Round 1.4 reiterates Mexico's appeal

An inside view

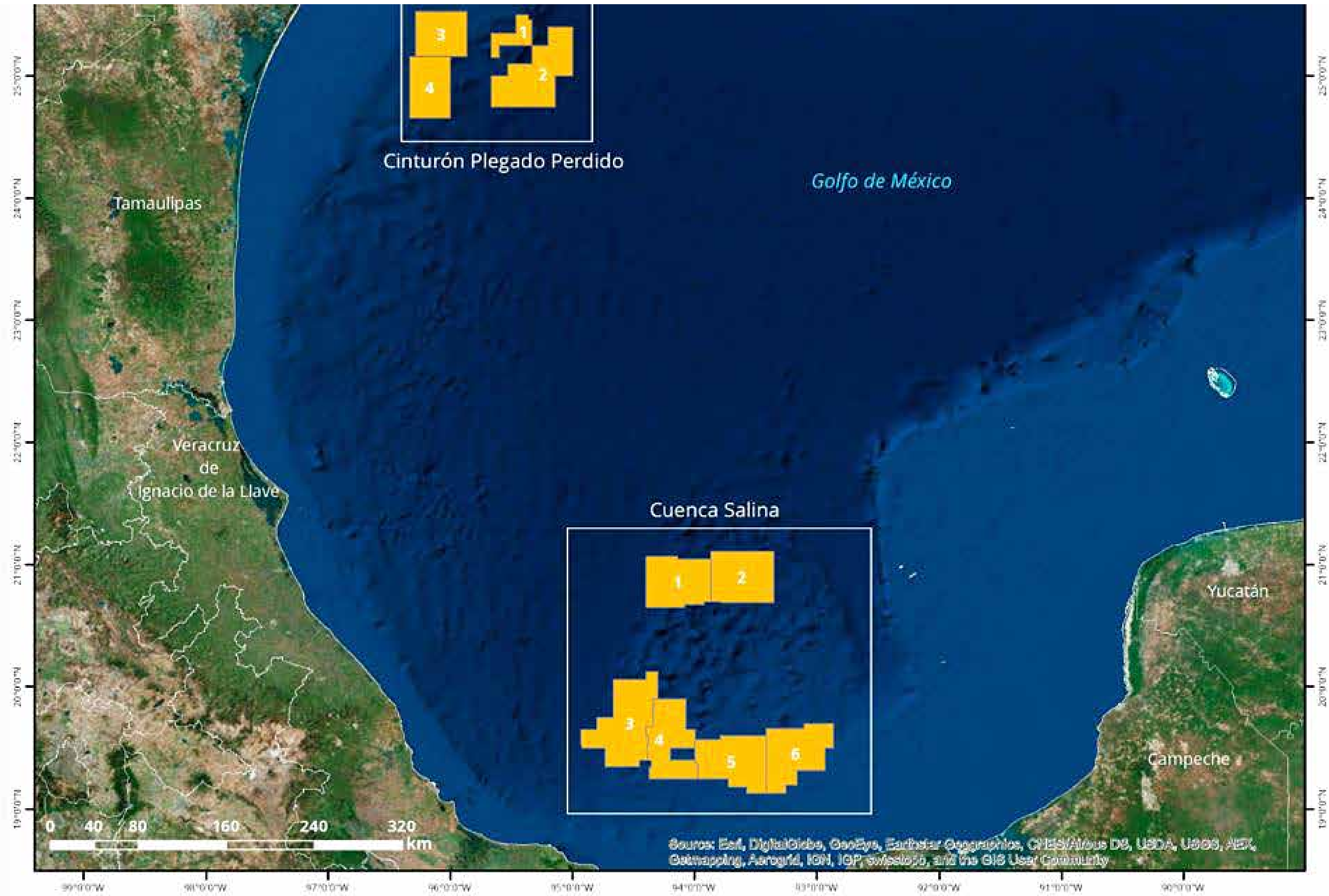
June 2017

KPMG International

By: Rubén Cruz and Alexander Braune
Lead Partner and Director of Energy and Natural Resources
KPMG in Mexico
asesoria@kpmg.com.mx
delineandoestrategias.com

Despite a complex global economic context, the Energy Reform is ongoing, and Mexican and international companies firmly support this change. Majors, super majors and consortium stakeholders met last 17 December 2015, at the Fernando Hiriart meeting hall in the Ministry of Energy (SENER), where a presentation on behalf of Government officials was given. This presentation set forth the scope of what would be referred as 'Call for Bids 4 — License Contracts for the Exploration and Extraction of Deep Water Hydrocarbons of the Gulf of Mexico,' otherwise known as Round 1.4.

This is how the journey began, culminating last 5 December 2016, with the successful allocation of 80 percent of the 10 contractual areas (blocks), plus the partnership with Pemex to develop Trion (1,250 km^2), oil fields located in deep waters of the Gulf of Mexico within the provinces known as Plegado Perdido and Cuenca Salina. As on other occasions, the Mexican National Hydrocarbons Commission (CNH) showed transparency and through its live broadcast, we were witnesses to every step that was taken in the development of tenders.



Source: www.rondasmexico.gob.mx
Contractual areas: Trion is in Perdido

According to the SENER and CNH, these awards could trigger investments in excess of US$41 million over the life-term of the contracts, including the partnership in Trion between Pemex and Australian company BHP Billiton.

The success in the bidding of the partnership with Pemex in Trion represents an influx of fresh resources of US$561.6 million, while the Mexican Oil Fund will receive US$62.4 million.

Authorities stated that in 10 years the eight contracts awarded plus Trion are expected to generate around 900,000 bpd, which is equivalent to 43 percent of current production. However, the annual decline rate of current production is 3.8 percent. Should this continue, we would lose approximately 38 percent of production in the next decade, generating a net real growth rate of 5 percent, not taking into account benefits offered by other exploration and extraction projects. Hence, the 12.5 percent growth expected from the development of work resulting from rounds 1.1, 1.2 and 1.3 — at peak production — should be added to the aforementioned growth rate, according to SENER estimates. This is 17.5 percent more than the current net rate. Furthermore, these investments will generate over 400,000 new jobs.

Another aspect in the last tenders worth highlighting, is the diversity and size of participating companies: 10 bidders made up of 16 organizations with considerable participation from Asian corporations.

Representatives from China and Malaysia made the most of this opportunity and established an initial footprint in the Mexican energy sector, offering between 17.01 percent and 26.91 percent of additional royalties in order to guarantee first place in the areas bid. Japan, likewise, was successful after participating in a consortium with Pemex and a super major company of the United States. We also saw the first independent Mexican company that participated in two consortiums, adding to its portfolio, two contractual areas in deep waters.

Countries in Asia, Europe and the United States were the incubators of these bidders and winners in Round 1.4. The result of the Chinese company was an unexpected surprise. However, it is worth remembering that the Asian experience in Mexico already has a long history of success, and when it comes to their aggressive appetite for new markets. We refer to the large Japanese companies that during the early 1990's were the first independent power producers (IPP) under the Public Electricity Service Act of 1992, as well as the Korean groups known as Chaebol conglomerates, from South Korea, and their successful entry with engineering, procurement and construction companies (EPC) in the early 2000's, primarily in refining and liquefied natural gas (LNG) projects. China joins this history in deep water oil and gas.

The success of Round 1.4 plus Trion legitimizes the appeal that Mexico and its institutions have for the world market,

Ronda 1 — Licitación 4

Licitantes Ganadores y en segundo lugar

Cinturón Plegado Perdido						
		Licitante	**Regalía Adicional (%)**	**Factor de Inversión Adicional**	**Valor Ponderado de la Oferta Económica**	**País de origen**
Área 1	1°	China Offshore Oil Corporation E&P Mexico	17.01	1.5	100.476	China
	2°	Pemex Exploración y Producción	6.65	1.0	43.459	México
Área 2	1°	Total y ExxonMobil	5.00	1.5	44.150	Francia y EUA
	2°	Desierto	—	—	—	Desierto
Área 3	1°	Chevron, Pemex e Inpex	7.44	0.0	29.760	EUA, México y Japón
	2°	Desierto	—	—	—	Desierto
Área 4	1°	China Offshore Oil Corporation E&P Mexico	15.01	1.0	80.744	China
	2°	Desierto	—	—	—	Desierto

Cuenca Salina						
		Licitante	**Regalía Adicional (%)**	**Factor de Inversión Adicional**	**Valor Ponderado de la Oferta Económica**	**País de origen**
Área 1	1°	Statoil, BP y Total	10.00	1.0	58.400	Noruega, Reino Unido y Francia
	2°	Desierto	—	—	—	Desierto
Área 2	1°	Desierto	—	—	—	Desierto
	2°	Desierto	—	—	—	Desierto
Área 3	1°	Statoil, BP y Total	10.00	1.0	58.400	Noruega, Reino Unido y Francia
	2°	Desierto	—	—	—	Desierto
Área 4	1°	PC Carigali y Sierra	22.99	0.0	91.960	Malasia y México
	2°	Statoil, BP y Total	13.00	1.5	81.670	Noruega, Reino Unido y Francia
Área 5	1°	Murphy, Ophir, PC Carigali y Sierra	26.91	1.0	133.818	EUA, Reino Unido, Malasia y México
	2°	Atlantic Rim y Shell	19.11	1.5	110.325	EUA y Holanda
Área 6	1°	Desierto	—	—	—	Desierto
	2°	Desierto	—	—	—	Desierto

Fuente: CNH, 2016.

ratifying the country as an investment destination. Just as organizations like the CNH have asserted that in a complex geopolitical environment, these results place Mexico among the 'big leagues'.

Pemex has also shown its appeal as a strategic partner for foreign companies, and so we can expect the state — productive — company to announce additional farm-outs in the near future. The formalization of contracts must take place within 90 days. However, the much anticipated jewel of the crown of the Energy Reform has already shined thanks to this week's success.

If you would like more information or interview a specialist, please contact:

Nachelt Rodríguez
Corporate Communications
KPMG in México
+52 5246 8300 ext. 2409
nacheltrodriguez@kpmg.com.mx

Brenda Martínez
Corporate Communications
KPMG in México
+52 5246 8300 ext. 2422
brendamartinez1@kpmg.com.mx

For more information regarding the study, follow discussions on social media with #Ronda1.4

About KPMG International

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 152 countries and have 189,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

About KPMG in Mexico

KPMG in Mexico has 195 partners and 3,000 professionals in 18 offices strategically located in the most important cities, to offer consulting services to local, national and international clients. For more information please visit kpmg.com.mx

kpmg.com
kpmg.com/socialmedia

Designed by Evalueserve.
Publication name: Round 1.4 reiterates Mexico's appeal
Publication number: 134343-G
Publication date: June 2017