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Mexico Moves Forward with Plan to Extract Oil from Deep Waters of the Gulf of Mexico

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The state-run oil company PEMEX is moving forward with a plan to extract oil from the deep waters of the Gulf of Mexico. In late June, Mexico’s hydrocarbons regulatory commission (Comisión Nacional de Hidrocarburos, CNH) approved a measure allowing PEMEX to seek a partner to conduct further exploration, and eventually extraction, in the oil field known as Trión 1. Mexican authorities said the Trión 1 is one of two deposits located on the Mexican side of the Perdido Fold Belt, within an area of 285 sq. km. The belt, which straddles the US-Mexico ocean boundary, is off the coast of Tamaulipas. The Trión 1 field is said to hold a combined 485 million barrels of proven, probable, and possible reserves.

PEMEX and the energy ministry (Secretaría de Energía, SENER) announced the plans to farm out the Trión 1 field via a licensing agreement. Trión 1 is the first in a series of long-delayed farm-out agreements for areas that PEMEX was assigned in the so-called “Round Zero” auction in 2014. Unlike recent partnership tenders, PEMEX will share in the risks and investments for this field, which could cost about US$11 billion to develop. The deepwater project is the latest phase in the privatization scheme that resulted from energy reforms approved in December 2013 (SourceMex, Dec. 18, 2013) and defined six months later (SourceMex, Aug. 6, 2014).

The first auctions under Round One (Ronda Uno) of the privatization scheme took place in July 2015. Two other phases followed later in the year to open oil and gas fields to private domestic or international companies or Mexican-foreign consortia, primarily in shallow waters or inland areas (SourceMex, July 22, 2015, and Sept. 16, 2015). Drilling and exploration activities began in 2006, but the first significant finds did not occur until 2012.

A number of tests are already under way in the Perdido Fold Belt, primarily on the US side. PEMEX has drilled some wells in the belt as well, including the Trión 1, Supremus-1, Maximino-1, PEP-1, and Vespa-1. The latest discovery, Exploratus-1, was made in January 2014. The Exploratus-1 was an exploratory well in 6,130 meters of water.

Prominent multinationals interested in project
Multinational energy companies with extensive experience in ultra-deepwater operations, such as BP, Chevron, Shell, Total, ExxonMobil, Petrobras, and Statoil ASA might be potential partners with PEMEX in Trión 1.

The CNH said the request for bids from potential partners for the Trión 1 field would take place sometime in July. Three companies—Norway’s Statoil, the British-Dutch company Shell, and the US-based multinational Chevron—have all mentioned interest in participating in the project.

“Given Shell’s wide experience in the US portion of the Perdido Fold Belt, which accounts for 50% of its oil and gas production in the US, the Anglo-Dutch company is among the most suitable associates for development of the system,” said the energy industry publication The Oil & Gas Year.
According to Shell officials, the deposits on the Mexican side of the belt are probably very similar to those on the US side. “I get very enthusiastic about that because I see huge potential there,” Marvin Odum, then-Shell’s Upstream Americas director, told Reuters in November 2014.

Another potential partner is Statoil, particularly since the Norwegian company is seeking to gain a foothold in Mexico’s recently opened energy market. “We see opportunities to bid on deepwater farm-out agreements with Pemex if the terms and conditions are right,” Tore Loseth, vice president of Statoil Exploration in the US and Mexico, told the Bloomberg news service in June. "But we need to know more about how the process will run before we can properly evaluate these.”

The Brazilian state oil company Petrobras, which has also been mentioned as a potential partner with Mexico in deepwater exploration and drilling (SourceMex, Aug. 26, 2009, and March 3, 2010), is on the list of entities that asked to be considered for the project. However, economic and political instability in Brazil make a partnership between the two companies less likely (NotiSur, Feb. 20, 2015, March 20, 2015, and April 29, 2016).

The strong interest from the multinational companies comes with some reservations. Under the terms of the energy privatization, any oil extracted through the joint venture with PEMEX remains the property of the Mexican people. According to analysts, this has created some difficulties in assigning value and potential profits for the private partners.

“The energy reforms were drafted under an entirely different context of prices, and our Constitution establishes that hydrocarbons located in our subsoil are property of the nation,” said energy industry analyst Arturo Carranza. “In current times of budget cuts within the industry, the government will have to compensate investors with adequate incentives.”

Other analysts said the timing of Trión 1 is not ideal, given the still-weak state of the global oil market. “The decision occurs at a time when deepwater projects are not viable, given the price of oil,” private energy-industry analyst David Shields wrote in the daily newspaper Reforma. “Even so, there are global oil companies that are interested in establishing a foothold in the Mexican territorial waters that are in close proximity to the US. They are thinking of a future when oil prices are going to improve.”

A major challenge is the high cost of drilling, given the depths of the fields where the oil is located. The location is comparable to fields on the US side, where the Tobago oil field, for example, is in more than 2926 meters of water and the Silvertip oil field is at 2849 meters.

According to the daily business newspaper El Financiero, one incentive for foreign companies to participate in the project is the lower cost of infrastructure because of economies of scale. Many of these companies already have equipment on the US side and will not need to spend as much to install exploration and drilling equipment in the area. “They already have extensive geological information, which would help make their investments in the area more profitable in a climate of low oil prices and the uncertainty that still exists in forging a potential partnership with PEMEX,” the newspaper said.

The first deepwater barrel of oil could come in 2022

PEMEX, for its part, is taking an optimistic view. It is confident that the first barrel of oil would be extracted from Trión 1 by 2022. According to CNH president Juan Carlos Zepeda, PEMEX executives showed some foresight by moving resources from non-productive fields to the deepwater...
areas. “This gives the fourth phase of Ronda 1 an attractive element,” said Zepeda, adding that the amount of oil is similar in the Great White field, currently under production on the US side of the Perdido Fold Belt.

According to Zepeda, about 80% of all oil production in the first quarter of 2016 came from wells on the US side of the Gulf of Mexico, which is a reason why the Trión 1 remains an attractive option to foreign investors.

Some observers said PEMEX director José Antonio González Anaya was a major force behind the decision to move forward with the deepwater drilling. The PEMEX official took over for Emilio Lozoya as head of the state-run oil company in February and moved fast to gain the approval of the PEMEX administrative council for the project. Under the energy reforms, PEMEX cannot move to forge partnerships without the go-ahead of the council.

“What I find interesting is that Trión 1 was not part of the 21 farm-out projects that former director Lozoya had proposed,” financial columnist Maricarmen Cortés wrote in the daily newspaper Excélsior. “None of those projects were actually presented to the council.”

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