

Gulf of Mexico

Mexico's

big opportunity

Audrey Leon chats with Statoil's Helge Hove Haldorsen about the positive results emerging from Mexico's energy reform, how it compares to Statoil's own experience as a state-owned operation, and its overall strategy in the Mexican Gulf.

OE: Statoil has held an office in Mexico since 2001, can you tell me your thoughts on Mexico pre- and post- the energy reform? What was it like to come into the country and establish operations, and what is it like in this new environment working within the country? Is there a noticeable difference?

Helge Hove Haldorsen (HHH): The Mexican energy reform took courage and collaboration, just like exploration and production (E&P), and I believe the appropriate name for it is: Mexico's Big Opportunity! Just a few years into the reform, it already has had a massive impact on the oil and gas industry in Mexico. Especially considering the ~50% reduction in the oil price seen since 2014, what has been achieved since Mexico hung up its "Open for E&P business" sign has been nothing short of impressive.

So far, Mexican authorities have successfully completed four transparent and competitive bid rounds; a total of 55 areas have been bid out to the industry leading to 39 awards; 49 new E&P companies have been established in Mexico – of which 25 are new Mexican independents, and 12 producing fields are now being operated by other companies than the national oil company Pemex.

In this period, Pemex has also farmed down and handed over operatorship of its Trion deepwater discovery, and also took part in its first open and competitive bid round in the recent deepwater tender. All of this has taken place in just a couple of years, which speaks to the impressive work-rate and commitment of the Mexican government to this new Mexican energy model.

And, this is only the results of the so-called Mexican Round 1. Round 2 has already been announced, and we're looking forward to consecutive tenders throughout the year for new opportunities in shallow water, onshore and in



Helge Hove Haldorsen

Images from Statoil

deepwater areas. The recently updated Mexican five-year plan outlines more opportunities in the years to come, which helps provide the overview and predictability that is so important to industry. Mexican authorities – spearheaded by Energy Secretary Joaquin Coldwell, CNH President Juan Carlos Zepeda and others – have done a remarkable job thus far.

Let me also mention AMEXHI, the new Mexican upstream association with some 50 members including Pemex. This has become an important member of the new E&P ecosystem in Mexico interacting with the authorities and institutions on important policy and regulatory matters – sharing global best practices in both technical and policy matters.

OE: Statoil (in consortium with BP and Total) picked up two blocks (1 and 3) in the Saline Basin during Mexico's deep-water round in December 2016, and Statoil has participated in previous shallow water rounds. Could you discuss why it was important for Statoil to participate from the very

beginning – some companies including majors have been absent from the rounds so far.

HHH: Statoil's interest in Mexico has always been driven by the opportunities that we see, and our bid round participation so far has been driven more by the subsurface than any strategic wish per se to enter early. It was the subsurface potential that we saw that drove our participation in the shallow water tenders of Round 1, and it was again the prospective potential – albeit with the increased risk and uncertainty of this frontier area – that led us to participate in the deepwater tender together with our strong partners BP and Total.

At the same time, there may of course also be benefits to companies entering Mexico early. They may get a head start in terms of developing the necessary subsurface understanding, regional knowledge and commercial grounding to succeed. But ultimately, our interest in Mexico is driven by – as much as it is dependent on – material opportunities and globally competitive terms and conditions.

OE: What is your strategy for Mexico, including your current acreage?

HHH: Statoil entered Mexico in 2001, and has a long-term perspective in the country. We're committed to reviewing opportunities that fit Statoil's strategy and competency areas, assuming globally competitive terms and conditions. Of course, as one of the world's largest offshore operators, our interest is primarily offshore. We've also built up a sizable onshore business in the US over the last decade, so we are not entirely discounting onshore opportunities in Mexico either.

The key for all upcoming opportunities in Mexico, however, is that they are able to compete for capital against other opportunities in Statoil's global portfolio. And since we have been able to reduce the breakeven price for our next-generation and non-sanctioned portfolio from over US\$70 to now less than \$30, future opportunities in Mexico really need to be very good to compete!

OE: Related to the previous question, which offshore areas (either shallow or deep water) are considered to be the most exciting areas for exploration?

HHH: Mexico has a significant yet to find potential offshore, particularly in the more frontier deepwater areas. Most of the Mexican deepwater is either underexplored or not explored at all, which of course from an exploration perspective is very exciting. So, we are very pleased about our two recently



awarded blocks in the deepwater Saline Basin of Mexico, together with our partners BP and Total.

These are significant, frontier areas, with considerable subsurface uncertainty but with play-opening potential. There is a lot of running room here, so we are optimistic about our chances, but a lot of work still remains to be done to further mature and prove up this acreage.

On the whole, shallow water areas in Mexico are considered to be more mature, given that this is where the majority of Mexico's offshore exploration and production has taken place over the years, so the remaining exploration potential here is most likely also less prospec-

tive. Having said that, the Sureste is a very prolific basin, and there will most likely also be "hidden or overlooked gems" in this area as well.

OE: What does the current upstream E&P scene look like in Mexico in your view? What is your perspective on current activity off Mexico?

HHH: It is very exciting to see so many new players coming into Mexico, especially the fact that you now have 25 new Mexican E&P companies in the country. No one would have thought that 2-3 years ago.

From Statoil's perspective, this can only be good for Mexico. More companies participating will mean more eyes looking at the seismic, more ideas about where the oil flows, and ultimately more wells and discoveries.

I am also of the opinion that this new Mexican energy model will ultimately also be very good for Pemex, which Pemex CEO Jose Antonio Gonzalez Anaya also said at CERAWeek in March. If we draw a comparison with Statoil's experience in Norway, I think it will be clear that having multiple E&P companies can actually be to the benefit of the national oil company. In this way, through partnerships and collaboration, we were able to learn from some of the best, and by also having to compete with the same companies it forced us to continuously improve. I believe it has been a key part to Statoil's success.

So with Pemex already being one of the largest producers worldwide, I think they have every reason to benefit from the influx of ideas and investments that the new Mexican energy model brings. Indeed, Pemex is already benefiting – just look at the interest and the investments they got with Trion, and now they are looking at farming down several other fields and discoveries as well.

OE: What are some of the challenges Statoil sees in the Mexico market (workforce, technology, etc.), and what are

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Statoil, Total and BP attended formal signing with SENER's Joaquin Coldwell and CNH's Juan Carlos Zepeda on 10 March. Image from CNH.

some ways the company has worked to resolve them?

HHH: I think it is important to remember that while the Mexican market is new to many of the recent upstream entrants, the oil and gas industry has been flourishing in the country for about 100 years.

Mexico already has a strong and competent oil and gas supplier industry, and a very well developed economy in many other areas as well. And if you look beyond E&P, Mexico also has very competitive and technologically advanced automotive and aerospace industries – with people, knowledge and competencies that can be further leveraged for the benefit of the oil and gas industry going forward as well.

As the industry moves into newer and less familiar areas in Mexico, such as deepwater and unconventional, it will be key for companies such as ours that we work with our local counterparts and suppliers to transfer and strengthen skills also in these areas. Working to establish links between suppliers, universities and research institutes both in Mexico and abroad will also be important in this regard.

OE: What is the long-term outlook for Mexico's oil and gas industry from your perspective?

HHH: From Statoil's perspective, the long-term outlook for oil and gas in Mexico looks very good. The energy reform, and the new Mexican energy model which it triggered, has given Mexico a great opportunity.

Indeed, the International Energy Agency (IEA), in a recent publication addressing the outlook for energy in Mexico to 2040 with and without the energy reform, concludes that the

Mexican nation and the Mexican people can look forward to material benefits from the reform if it is executed in a manner that provides the predictability and investor security needed to attract the required risk capital and activity level.

But, there is a sense of urgency here. To deliver on this potential there is a need to increase and incentivize activity. Only through exploration activity and by drilling wells will the significant yet to be proved up. And it is only by increasing activity that people will start seeing the true benefits – employment, investment and revenues – of oil and gas and the new Mexican energy model. And indeed, if you give any credence to the recent estimates of “peak oil demand,” it is a strategic objective for Mexico to monetize its

hydrocarbons while they are still needed.

According to an assessment by AMEXHI, the upstream oil and gas association in Mexico, as many as 20-30 wildcat wells are needed each year to deliver the increased production estimated in the IEA report.

So while Mexico is off to a great start, even more needs to be done to incentivize early activity (e.g. by adjusting the bid formula to give increased weight to the work program). Only in this way will Mexico be able to deliver on its potential and deliver the full and true benefits to citizens and industry alike.

OE: Is there anything else that you would like to add?

HHH: I would like to reiterate my belief that the energy reform is ‘Mexico’s Big Opportunity.’ In the IEA report mentioned earlier, two scenarios are compared: A 2015-2040 journey for Mexico without the energy reform implemented and another scenario with full energy reform implementation. When the two forward scenarios are compared, it is clear that full energy reform implementation delivers many key long-term benefits to Mexico and the Mexican people: Oil production in 2040 is more than a million barrels per day higher, the cumulative GDP during 2015-40 is about a trillion dollars higher, oil revenues are ~\$600 billion higher and investments are almost \$300 billion higher. If the energy reform were not implemented, Mexican authorities would have had to compensate for the lack of income with higher taxes and lower state and federal budgets. ‘It takes a village’ to deliver ‘Mexico’s Big Opportunity.’

The Mexican authorities have so far been very good

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'neighbors' promulgating an open dialogue with the players in the E&P industry. This collaboration has already secured many win-wins as global best E&P practices have been brought to Mexico.

The following two areas require special and continued attention:

■ **The Bid Formula:** In the current bid formula, extra royalty is given a weight factor of nine compared to extra work program offered (and the extra work program is capped at two wells). This set-up makes it possible to win a block by bidding high extra royalty and zero wells.

This is hardly in Mexico's interest as the extra royalty is only seen if a discovery is made starting with the first oil production 5-10 years from now offshore. In real estate, they say that three things are important: location-location-location. What Mexico needs now is: activity-activity-activity!

Every exploration well is a 'snowball' of activity in the Mexican oil states and if a commercial discovery is made, the 'snowball' grows big in a hurry when it comes to activity: employment, investments, all the way to production and income. Mexico should perhaps start defining success through the number of offshore wild cats drilled per year with 20/year as the goal as noted above.

Nothing can deliver 'Mexico's Vision In The Gulf' more than activity-activity-activity. The most important 'lever' to pull to achieve this is the terms and conditions offered by Mexico compared to other countries. What if Mexico, by design, decided to offer the best terms in the world? 'Economic Gravity' would then attract even more risk capital to Mexico leading to more activity and more discoveries quicker.

■ **Contract Administration:** Contract administration could be much more efficient with the introduction of electronic signature and data transfer.

There is too much paper and copying and signing. The carrot is that costs are lowered and Mexico becomes more competitive and business friendly. 

Helge Hove Haldorsen is Director General Statoil Mexico in Mexico City. Haldorsen previously served as Vice President Strategy & Portfolio Statoil North America in Houston. Prior to joining Statoil, Haldorsen worked for Norsk Hydro in various senior roles. Haldorsen earned an MS in Petroleum Engineering from the Norwegian Institute of Technology in Trondheim and a PhD in Reservoir Engineering from The University of Texas. He also served as SPE President in 2015.




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