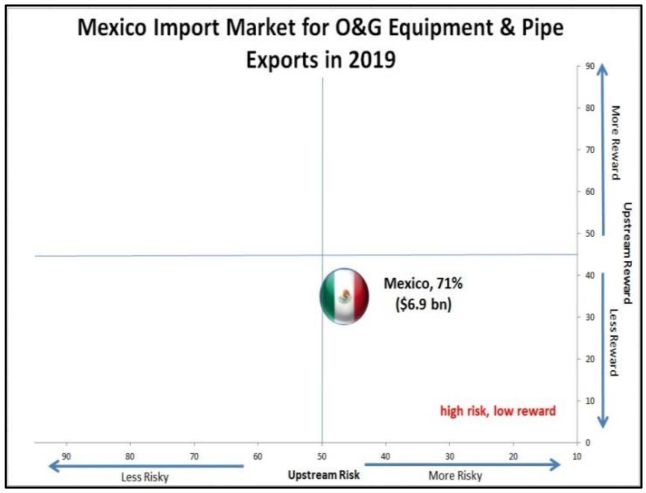
2016 Top Markets Report
Upstream Oil and Gas Equipment
Country Case Study

Mexico

Overall Rank: 4

Low oil prices hinder the pace of development in Mexico's O&G sector, but an historic change that now allows foreign and private companies to enter the market is likely to make Mexico's O&G sector highly competitive. In 2013, Mexico adopted large-scale reforms that offer new opportunities for U.S. companies. Apart from growth in trade, greater competition is anticipated in the O&G subsector, directly resulting from the end of Mexican Petroleum's (PEMEX) monopoly. To take advantage of new commercial opportunities, U.S. O&G equipment exporters should look beyond state-owned oil company PEMEX and consider partnerships with newly-emerging Mexican O&G companies. Given the advanced technical capabilities of many U.S. companies, there are significant opportunities for developing Mexico's deepwater and unconventional oil resources, which are largely undeveloped.



Background

Mexico is one of the world's top 10 oil producers and has the third largest proven oil reserves in Latin America, after Venezuela and Brazil, with 9.8 billion barrels. In 2014, Mexico produced 2.8 mbpd of crude oil, its lowest rate since 1986, amid production declines of almost 30 percent over the past decade.[i] Slowing oil production rates are likely to continue, and it is projected that Mexico's oil production will decline to 2.4 mbpd by 2019. In 2014, Mexico produced 45 Bcm of natural gas and holds an estimated 15.4 Tcm of technically recoverable shale gas resources. Despite its large shale gas resources and rising demand for natural gas for power production, Mexico's reliance on inexpensive natural gas imports from the United States may discourage development of its own shale gas resources.

Market Analysis

Mexico represents a large global import market for O&G field equipment as one of the 10 largest equipment importers globally. In 2015, Mexico was the second largest destination for U.S. exports of O&G equipment, totaling $3.4 billion and representing 15 percent of global U.S. exports. Over the past decade, U.S. exports of O&G equipment to

Mexico have grown over 200 percent from $1.1 billion in 2004 to $3.4 billion in 2015 and are expected to grow steadily through 2019.

In 2014, the United States was by far the largest source for Mexican imports of O&G field equipment, holding a 56 percent market share. After the United States, Mexico's largest sources for O&G equipment were Japan, Germany and China with 8, 7 and 5 percent market shares, respectively. Mexico's largest imports were machinery/mechanical appliances with individual functions (30 percent of imports) and filtering/purifying machines for gases (19 percent of imports). In 2015, the largest U.S. exports to Mexico were filtering/purifying machines for gases, parts for boring or sinking machinery and machinery/mechanical appliances with individual functions, which represented more than 60 percent of total U.S. exports of O&G equipment to Mexico.

Policy Context: Challenges and Opportunities

U.S. companies are likely to achieve greater commercial engagement in Mexico's energy sector as a result of their technical expertise, liberalization efforts within Mexico's O&G sector, the troubled state of PEMEX and the emergence of private Mexican exploration and production companies. Recent energy reforms ended PEMEX's 76-year monopoly over the O&G sector and instituted flexible terms for foreign companies operating in Mexico. Subsequent reforms have encouraged the development of Mexico's deepwater and unconventional resources, providing significant opportunities for U.S. companies given their advanced technical capacities. Financial issues facing PEMEX compound the need for increased U.S. investment in Mexico, while newly-emerging private O&G companies in Mexico could hold potential as future business partners and customers.

In 2013 and 2014, the Government of Mexico adopted two waves of wide-sweeping energy reform legislation to open its O&G sector to private investment. The reforms allowed foreign companies to enter into profit sharing, production sharing and service contracts with PEMEX, as well as receive licenses for O&G exploration and production. The reforms also outlined regulatory and fiscal terms and launched a bidding process to award all O&G exploration and production contracts and licenses. Mexico's regulatory and fiscal terms for O&G upstream projects are reasonable, especially compared to others in the region. Local content requirements (LCRs) do exist and are currently set at 25 percent for new projects to increase to 35 percent by 2025. There are some exemptions for deepwater projects, but this policy is still under development by the Mexican government. In addition, PEMEX is required to have a 20-percent stake in all cross-border fields, including deepwater and onshore shale projects.[ii]

Additional efforts by the Government of Mexico to provide production incentives are likely to stimulate greater investor interest in future bidding rounds. The Ministry of Energy (SENER) recently increased the acreage available for O&G exploration by 32 percent (with total acreage reaching 235,000 sq. km) and improved availability and access to high quality seismic data during bidding rounds. These and other reforms were included in SENER's updated five-year plan for the exploration and production of hydrocarbon resources, which was developed in response to low investor interest during Phase One of Mexico's Round One bidding for O&G exploration and production contracts in July 2015. Phases Two and Three saw significant investor interest and demonstrated the Government of Mexico's willingness to address industry concerns. Deepwater leases were announced as part of the Phase Four auctions in December 2015 and the bidding round scheduled for December 2016 has attracted major U.S. companies and IOCs. PEMEX has also announced farm-out opportunities in the Trion field. The contract schemes for the offshore bid round and farm-out agreements are still being discussed.

Mexican O&G companies with sufficient financial resources could provide substantial value-add to U.S. companies operating in Mexico. The energy reforms encouraged the emergence of private, local companies within Mexico's O&G sector. Although most local exploration and production companies do not have the capacity to independently operate O&G projects, they can contribute extensive knowledge on local laws, taxes, security and labor issues.

Although low crude oil prices pose financial risks for U.S. companies considering capital intensive deepwater or unconventional projects, these risks are mitigated by Mexico's need for increased investment in the O&G sector. Impacted by low crude oil prices, PEMEX has suffered huge losses and is expecting substantial cuts in capital expenditures for 2016. In February, President Nieto replaced the CEO of PEMEX – another indication of the company's troubled state. U.S. companies are positioned to meet Mexico's need for increased investment in sector technology and services, specifically the advanced technical capacities of U.S. companies in deepwater and unconventional exploration and production. Risks facing U.S. companies developing deepwater blocks in the Gulf of Mexico are also reduced due to the 2013 U.S.-Mexico Transboundary Hydrocarbon Agreement, as exploration on the U.S. side has led to significant oil discoveries.

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[i] http://www.eia.gov/COUNTRIES/cab.cfm?fips=MX

[ii] Reforma Energética; Found at: http://www.gob.mx/cms/uploads/attachment/file/10233/Explicacion_ampliada_de_la_Reforma_Energetica1.pdf