

Editor's Choice

FEATURE: The conspicuous disappearance of deepwater - Mexico

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During the energy reform debates of 2008, Mexico's federal government produced a commercial that began with a golden light being cast upon the adorable, awestruck faces of two children on a beautiful beach.

"Mexico has a grand treasure: a treasure hidden below the bottom of the sea," said the narrator's voice, dripping with viscous gravitas. It later showed two executives shaking hands to represent the alliances needed between cash-strapped and heavily-indebted state oil firm [Pemex](#) and the private companies with the experience and technology to access costly deepwater reserves.

The government of Mexico's President Felipe Calderón stressed the urgency of exploring and exploiting deep waters, and the resulting reform created a special deepwater tax regime and made legal incentive-based service contracts. More than a year after the reform was signed into law, however, deepwater is conspicuously absent from public discourse.

In part, that has to do with the fact that deepwater was dangled before the collective eyes of the Mexican public as a way to grease the political wheels.

"During the reform debates, they were using [deepwater] as a publicity stunt. They really wanted to suggest to people that there was a treasure out there. It was a way they thought they could sell the reform," Mexican energy analyst David Shields told BNamericas.

José Manuel Muñoz, president of NGO Observatorio Ciudadano de Energía, told BNamericas he believes in the area's potential given the results on the US side of the maritime border, but that the publicity campaign was based on "little technical arguments and very scarce knowledge."

"If I asked you to compile the information used to sustain Calderón's campaign, and then go into deepwater, you would say there is insufficient information. The scientific fundamentals were very little. It was a media campaign, and nothing more. Pemex's efforts to date have been very little," Muñoz said.

SLOW PROGRESS

Since 2003, Pemex has drilled only 10 deepwater wells, defined by the company as exceeding water depths of 500m. The company drilled the Catamat-1 well in 2009 to a depth of 1,230m, the deepest to date. Reserves at Catamat-1, Leek-1 and Tamil-1 are still being evaluated, according to a January presentation.

Pemex releases its annual reserves report in late March.

Today, local media touches on deepwater almost only if reporting discoveries on the US side of the Gulf of Mexico. Such discoveries serve to underscore Mexico's lagging oil sector.

Indeed, the fact that Pemex and the government now rarely broach the topic of deepwater can be partly attributed to the long lead time for deepwater projects. Exploration requires years of continued effort, not to mention huge investment.

The company has defined nine deepwater areas as "most relevant" considering economic value, prospective size, hydrocarbon type, geological risk, closeness to production facilities and environmental restrictions as the most significant criteria. They range in water depths from 600m to more than 2,000m at the Perdido fold belt on the maritime border.

WORKS SET TO COME

A Pemex spokesperson told BNamericas in an email that it will receive the first of its three ultra-deepwater semi-submersible new-build rigs - the Petrorig III - in July. The rig will operate under a five-year contract worth some US\$942mn.

"I think that their last major effort is going to be with these three giant semi-submersible rigs that they're bringing in. That will take them up to 2012, and after 2012 it's a new ball game," Shields said.

An executive from offshore drilling contractor [Pride](#) (NYSE: PDE) said in a recent webcast that Pemex's deepwater rig needs toward the end of this decade will depend largely on the exploration of this first new-build rig.

ONSHORE, SHALLOW WATER REMAIN MAIN PROBLEM

The final, and perhaps most significant, reason for the lack of discussion on the topic is that onshore and shallow water problems have eclipsed the company's deep water ambitions.

The company's offshore Cantarell field accounted for some two-thirds of production as recently as 2004. Pemex began nitrogen injection in a bid to extend the field's life, but its natural decline has dragged national output down with it. Cantarell makes up only one-fifth of production today.

Pemex hopes development of other shallow offshore fields can help offset Cantarell's dive. The company's main short-term hope of doing so, though, is the onshore Chicontepec field in Veracruz and Puebla states. The field holds 40% of 3P hydrocarbons reserves in the country, or 17.4Bboe, and Pemex's

most recent forecast held that production will hit 600,000b/d by the end of 2020.

However, output remained unchanged throughout 2009 at less than 30,000b/d, despite drilling contracts worth billions of dollars. Upstream regulator CNH caused a storm last year when it called for a reassessment of the project, and Pemex is currently determining the best way to proceed.

"They are more preoccupied with onshore problems and shallow water problems, i.e. Chicontepec, Cantarell, etc. They are not really confident in what can be done in deepwater yet, and the negotiation is not in place with the US for cross-border fields. Pemex is more concerned with getting started with certain projects that it has tendered already," Shields said.

It is widely believed that the long-awaited incentive-based contracts will initially be deployed at Chicontepec in an attempt to finally boost output.

Jeremy Martin, the director of the Institute of the Americas' energy program, agreed that for now Pemex is focusing its efforts on Chicontepec, which will be the target for the first of such contracts.

"There's no way the first contracts they roll out will be for deepwater. It seems like they'd be leading with their chin," Martin said.

If the new contracts have success in Chicontepec, Martin said the company would then look to apply them in the deepwater arena.

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