Heavy crude is currently quoted at US$38 to US$39 per barrel, while light crude is sold at about US$45 per barrel," said the online financial news site.

Mexico is the fourth-largest supplier of crude oil to the US, surpassed only by Canada, Saudi Arabia, and Venezuela. In first seven months of this year, Mexico earned about US$8.34 billion from sales

LADB Article Id: 79791
ISSN: 1054-8890

of 153 million barrels of crude to the US, according to a recent report from the US Department of Commerce.

-- End --