

# KIRKLAND & ELLIS

Blog Post

## Recent Trends in Mexico's Upstream Sector

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Following the 2013 Energy Reform allowing private and foreign investment across the energy value chain for the first time in 75 years, the Mexican National Hydrocarbons Commission (“CNH”) [awarded](#) 107 oil and gas exploration and production contracts (“E&P Contracts”) to 73 companies from 20 countries. This trend ended when President Andrés Manuel López Obrador (commonly known as “AMLO”) took office in December 2018. Since taking office, the AMLO administration has not awarded a single E&P Contract; however, there have been some recent hints that this could change in the near future.

### Pemex Farmout Tenders

Bidding rounds for a certain type of E&P Contract might resume soon, [according to CNH Chair](#) Rogelio Hernández. Hernández expects Pemex (Mexico’s national oil company) to start seeking partners to jointly develop some of its oil blocks in the near term. If Pemex elects to seek joint venture partners, CNH would conduct bidding rounds and facilitate the award of applicable contracts (commonly known as “Pemex Farmouts”) as required by Mexican law. Reuters reports that, according to Hernández, CNH could auction off participating interests in around 100 blocks currently 100% owned by Pemex – which might otherwise be surrendered due to lack of production.

A driver for this near-term joint development is the recent collapse in oil prices and energy demand, which has caused the company to [lose its investment-grade rating](#). At the same time, however, the Mexican government has [increased exploration and production](#) activities in Mexico in an effort to reverse 15 years of production declines. The government’s determination to continue to increase production was attested to by its very public reluctance to decrease production in the latest [OPEC+](#) negotiations.

If the Pemex Farmout tenders move forward, there may be strong interest. Private and

international firms have had several exploration successes in the Gulf of Mexico this year. For instance, [Repsol announced](#) in early May the discovery of two deepwater oilfields off the states of Veracruz and Tabasco, and [ENI announced](#) in February a shallow water discovery that could contain between 200 and 300 million BOE.

However, despite the Mexican government's determination to increase oil production and private firms' recent exploratory successes, another senior government official suggested that he does not expect any Pemex Farmout tenders to occur this year, according to a recent report by *The Wall Street Journal*. It is also worth noting that the statements by Hernández are not the first time senior officials in Mexico have hinted that the AMLO administration [might resume Pemex Farmout tenders](#) – and, previous statements aside, AMLO's government has so far stuck to [its original plan](#) of rescuing Pemex through federal transfers and tax relief.

## Secondary Market for Upstream Blocks

So long as CNH's bidding rounds remain off the table, [the secondary market](#) (i.e., asset acquisitions or other private M&A activity) is the only alternative for private firms wishing to acquire a stake in an upstream project in Mexico. While many transactions on the secondary market require CNH approval, to date CNH has not generally opposed any notable M&A or asset deals and has shown an interest in the completion of these deals. A number of notable deals have been completed since December 2018, including acquisitions by [Total](#), [Qatar Petroleum](#) and [Chevron](#).

However, the [sale of Premier Oil's stake](#) in the Zama offshore oilfield – discovered in 2017 by a consortium comprising Talos Energy, Premier Oil and Sierra Oil & Gas (now Wintershall DEA) – has reportedly been delayed awaiting action from the AMLO administration. The Zama reservoir [crosses into a contiguous Pemex block](#) and, thus, requires that the operator of the Zama block (Talos Energy) and Pemex enter into a unitization agreement, selecting the operator of the shared [670–970 million BOE reservoir](#) (with both companies claiming the [majority of recoverable resources](#) lie on their side of the block). If Talos and Pemex do not reach an agreement, the Ministry of Energy will resolve the issue, but is required to take into consideration a technical assessment from CNH.

## Looking Ahead

Mexico's energy investment climate has been affected by regulatory changes adopted by the current administration, as we reported [here](#), [here](#) and [here](#). Clear and consistent policy would send a strong signal to private investors, who are closely watching for further statements regarding Pemex Farmouts and the outcome of the Talos-Pemex negotiation.

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