

# Pemex: Investment opportunity in mature fields

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## Background

On April 24, 2019, Pemex's Chief Executive Officer, Octavio Romero Oropeza, as a measure to comply with the presidential instruction of producing more than two million 400 thousand daily barrels by the end of the six-year term, issued the program "Mature Fields Investment Opportunity Program: Increased of Recovery Factor" (the "**Program**"). By harnessing the potential of mature fields, it is expected that, by December 31, 2024, the oil production will increase to two thousand six hundred daily barrels and the gas production will increase to 6 million nine hundred thousand cubic feet.

## Increase of recovery factor in mature fields

The Program provides that Pemex, through *Pemex Exploración y Producción* ("**PEP**"), enters into Exploration and Extraction Integral Service Agreements ("**EEISA**") with the aim to: (i) enhance its technical and financial capacities to have the necessary experience and resources and, thus, develop complex projects in a shorter amount of time, and (ii) share risks attached to complex projects.

## Main characteristics of EEISA's

### Pemex as titleholder of Assignations

PEP will continue to be the Operator of the assignations; however, through the creation of a coordination committee, the service provider will participate according to its activities foreseen in the EEISA. The committee will be comprised of representatives from both parties and will be a consulting mechanism that eases the management, follow-up, evaluation and, given the case, adjustment to the EEISA's obligations.

### Term and stages of the Agreement

The term of the EEISA and its extensions will depend on the characteristics of the field subject of it. However, it may be extended on a case-by-case basis (e.g. when it is necessary to have such term according to the results of the exploratory activity or the pilot tests).

Likewise, EEISA's will have two main periods:

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- (I). the transition period in which the contractual area and facilities will be made at the service provider's disposal, and it is informed to him the equipment's, facilities and wells' condition and operation, and
  - (II). the development period in which the activities in the development plan will be executed according to the annual work programs, approved by PEP, who will be able to review its compliance.

### **Service provider's compensation through variable tariffs.**

As a general rule, the compensation received by the service provider shall be paid in cash at a tariff based per barrel of oil or thousand cubic feet of gas. These tariffs are related to each development phase, taking into consideration the risk and investment required. In this respect, the following tariffs are considered:

- Tariff 1 (T1)— applies to base production from the existing development in the field and will be determined in order to cover the operation and maintenance costs and may consist of between 50% and 80% of the Reference Tariff.
- Reference Tariff (T2)— will be considered the direct award variable.
- Tariff 3 (T3)— applies during an additional development phase of greater risk and may consist of a higher percentage among 10% and 30% of T2, depending on the required investments on the field.
- Tariff 4 (T4)— applies to the production from new discoveries or secondary or improved recovery projects and will be determined between PEP and the service provider, once it has been declared the commerciality of a discovery or it is determined that a secondary or improved recovery project is profitable.

### **Aspect to consider for the viability of EEISA**

To make the Program more attractive, it is envisaged that the EEISA will have the following:

- As part of the benefits considered in favor of Pemex, special tax regimes will be established.
- Have a segregated account or a trust to secure the payment of the service provider's compensation through the cash flow available from the project.
- Tariffs will be adjusted according to the fluctuations of the exporting Mexican crude.
- Right to recover 50% of expenses incurred during exploration and evaluation activities and pilot tests, as well as evaluation results of a secondary or improved recovery project.

### **Fields in which the Program seeks to be implemented**

Pemex has identified various fields in which it pretends to implement the business model. In order to do so, in the first stage, 21 assignations are being considered starting with four blocks: *Akal*, *Tamaulipas constitucionales*, *Rodador-Cinco Presidentes*, *Bacal-Nelash-Tiumut*. To that effect, the publication of the call for bids is scheduled for November 26, 2019, and the issue of the decision for June 29, 2020.

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