

Firms without local partners 'face greater challenges' in Mexico's oil sector

By Adam Critchley - Tuesday, May 24, 2016

Having won the Tecolutla block in Mexico's onshore auction in December, Tonalli Energia sees Mexico as a land of opportunity, director Steve Hanson told BNAmericas in an interview.

Tonalli Energia is a 50/50 JV between Canadian firm International Frontier Resources and Mexican petrochemicals company Idesa.

"We started looking at Mexico in 2014 with the energy reform to understand the opportunity. This truly is a historic energy reform, unlike any other that has taken place globally, and we believe the new framework is highly attractive and will attract billions of dollars in investment," he said.

"The denationalization of over 900 blocks over the next four years is unprecedented," he added. "We're going to focus on onshore, conventional and unconventional, and we're expecting another onshore auction to be announced as early as July, and we believe there's the potential for another onshore auction but with a larger number of blocks, and we'll certainly be a participant."

He also said it was important for foreign firms to team up with a local partner: "We believe foreign companies that do not have a local partner in Mexico will face greater challenges. Idesa has great resources and local knowledge and will be very important for mitigating risk of all kinds. We will continue to evaluate risks of all kinds, from geology to infrastructure, and we will go after regions where infrastructure is good, where there is lower environmental impact and the community is supportive."

He said that Mexico's attractiveness as an oil and gas market for foreign investment is due to the country's proximity to the US and Canada, and the fact vital infrastructure is in place. And in addition, comparatively low recovery costs make it even more attractive given the current low oil prices.

And despite a surge in violence over the last eight years particularly in the country's oil-producing states of Tamaulipas and Veracruz, he said the company is used to applying risk mitigation.

"We are fairly comfortable about working in Mexico. There are challenges in all jurisdictions: security, community, environmental and drilling risks, and part of our goal is to seek out areas in a country with less risk," he said.

He added that Tonalli Energia is eyeing Mexico's unconventional reserves, but was unable to predict when those areas may come up for auction.

Mexico is due to hold its next oil and gas auction, for deepwater fields, on December 15.

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