

Mexico Oil Auction Succeeds in Drawing World's Biggest Drillers

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- Mexico awards 8 of 10 blocks in Gulf of Mexico auction
 - BHP Billiton wins joint venture with Pemex in Trion field
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Mexico's first competitive deep-water oil auction surpassed expectations as eight of 10 blocks were awarded to some of the world's top oil companies.

The National Hydrocarbons Commission awarded all four blocks in the oil-rich Perdido Basin, where the geology is said to mirror the U.S. side of the Gulf of Mexico, to companies including Total SA, CNOOC Ltd, Chevron Corp. and Exxon Mobil Corp. In the Salina Basin in the south, which is less explored and therefore considered riskier, four of six blocks were awarded. Separately, BHP Billiton Ltd. won the right to develop the Trion field in the Gulf along with Pemex.

The deep-water auction signals the beginning of a new era for Mexico, which ended state-controlled Petroleos Mexicanos's 75-year monopoly in the energy sector in 2013 by opening the doors to foreign competitors. Mexico is counting on the influx of foreign investment to help reverse 12 years of oil production declines. The government had modest expectations for the sale, with Energy

Minister Pedro Joaquin Coldwell saying in a radio interview last week that the country would be happy to sell four of the 10 blocks.

"The participation from across the globe proves the world's majors are interested in getting into Mexico," Jeremy Martin, energy program director of the Institute of the Americas in San Diego, said in a phone interview from Mexico City. "Mexico, and particularly Pemex, has to be breathing a huge sigh of relief."

[For more on the importance of the oil auction, click here](http://www.bloomberg.com/news/articles/2016-12-01/as-mexico-welcomes-oil-giants-its-own-colossus-slowly-erodes)

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Average additional royalties pledged to the state, with minimums set at 3.1 percent in Perdido blocks and 1.9 percent in the Salinas Basin, reached double-digits in most cases. The blocks in the deep-water auction are estimated to cost \$4 billion each to develop, according to the Energy Ministry.

"This achievement is a result of the new Mexican energy model," the Mexican Association of Hydrocarbon Companies, known as AMEXHI, wrote in an e-mailed statement. The investment from the first round of Mexico's oil auctions "will impact economic growth in the country and the development of oil resources for Mexicans."

Total won three blocks in the auction, including two in the Salina Basin as part of a group with Norway's Statoil ASA and BP Plc, as well as one in the Perdido Basin with Exxon. CNOOC Ltd was awarded two blocks in the Perdido, beating out Pemex for the first block. Chevron Corp., in a consortia with Pemex and Japan's Inpex Corp., also won a block in the Perdido.

Sierra Oil & Gas, which has backing from private equity firms Riverstone

Holdings and BlackRock Inc, pledged the highest additional royalty rates in the auction as it nabbed two blocks in bid groups that included Malaysia's Petroliam Nasional Bhd. in both and Murphy Oil Corp. and Ophir Energy Plc in one.

Joint Venture

[BHP Billiton Ltd <https://www.bloomberg.com/quote/BHP:AU>](https://www.bloomberg.com/quote/BHP:AU) . beat out BP for the Trion joint venture with a cash commitment of \$624 million compared with BP's \$604 million. The area, which is located just south of the maritime border with the U.S., is estimated to contain the equivalent of 485 million barrels.

BHP will be required to invest some \$1.2 billion from the onset, including an amount of about \$580 million required to match the investment that Pemex has already put into Trion, known as the "carry." Pemex will not need to commit to investing its own funds for another four years, the Mexican company said in a statement. That eases the burden on Pemex, where 16 consecutive quarterly losses have left the state-run company in its most difficult financial standing in company history.

"This really proves that, despite its problems, companies -- including some of the world's majors -- are willing to partner with Pemex," added Martin. "They should all be raising a glass to celebrate today."