

MORE LESSONS LEARNED FROM ROUND ONE



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Q: Has the development of Round One raised investor confidence in the Mexican upstream sector?

A: Unfortunately, one of the main concerns clients had going into the oil and gas business in Mexico was that corruption could potentially lead to the awarding of the contracts under suspicious circumstances. The three phases of Round One issued so far, however, have been carried out under absolute transparency by CNH. As we all know, confidence is a fundamental but fragile factor, and even though there is confidence in the award methods, this trust in the institutions and regulators needs to extend to the whole range of activities that encompass the operation of a hydrocarbons block. Effective acquisition and recognition of rights of way and transparency in the accounting and financial procedures of the oil taxation instruments come to mind. These factors are especially relevant to give confidence to present and future investments.

Q: To what extent do you believe that the three first phases of Round One have been successful so far?

A: In R1-L01 only 14% of the blocks were awarded. These results are explained not by the drop in the price of oil but because the Ministry of Finance did not publish the minimum values for the bidding variables before the proposal presentation date, and some of the bids presented

by participants fell slightly below said values, with a 5% spread. Had the values been published before, the bids could have been slightly adjusted for a successful awarding of more contracts, leading to an award rate over 30%, well within the success range of 30-50% anticipated by the CNH. As for R1-L02 and R1-L03, they were successful with award rates of 60% and 100% respectively, and incredibly aggressive bids by some of the participants. In R1-L02, ENI International offered almost 84% of the operating profit as government take to win the block with the most reserves, and R1-L03 saw bids of up to 85% of additional royalty. If anything, it looks like many companies decided to bid regardless of the price of oil or because they are highly optimistic about its future.

Q: To what extent do you feel that unnecessary restrictions were hindering conversation with regulators?

A: Indeed, in an effort to promote transparency in the sector, there are stringent restrictions regarding the interaction between members of the private sector and CNH personnel. There are official, institutional communication channels through which the private sector may express its concerns, and the Commissioners and other government officials constantly participate in industry forums where they listen to investors' and operators' opinions.



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