

Seconds out, Round 1

INTERVIEW WITH EMILIO LOZOYA AUSTIN

DIRECTOR GENERAL, PETRÓLEOS MEXICANOS (PEMEX)



EMILIO LOZOYA AUSTIN holds BAs in Economics and Law from Mexico City's UNAM and an MA in Economic Development from Harvard. He has worked in the private sector, setting up various investment funds, and in 2012 was appointed International Relations Coordinator for the presidential election campaign of Enrique Peña Nieto. The same year he was named Young Global Leader by the World Economic Forum, where he is Director for Latin America. He also works with the International Development Bank (IDB) and Mexican Central Bank, and was Assistant Coordinator of International Affairs in the transition team of President Enrique Peña Nieto

OPPOSITE:

Splendid isolation no more: Pemex is now free to partner with NOCs and IOCs from all over the world

You have a reputation as a fighter, both in your professional life as a turnaround specialist and in your spare time as a boxer. How do you intend to get an ageing 'Rocky' like Pemex fighting fit to take on the heavyweights of the global oil industry? What do you regard as the greatest single challenge facing the company?

Pemex is almost 77 years old, but it is still up and running as the most important company in Mexico and one of the ten largest integrated oil companies in the world. This "ageing Rocky" still has much to offer to Mexico and to the world.

Our company has a very good branding in Mexico, currently providing a third of the fiscal revenues and being a token of national pride. At the end of the day, Pemex's efforts end up building one out of every three schools, one out of every three hospitals, one out of every three kilometres of roads that are built.

In the last year, the Energy Reform established a great challenge for Pemex: to transform itself into a Productive Enterprise of the State in two years. By 2016, we will be ready to face competition in a very different environment to what we have been used to, but to achieve this, we need to attain operative efficiency levels above the international standards that will make us become leaders in all the markets we will be competing in from now on.

This is why we are transforming our strategy, structure, business processes and even the corporate culture at a very fast pace. With these changes, we attain budgetary, operational and management autonomy.

We have to reinvent ourselves, our corporate structure and values and become surgically efficient in order to generate the most value for our company and our country. This shift in our mindset has to be quick and profound, and that is our greatest challenge.

Whilst Mexicans' heads may accept the inevitability of change, Pemex still holds a special place in their hearts. How do you intend to develop the company and leverage it for the greatest benefit of Mexico and its citizens?

Pemex belongs to all Mexicans; it is a source of national pride for all, and as I said before, we are the providers of one third of the government's budget. With the Energy Reform, Mexico will benefit enormously from having an open market in the Energy Sector, for many reasons. First, there will

be more capital investment, which will translate into better infrastructure and more sources of quality employment for our people.

Second, the government will stop depending only on one oil company to collect taxes. This will considerably diminish Pemex's tax burden and the government will benefit from the oil revenues of other companies, which will pay around 70 per cent of their income in taxes, as is the standard practice elsewhere in the world.

Third, Mexicans will also benefit from the open market in gasoline and natural gas in 2018. By having more competitors, there will be better service and more competitive prices.

These are just a few of many opportunities that the Energy Reform and the openness of the sector will bring to the benefit of our country and the economy of Mexican families.

2013/14 was a year of dramatic reforms – in education, taxation, finance, labour and, of course, energy – but 2015 is going to be the year of implementation. What is your view of President Enrique Peña Nieto's achievements so far, and how do you see the implementation side progressing?

Without any doubt, the structural reforms that were promoted and approved in 2013 and 2014 planted the seeds of the profound transformation our country is undergoing in the economic, political and social spheres. Our President, Enrique Peña Nieto is doing a great job of moving Mexico forward, with a complete transformation of the laws that have been keeping us from growing. Moreover, he has a difficult scenario to deal with, due to the fall in the price of oil and the weakness of the peso. This has given us challenges that we will have to resolve in creative ways.

For the Energy Sector and Pemex in particular, these past few months have been the most transcendental since its foundation in 1938. The Energy Reform has been a milestone in the history of Pemex, since it was the one that started the transformation of our company. The new legal framework gives us the necessary assets to strengthen and consolidate our position as one of the best oil companies in the world.

Pemex, as a Productive Enterprise of the State, for the first time in its history will be facing open market competition. To be successful, we have centralised

some functions and gained financial and operative autonomy that will make our corporative structure more efficient. With these changes, the enormous quantity of bureaucratic paperwork will diminish and we will be able to respond more quickly to changes in the world.

With the transformation, we have implemented the best practices of international oil companies. Due to the significant budget cut that we have suffered due to the fall in the oil price, we will eliminate redundancy in functions and excessive bureaucracy. We will necessarily foster efficiency, transparency and accountability, which must always be the touchstones of our company.

The government has set an ambitious target of raising crude oil production to 3 million b/d by 2018. How will that target be met, in your view?

We predict that crude oil production in 2015 will be 2 million 400 thousand barrels a day. To achieve this, we are contemplating the reactivation of production from mature fields, increasing production in the Southeast Marine region and the commencement of operations at recently discovered fields such as Ayatsil-Tekel, which has strong growth potential.

In August 2014, the Ministry of Energy published the results of Round Zero, where Pemex had the first opportunity to be assigned the available fields, taking in consideration its technological capacity, before the rest of the oil companies. We can decide how to work on these fields that were assigned to us, either by ourselves or in association with other companies, so we can share risk, investment and technology.

We were assigned 83 per cent of the 2P reserves, which is 100 per cent of what we asked for from the Ministry of Energy, and 21 per cent of the prospective hydrocarbon resources. We have an area of approximately 90 thousand square kilometres to explore and 20,600 million barrels of oil equivalent.

It is a cruel twist of fate that the reform that many doubted could ever be achieved has coincided with the biggest collapse in global oil prices for a decade. How concerned are you about the impact of the current price environment on the appetite of international oil companies to invest in Mexico – and indeed, on Pemex’s own economic prospects?

Facing a dramatic drop in the price of oil, one of our fundamental resources is to have approved the Energy Reform in a timely manner. With the changes that have taken place in the international arena, by becoming a productive enterprise of the State, Pemex will have more and better financial and technological resources to extract oil from shallow and deep waters in the Gulf of Mexico, lowering the costs and risks of extraction and making the business more profitable, in spite of the low oil price.

Pemex’s extraction costs are among the lowest in the world, and that is why it is still very profitable for our company to extract and sell oil.

Will Round 1 continue as originally announced, or is it inevitable that certain components, such as shale acreage, may be scaled back or delayed? The details of Pemex’s farm-out and joint venture plans were originally scheduled for release in January, but the migration of the existing CIEP contracts has taken longer than expected. How is this process proceeding?

The shale oil and gas fields will surely have to be delayed because of the enormous costs involved, but Round 1 is still on schedule.

The association contracts with the main oil companies in shallow waters will be known during the first quarter of 2015. Similarly, the public auction calendar and the Round 1 calendars will stay the same.

We have been speaking to many oil companies that are interested in investing in the energy industry in Mexico, since our country has a great potential which is being opened for the first time to private investment.

We have also signed several Memoranda of Understanding with the world’s main oil companies, which ratify their commitment to work with Pemex. Moreover, we see a clear upward trend for oil prices

We are ready for the challenge: Nobody knows our fields, our geology or our strengths better than the engineers and geologists here at Pemex



Photo: Pemex

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in the next few years, which makes it a very prudent time for all our potential partners to invest in Mexico and work with us.

How do you see the offshore shallow water evolving? Is this an area where private investment can make a contribution, or will Pemex keep it largely to itself?

Under the new scheme implemented by the Energy Reform, we will need to focus on those projects where we can generate the most value for Pemex and our country. These projects will necessarily be those where we have important experience, such as shallow water, where we are one of the main producers in the world.

For us, it makes no sense to deviate resources to smaller projects, because it takes away money, time and human resources from bigger production projects. We will therefore be in shallow water and, undoubtedly, will seek to be a major player in deep water. We have had, up to now, an exploratory success rate of around 60 per cent. We are clearly prepared to enter the business, but we will need to share risk and capital investment with partners.

Pemex currently refines around 1.4 million b/d, yet the country still has to import around 50 per cent of its gasoline requirements. How do you see the refining sector post-reform? Will Pemex be investing more in it, partnering with other companies to build new capacity or getting out of it altogether?

Following the logic of focusing on the most productive projects, and given the reduction of the budget assigned to Pemex due to the lower oil price, we have been forced to look for creative solutions for several areas in our business.

One of these areas is refining, since it is one of our less profitable sectors. For several years now, we have been investing in our existing refineries and we intend to reconfigure several of these.

In spite of our budget cut, we have decided to diminish, not cancel nor postpone, the flow of investment in the refineries of Tula, Salamanca and Salina Cruz, which will fall under a different investment scheme.

Pemex has increasingly been looking overseas – particularly to Asia – for new markets for its crude, as the US becomes increasingly self-sufficient. How do you see the international outlook for the company?

We are facing the imminent self-sufficiency that can be achieved by our main consumer the United States of America, with an increase in the production of natural gas in the medium term and the decrease of imports in the short term. Therefore, we have focused on the diversification of our crude oil exports to other parts of the world, such as Europe, the Far East and even Hawaii.

With this new reality, Pemex has, since 2013 signed

several memorandum of Understanding with China to increase our exports of oil to Asia, as well as several MOUs with Chinese oil companies to share technology and expertise in the future.

Many key Pemex executives are due to retire in the next two years. How does the company intend to recruit and retain the brightest and best talent in an increasingly competitive environment?

The Mexican workers are ready for the changes that are happening right now. Nobody knows our fields, our geology, or our strengths better than the oil engineers and geologists here at Pemex.

Getting through these challenging times will only be possible with the support of our workers, who will be the main strength of our company, with their talent, dedication and commitment.

Facing the new environment of competition in an open market, we cannot forget that we have the challenge of attracting and keeping the best talent, and to achieve that we must give incentives and keep salaries competitive compared to the rest of the energy industry that will come to invest into our country.

For this reason, we have been working since last year on building human capital. There are not enough oil engineers, mechanical engineers, petrochemical engineers, etc, and in future, other companies will compete for our talent. This is why we have started a corporate college, the Pemex University, which will endow technical training and further education to our employees.

We are also implementing incentives to our engineers so they decide to stay with us, and also for the promising young students that are graduating from our universities, so they will want to work for Pemex.

You have a close relationship with your counterpart a CFE, Enrique Ochoa Reza. How do you see the relationship between Pemex and CFE developing, as CFE moves into gas marketing and Pemex into cogeneration?

Enrique Ochoa and I are very close colleagues and we are both working to move Mexico towards a better energetic reality and create more economic prosperity for all. To take advantage of the assets that the Energy Reform has given to both CFE and Pemex, we will have various electricity cogeneration projects together. Pemex will create three branches: perforation, electric cogeneration, and logistics and transport. These three will fortify activities that are substantive to Pemex. Specifically, the electric energy cogeneration will seek to sell our surplus energy production into the national market in cooperation with the Ministry of Energy and CFE.

Similarly, we expect to have many more joint ventures with CFE, so that both companies can maximise the value of our contribution to the country. **F**