



Transparency in the Administration of Hydrocarbon Resources: the new Mexican model

Presentation for Russian Economic Challenge Conference

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Introduction

- In 2013 Mexico enacted an important set of reforms to open up its energy markets (hydrocarbons and electricity).
 - ✓ Private companies, local and foreign, can now engage in E&P activities.
 - ✓ PEMEX, the NOC, will continue operating with more flexibility to form joint ventures.
 - ✓ In 2015 and 2016, the Round 1 of auctions was successfully enacted.
 - 39 E&P contracts were subscribed with around 30 consortiums.
- In the following slides I will:
 1. Briefly describe the institutional framework
 2. Mention some lessons and challenges we have learned about transparency

1. E&P Rights for New Companies: The Fiscal Model

Payments to the State	Licenses	Production Sharing Contracts	Profit Sharing Contracts	Service Contracts
Signature bonus	x	---	---	---
Exploration fee	x	x	x	---
Minimum Royalties	x	x	x	---
Additional Royalties	x	---	---	---
State share of profits	---	x	x	x ^{1/}
Adjustment mechanism	x	x	x	---

1/ Contractors will deliver the entire production to the State

Source: Law for Hydrocarbon Revenues.

- Additionally, contractors must pay the corresponding taxes to the fiscal authority (income tax and a special tax for subnational governments).

1. The Fiscal Model for the NOC

- Transition for PEMEX: Round 0 under “assignment” fiscal model.
 - ✓ Very similar to previous fiscal model.
 - ✓ Economic terms cannot vary for each project.
 - ✓ Can only partner with other firms through service contracts.
- PEMEX received close to 490 areas:
 - ✓ 275 currently producing.
 - ✓ 120 for exploration activities.
 - ✓ 95 as a custodian while they are auctioned off.
- PEMEX has the option to “migrate” its assignments to contracts.
 - ✓ To form a joint venture with other firms, the partner is selected through an auction.
 - ✓ First migration: December 2014 with BHP Billiton for deepwater development of *Trión* field.

1. Institutional framework: Dissemination of Roles Supervising the E&P Sector

Responsibilities before E&P Contracts are assigned:

- ✓ Ministry of Energy (SENER): designs the Contracts to be tendered according to its energy policy.
- ✓ Ministry of Finance (SHCP): establishes fiscal terms, including minimum values to be offered at auction.
- ✓ National Hydrocarbon Regulator (CNH): provides technical analysis and executes the auction.

Responsibilities after E&P Contracts are assigned:

- ✓ CNH: administers technical aspects of the Contract.
- ✓ **Mexican Petroleum Fund (FMP)**: administers financial aspects.
- ✓ SHCP: performs audits over flow of funds.
- ✓ Environment protection agency (ASEA): Inspect safety and environmental protocols.

1. More about the Mexican Petroleum Fund

The Mexican Petroleum Fund (FMP) is a public trust where the Central Bank (Banco de Mexico) acts as a trustee on behalf of the Ministry of Finance (SHCP).

Objective

The Fund was created to receive, administer and distribute the government revenues from oil and gas E&P activities (excluding the associated taxes).

FMP Roles

1. Receiver and distributor of the hydrocarbons revenues

2. Manager of the financial aspects of the E&P contracts

3. Manager of the sovereign wealth fund

The FMP has a strong mandate to perform all of its activities with a high level of transparency.

1. Sources & destination of income

SOURCES

Hydrocarbons Revenues
from Exploration and
Production activities
(E&P):



a. Revenues from the NOC



b. Revenues from
private companies



DESTINATION

A. Payments due to E&P contracts

B. Transfers to the Government
(up to a maximum of 4.7% of GDP, some of it
is earmarked for specific purposes)

C. Deposits to the long-term reserve of the
FMP

2. Lessons for Transparency: Auction Format.

- The Mexican government set a high standard for performing auctions to grant E&P rights:
 - ✓ For several months before the auction, information is published on interested and approved companies (www.rondasmexico.gob.mx).
 - ✓ Day of the auction: live stream on TV and online.
 - ✓ Participants submit sealed envelopes in crystal boxes which are opened live.
- Challenge going ahead: the auction process lasts a few months, but the execution of the contract can last decades.
 - ✓ Must allow traceability between auctions and Contract performance.
 - ✓ Maintaining a link between controlling companies and legal entities can become particularly challenging.

2. Lessons for Transparency: Statistical Information

- The FMP is bound, by law, to publish monthly information about E&P contracts and assignments as follows:

Currently		Future
Assignments: <ul style="list-style-type: none">490 assignments167 data series Production Sharing Contracts: <ul style="list-style-type: none">5 contracts (all in exploration phase)90 data series (includes cost registry)	License Contracts: <ul style="list-style-type: none">25 contracts (15 in production phase)915 data series Transfers to Government: <ul style="list-style-type: none">20 data series	New deepwater Licenses: <ul style="list-style-type: none">9 contracts Round 2 <ul style="list-style-type: none">As much as 38 contracts

<http://www.fmped.org.mx/estadisticas/>

2. Lessons for Transparency: Statistical Information.

- In spite of published information, the FMP still receives a significant amount of “information access requests” (similar to FOIA in U.S.)
 - ✓ Some requests are generated by confusion about the distribution of responsibilities among different authorities...
 - ✓ ...but some refer to information already available online.
 - ✓ Challenge: reduce costs of accessing information for all.
- Must address tension between expert and casual users.
 - ✓ Expert users (academia and analysts): want very detailed information in downloadable formats.
 - ✓ Casual users (broad public): can tolerate less detailed information but want user friendly access.
 - In the long term, both users complement each other.

2. Challenge for Resource Revenue Administration: Smoothing Revenues Through Time

- The energy reform foresees the creation of a long-term reserve, when hydrocarbon revenues exceed the 4.7% of the GDP during a year.
 - ✓ The reserve will be managed by the FMP with the dual objectives of stabilizing of the federal budget and transferring wealth to future generations.
- Previous mechanisms for smoothing resources across time:
 - ✓ Oil price in budgeting process: moving average of past prices and futures.
 - ✓ Overall deficit: “structural” budget approach.
- Levels of hydrocarbon revenues in:
 - ✓ 2013: 4.7% of GDP
 - ✓ 2015: 2.3% of GDP
 - ✓ 2016: 1.6% of GDP

Concluding Remarks

- In 2013, Mexico enacted sweeping reforms that changed the energy model that had operated for 75 years.
 - ✓ The reforms were quite ambitious: this requires a lot of implementation work to guarantee success.
- The execution has been performed with high level of transparency:
 - ✓ During the bidding process (online information and live streaming).
 - ✓ With detailed information about flow of funds from Contracts (through FMP Statistics).
- The challenges for transparency evolve as the sector evolves.
 - ✓ We should always seek to improve understanding for the broad public.



<http://www.fmped.org.mx/>

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