

Incentive contracts could draw smaller oil companies to market - Mexico

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The proposed incentive-based contracts that Mexico's state oil company [Pemex](#) plans to sign could attract smaller oil companies, Jeremy Martin, the director of the Institute of the Americas' energy program, told [BNamericas](#).

It is widely believed that the incentive-based contracts, which were made legal by the 2008 energy reform, will initially be deployed at the Chicontepec field in Puebla and Veracruz states in an attempt to finally boost output.

Chicontepec's output has remained at some 30,000b/d despite Pemex signing drilling contracts worth billions of dollars.

Martin said that the incentive-based contracts could attract some oil companies that have previously dealt with challenging geography or marginal fields, though not major IOCs.

"There could be some companies that could render a completely different outlook for Chicontepec than Pemex has by basically just hiring service firms to drill. There are a lot of companies I think would probably be delighted to be in on some of these things. Maybe not the Exxons or the Conacos or the Chevrans, but some others who have been pretty successful in Africa and the Middle East," Martin said.

It remains unclear exactly how the incentive contracts would function, and the country's supreme court is currently evaluating a constitutional challenge to the reform law presented by the lower congressional house.

"I don't think you can pay a drilling company per barrel produced. I don't think that will work, because they're not choosing the drill sites," Houston-based consultant George Baker told [BNamericas](#).

"If it were a really promising drill site, Pemex wants to know just what the turnkey price is. They don't want to produce oil and then get an ongoing royalty on the oil. So it's hard to know where the incentive part is in Chicontepec," Baker said.

Baker agreed with Martin's stance that the incentive-based contracts could draw certain oil firms to the Mexican market.

"I can almost be certain that the major oil companies will not be interested in Chicontepec. There could be smaller companies that could be," he said.

However, these contracts would need to be upheld by the supreme court and issued by Pemex before the potential of their attractiveness is truly demonstrated.

Gianna Bern, president of consultancy Brookshire Advisory and Research, said that even contractors who have traditionally worked for Pemex may take a wait-and-see attitude before committing to new contractual terms.

"There have always been opportunities for the oil field service sector. In the past year, it's been somewhat disappointing for the Halliburtons and Baker Hughes of the world, but Pemex is trying to take some steps to put in place some more flexible contractual arrangements and more flexible procurement opportunities. Once they have those business models more firmly established, I think the market will react to it," Bern said.

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