Mexico Lays the Foundation for Foreign Investment

Mexico has a clear vision of the hydrocarbon landscape it is hoping to build.

For more than seven decades, Mexico’s energy sector has been closed to foreign investors. Opening the oil and gas industry to outsiders was the subject of debate in several Mexican presidential administrations, but until President Enrique Peña Nieto’s government, none of them were able to progress beyond deliberation.

At long last, after many years of discussion and debates, Mexico is implementing energy reforms that will end the national monopoly of oil and gas E&P by state-owned Petróleos Mexicanos (Pemex).

President Peña Nieto presented the constitutional reform to Congress on Aug. 12. 2013. It was approved by the Senate on Dec. 11 and by the Chamber of Representatives the following day. Mexico declared the reform constitutional on Dec. 18 and published it in the official log of the Mexican Federation.

These reforms will dramatically change the playing field for Mexico’s oil and gas sector. The changes will open the door to new investors and offer enormous opportunity.

Establishing a legal framework

During mid-year 2014, Mexico’s Senate approved a number of draft decrees or “secondary laws” for reform implementation. These were approved by the Chamber of Deputies in early August and became law on Aug. 12.

These laws include a number of decrees, but two are particularly relevant to the E&P sector. The Law of the Coordinated Regulatory Organizations for Energy Matters addresses hydrocarbon regulatory organizations, while the Law of the National Agency of Industrial Safety and Environmental Protection for the Hydrocarbon Sector deals with safety and environmental issues.

The first law empowers the National Hydrocarbon Commission (CNH) to regulate the upstream sector and the Energy Regulatory Commission to regulate the midstream sector. It also establishes councils and commissions who will coordinate these agencies with the Department of Energy.

CNH will regulate and supervise the exploration and extraction of hydrocarbons, including collection at the production locations through integration with transportation and storage systems. CNH will tender and assign technical E&P contracts and provide contract management. The focus will be on accelerating knowledge development in Mexico with the goals of increasing long-term hydrocarbon recovery, achieving reserves replacement and making use of the most appropriate technology. CNH will establish and manage the National Center of Hydrocarbon Information.

The second law creates the National Agency of Industrial Safety and Environmental Protection for the Hydrocarbon Sector (ASEA). One of the key elements of the law is that ASEA will require E&P companies working in Mexico to implement operational safety management systems. In one of its first presentations, ASEA has mentioned its intention regarding verification of compliance with its regulations. It will be a multilevel audit/inspection process that will include internal verifications (operator’s own practices), verifications by insurance companies, verifications by accredited third parties and risk-based verifications conducted directly by ASEA.

As Mexico moves toward creating a regulatory regime, there are two primary goals: to set up a viable and sustainable internal structure for regulating E&P activity and to create an environment for investment that is appealing to potential investors. Patterning its regulations after those applied in the U.S. sector of the Gulf of Mexico (GoM), ASEA is one way it is hoping to reach that goal. Another is to leverage the knowledge and experience of organizations familiar with helping to establish regulatory regimes.

ABS has worked directly with the Mexican government, sharing a wealth of regulatory knowledge as well as its experience in helping other countries like Canada, the U.K. and U.S. to create regulations for hydrocarbon development. One of the advantages of working with ABS is that the organization has been active in Mexico for 58 years and has had a presence in the country since 1989. It has been the preferred classification society in the country for decades and has classed more than 85% of the rigs working offshore.

Future development

Mexico has nearly 10.5 Bbl of proved oil reserves and about 17.3 Tcf of proved natural gas. Production in Mexico from onshore and offshore fields peaked at about 3.8 MMbbl/d in 2004 and has been in steady decline since that time. Without the technology and experience necessary to develop the remaining reserves, it is unlikely that the majority of the proved reserves would be produced. Imported technology in the form of foreign investors could significantly change the future production scenario.

In February 2014, there were 61 producing fields in the Mexican GoM, with an average water depth of 53 m (174 ft). For Pemex to venture more into deepwater to develop its recent discoveries, it will be calling for partnerships with international operators.

Expectations for success

A 2013 prediction from the U.S. Energy Information Administration projected production in Mexico would continue to decline from 3.0 MMbbl/d in 2010 to 1.8 MMbbl/d in 2025 and that it was unlikely to exceed 2.1 MMbbl/d through 2040. The 2014 outlook, which takes into account new reforms and their likely positive impact, forecasts Mexican production will stabilize at 2.9 MMbbl/d through 2020 and then increase to 3.7 MMbbl/d by 2040. This constitutes a projected increase that is about 75% higher than the previous year’s prediction.

While the future is uncertain, it is clear that Mexico is a country on the move. Mexico has a clear vision of the hydrocarbon landscape it is hoping to build and is investing strategically to ensure that the appropriate resources and competencies are aligned to allow it to compete on the world stage.