

The Dream of Chicontepec and how Pemex strives to overcome the myth of Quetzalcoatl.

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January 25, 2013

Chicontepec according to the Indian náhuatl language means seven hills, the place where Ehecatl, the god of the wind, meets with Quetzalcoatl, the sun or morning star god. Pemex hopes that the place where the ancient gods met may also be blessed with significant hydrocarbon resources.

As production from the Cantarel field continues to decline Pemex strives to attract foreign investment. This time Pemex hopes to attract international capital to the Chicontepec project. The history behind Chicontepec is not promissory and leaves more than one thousand inactive wells and losses of 18,000 million pesos. Pemex expected a return of 93.6 cents per invested peso and instead received 2.5.

Through a third bidding round that starts this month, Pemex expects to attract investments of \$62 million in each one of six projects¹ open for bid. Pemex made available to interested investors its draft of the proposed model contract.

The contract is conceived as a service contract whereby the foreign investor will provide all services required for the exploration, development and production of hydrocarbons. As required under the Mexican Constitution and laws currently in effect all production is exclusively owned by Pemex. The foreign investor's compensation is not tied to reserves in place and is exclusively conceived as a cash payment. Such cash payment is the sole source of rights for the Contractor under the contract.

All exploration risks and costs necessary to increase production are for the foreign investor/contractor. However, at all times, Pemex has full authority and control over all oil and gas operations. Thus, the Contractor is solely a Pemex service provider for a fee, but a service provider that assumes all risks of the venture.

The model contract significantly limits the Contractor's rights making it clear that the Contractor obtains no property rights and no right to conduct for itself oil and gas operations.

The contract is conceived as a thirty five year contract and contemplates several phases as follows:

- a. Transmission Phase. In which Pemex transfers to the Contractor the contracted area along with its previous oil and gas and environmental related history.

¹ The projects that are up for bid are all onshore located primarily in Veracruz and named: Pitepec, Amatitlán, Humapa, Soledad, Miquet;a and Miahuapan.

- b. Initial Phase. This is a two year tem that may be extended for one additional year in which the Contractor may test new technologies to increase production and perform exploratory work.
- c. Development Phase. This phase starts after the Contractor confirms in writing its will to move on to a development and production stage consistent with a proposed production plan.

All facilities and materials used by the Contractor automatically are transferred to Pemex's and become its property.

The Contractor is solely liable for any environmental obligations.

Pemex has broad contract termination rights as it is customary with state administrative contracts.

The contract also includes broad indemnity provisions that favor Pemex's interest.

The proposed model provides for Mexican law and for an ICC arbitration in Spanish and based in Mexico City with a specific waiver of attachment of assets ahead of an award.

Notwithstanding the fact that significant foreign investment and technology are required to overcome the challenges of this area, Pemex' legal strategy does not show significant changes to attract new players. In many ways it reminds of the joint venture between the pig and the hen to make chicken and egg sandwiches.

Since 2012 Mexico has a new president, Enrique Peña Nieto and the three main political parties signed a political compact pursuant to which an energy reform will be launched to attract foreign investment. Thus, hopes are high for the oil and gas industry and paradoxically the timing may not be the best for Chicontepec. Hopefully doing things right may allow Pemex to one day overcome the myth of Quetzacoatl.