

INSIGHTS

Mexico Upstream Update

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Assessing the Effects of the Election Result for Mexico's Upstream Industry: Change in Government Raises Potential for Shift in the Direction of Oil and Gas Sector

Participants in Mexico's oil and gas industry are continuing to assess the implications for their sector following the country's recent election win by President-elect, Andrés Manuel López Obrador, who has criticised the privatisation of Mexico's oil and gas sector. In his most recent announcement, Mr. Obrador proposed to steer oil and gas development in Mexico back to national companies in order to develop Mexico's energy self-sufficiency.¹ The new administration proposes to invest \$4 billion in Pemex, the state-owned company, to develop an \$8.6 billion refinery and to increase crude production by 600 million barrels per day in two years.

In another indicator of his shifting approach, Mr. Obrador's incoming administration further plans to postpone, at least temporarily, the international tender process conducted by the National Hydrocarbons Commission (CNH) that has attracted significant foreign interest and investment since 2015 with transformative effects. CNH announced a deferral of bid round 3.2 for 37 conventional onshore blocks, round 3.3 for nine unconventional onshore blocks and a tender for joint venture opportunities with Pemex in seven onshore fields. These rounds have been postponed to February 2019 in order for the new administration to review and (potentially) revise the contracts awarded in such tenders to increase the percentage of national content, among other potential changes,² and to confirm that the contracts are free of corruption. Rocío Nahle, Mr. Obrador's newly designated head of the Ministry of Energy, announced recently that the review of contracts is expected to conclude in November of this year.

Mr. Obrador will take office on December 1, 2018. It remains to be seen whether the new administration will move away from the liberalisation of the upstream market, and the detail of changes to the tender rounds and terms being offered. Industry participants should keep watch and be ready to adapt to the changing landscape. Bracewell's Mexico team is ready to assist. Our team is comprised of leading energy lawyers in Houston and London and we are one of the few law firms that have been involved in all aspects of the liberalisation process.

Summary of recent M&A activity and Bid Round announcements

Previously in 2018, investment in Mexico's oil and gas market had continued to develop, with latest announcements including the country's first joint venture between two private companies, completed bid rounds for contract awards, developments in ongoing rounds to be

conducted by CNH and new partnership opportunities with Pemex.

In May, two private oil and gas companies announced an agreement to form the first joint venture between private companies in Mexico. Vista Oil & Gas will partner with Jaguar Exploracion y Produccion on three onshore blocks that were previously awarded to Jaguar during auctions in 2017. The transaction remains subject to CNH's prior approval.

In March, the results of Mexico's most recently completed bid auction round were announced, demonstrating competitive interest in the country's shallow waters. Sixteen of the 35 contractual areas put on offer were awarded in Round 3.1. Round 3.1 showed strong bidder interest from major oil and gas players from 12 different countries and with significant experience in shallow waters. Winning bidders will enter into production sharing contracts with the CNH.

The below table includes additional detail on Round 3.1.³

Round 3.1		
PSC, Shallow Water		
Contractual Areas	Tender Results	Prospective Reserves
Block 5	Repsol	Light oil and wet gas, 175 MMboe
Block 11	Premier Oil	Light oil and wet gas, 110 MMboe
Block 12	Repsol	Light oil and wet gas, 229 MMboe
Block 13	Premier Oil	Light oil and wet gas, 71 MMboe
Block 15	Capricorn and Citla Energy	Light oil and wet gas, 161 MMboe
Block 16	Pemex, DEA Deutsche Erdoel and Compañia Española	Light oil and dry gas, 134 MMboe
Block 17	Pemex, DEA Deutsche Erdoel and Compañia Española	Light oil, 130 MMboe
Block 18	Pemex and Compañia Española	Light oil, 341 MMboe
Block 28	Eni and Lukoil	Light oil, 100 MMboe

Block 29	Pemex	Light oil, N/A
Block 30	DEA Deutsche Erdoel, Premier and Sapura	Light oil, 85 MMboe
Block 31	Pan American	Light oil, heavy oil, wet gas, 173 MMboe
Block 32	Total and Pemex	Heavy oil and dry gas, 245 MMboe
Block 33	Total and Pemex	Ultra-light oil, 104 MMboe
Block 34	Total, BP and Pan American	Wet gas, 34.7 MMboe
Block 35	Shell and Pemex	Extra heavy oil, 40 MMboe

¹ Source: <https://www.bloomberg.com/news/articles/2017-03-15/mexico-s-lopez-obrador-pledges-legal-rollback-of-energy-overhaul> and <https://www.ft.com/content/16aeb5aa-5ece-11e8-ad91-e01af256df68>

² Source: <https://www.ft.com/content/c941f89c-8ab8-11e8-b18d-0181731a0340>

³ Source: <http://www.rondasmexico.gob.mx>