NATIONAL CONTENT: THE NEXT STEPS IN A MEXICAN ENERGY REVOLUTION



Local content can be understood as the requirement for a defined percentage of the manpower and materiel employed in a capital project to be sourced indigenously, fostering the development of the local skills base.

In Mexico, Petróleos Mexicanos S.A., commonly known as Pemex, has been Mexico's one and only hydrocarbons producer for close to 80 years. Production has been in terminal decline since 2004, with the giant Cantarell field falling from from an output level of 2.1 million barrels per day (bpd) to barely 340,000 bpd now.

In a bid to rejuvenate the country's hydrocarbon sector, on December 21, 2013, Mexico's passed a sweeping and historic energy reform bill into law, with the rollout of a raft of energy reform legislation the following August. Local content was high on the agenda and is still hotly disputed now.

With a view to finding out more about what the shakeup in Mexican energy circles is looking like from the inside, we spoke with Jorge Luis Lavalle Maury, Senator for Campeche and a member of Mexico's National Action Party (PAN), about the next steps and stumbling blocks to avoid for this developing New World economy.

SPEAKER KEY

TH Tim Haïdar, Editor In Chief, **Oil & Gas IQ**
JL Jorge Luis Lavalle Maury, Senator for Campeche, **National Action Party (PAN)**

TH Senator Lavalle, many thanks for your time today. Tell us why you have chosen to attend the Global Local Content Summit today.

JL It's a pleasure, Tim. Well, I stand in the Mexican senate, and we just approved our energy reform bill in 2014. Local content for us is very important because it presents a huge opportunity for Mexico to really grow, as we should, taking the maximum benefits of the energy sector, all the benefits that the energy will give to the Mexican people.

We still have a lot to learn from other content experiences, specifically right now where we are implementing all the supplementary laws and all the regulations to govern the quotas. So, for example, we need to set up the way we're going to measure local content contract by contract. Under general law what we set up a minimum of 35 per cent local content per contract, of local but now we need to set up the metrics because.

We don't want Mexican people to just keep on just providing general services. We want to generate industry. We want to generate a knowledge base and the transfer of technology so we can really start developing our Mexican-owned industry.

So these kind of summits, these kind of conferences for us are very important in that respect. We've taken a lot of notes, because right now we are at the step where we need to define the way we're going to measure and set up the energy sector, which has just been opened up to outside participation. We need to make sure that the this new start will begin working for us and providing us all the benefits we're expecting from it.

TH So, what challenges is Mexico facing in terms of local content implementation?

JL As we had the Pemex monopoly on oil in Mexico, we're only used to seeing how the energy market works with one company in charge. This company was provided with all of its technology from outside of the country and local content for the energy supply chain in Mexico today is less than 18 per cent.

There are a number of threats to our energy security. Energy consumption levels have been increasing at a fixed rate of two per cent for the last 12 years, and our production levels has decreased over a million barrels per day.

But we still have a lot of product in Mexico to explore and exploit. And because of the lack of investment, because of the lack of laws which allow us to open the market and really generate industry, the opportunity to turn this around has not been easy coming.

Well, the energy reform which we have just approved is an integrated energy model and local content is included across the entire supply chain.

So what we really need to do is look at the best way to measure local content quotas when it comes to, for example, competition: what's, the best way we can provide our local companies with a piece of the pie within each sector of activity from exploration and production to marketing, storage and even the electricity generation sector.

So, the new regulatory bodies that we have created, will have the mandate and be institutions responsible for the initiation, regulation and measurement of local content improvement and implementation in Mexico.

We have also created special funds which will finance local companies to start specialising in all the different processes which we want to implement. What I have seen in the presentations from other countries' is that they have formed or are forming really interesting procedures and have had a very interesting political debate on how to generate them.

During this summit we are talking in a lot of information to keep on learning from other country's experiences.

TH What approaches are you taking with regards to facilitating SMEs?

JL For us, the key in local content terms is specifically directed at boosting and encouraging the development of small and medium-sized companies in the oil and gas space.

The SME sector is where we already have a significant volume of commercial enterprises and a lot of monetary power. That's really our biggest area of opportunity where we can definitely develop our local content strategy and start generating local capital.

TH What are the plans for local content over the next ten years?

JL In this energy reform which we just approved we're looking at a range of short-term, medium-term and long-term objectives. Obviously in the short-term, we have economic objectives such as pushing up investment in the sector.

By doing this, we hope to also augment oil production at the same time: the government is targeting a production level of three million barrels per day by 2018, which is about 500,000 barrels more than we are producing today.

In the mid to long-term we really want and need to foster local industry, create our own technologies, generate our own knowledge market.

Only through this can we really consolidate the true reimbursement what we should be receiving from the energy sector as Mexicans.

TH Is having the US as a next-door neighbour a positive or negative influence with regards to local content?

JL I think that there are advantages but also potential threats. And one of those threats is in terms of our own energy self-sufficiency.

Let's take, for example, the Eagle Ford shale of South Texas. This extends into the Burgos Basin in northern Mexico where becomes the Boquillas Formation.

A huge amount of natural gas is being produced on the US side, but on the Mexican side, we only drilled our first well in 2013 – we are basically doing nothing.

So for us, I we look at this as a huge area of opportunity because we have one of the largest gas reserves in the world and we have a lot to learn about the way they have developed all this industry just over the border.

If we do this properly, it will generate a lot of jobs for us and give us the opportunity to have cheaper and cleaner hydrocarbons to be able to produce our own energy in a self-sufficient manner.

We want to explore all of the opportunities that we have with this and I think that we need to look at the United States as our ally.

It is by learning from the more experienced parties that everyone will eventually derive the advantages of this our energy reform plans in the coming years.

Hear more from Senator Lavalle and the likes of the Head of Government Procurement and the Country Manager for Chevron Mexico at the National Content Congress Mexico from June 23-25 in Mexico City.

The first event of its kind, National Content Congress Mexico will look at overcoming barriers to drive regional content development and is aimed at those involved in investment, local content, supply chain, procurement, HR and government affairs.

