

# BG: The UK's flagship for reform

INTERVIEW WITH WAJIB EFFENDI

VICE PRESIDENT AND COUNTRY MANAGER, BG MEXICO

For international oil companies with the balance sheet and the technical expertise, Mexico offers great potential

Two decades ago, the government of Margaret Thatcher chose a state-owned company called British Gas as the flagship for an unparalleled privatisation process that would not only encourage millions of ordinary people to invest in the stock market, but also revolutionise British industry, ushering in a new era of globalisation and interconnected financial markets.

In 1997, British Gas was split into two parts: Centrica, which became a gas and electricity supplier, and BG, which later became BG Group. The company embarked on an ambitious and highly successful expansion strategy that has led it to play a key role in the energy sectors of 24 countries worldwide, making it the UK's third-largest oil and gas producer, employing more than 5,000 people. A FTSE 100 company with assets of £49 billion, over the course of the last decade BG Group has added on average one billion barrels of oil equivalent of resources to its portfolio each year.

Now BG Group is set to take part in another revolution: one of the most ambitious energy sector reforms ever, and one that will open Mexico's oil, gas and power industries to overseas players for the first time in almost 80 years. A radical new hydrocarbons law outlines a fresh contract framework offering companies a licensing agreement, a cut of the profits, a proportion of the production or a share of the servicing revenues.

For the last two years, Wajih Effendi has been overseeing BG Group's strategy to enter the Mexican hydrocarbons market, and is now based in-country, a reflection of the company's long-term commitment to Mexico.

"BG Group is here for the long haul. We saw the potential to invest in Mexico once President Peña Nieto had been elected in July 2012, and then, in the run-up to taking office in December, it was clear he was committed to implementing major reforms, particularly in the energy sector. It was obvious that this was somebody who had the political will to make things happen, and that he had widespread support from all parties," says Mr Effendi, who is now vice president and country manager for BG in Mexico.

"There is strong leadership here, big decisions are being made, the country is looking outwards and it's opening up to trade. Mexico is at a point where there is going to be a lot of activity in the energy sector over the next few years," he adds.

"For international oil companies with the balance sheet and the technical expertise, this country offers great potential. If they get in early, the hope is they will be able to build up a material business over the years to come," says Mr Effendi.

Mexico plans to offer 169 blocks for exploration and production with estimated resources of about 20 billion barrels of oil equivalent in several tenders throughout the year. Investment of US\$8.5 billion a year over the next four years will be needed to develop the blocks, according to government estimates.

The first bids include 14 blocks in shallow waters in the Gulf of Mexico, and are expected to be awarded by August. The winners of deep-water blocks, eagerly awaited by most international oil majors, will be announced around November.

"The group's strategy is to focus on areas of distinctive and competitive advantage: that means early stage origination, discovery and development in upstream oil and gas," says Mr Effendi. Over the next three years, the company intends to spend US\$1.8 billion a year on exploration across the globe.

BG Group has had a difficult couple of years: in early 2014 it said headline earnings would dip by 33 per cent on an annualised basis to around US\$2.2 billion owing to unrest in Egypt, which makes up 20 per cent of BG group's annual production. The domestic strife there in 2013 meant the Egyptian government didn't honour agreements covering BG Group's share of gas from fields in the country, with high levels of gas being diverted to the domestic market. Unable to fulfil its export obligations, the company had to serve force majeure notices to affected buyers and lenders, releasing all sides from contractual obligations for circumstances beyond their control.

Which makes Mexico, politically stable and with long-standing free trade agreements with over 40 countries, a logical choice within the company's international expansion strategy. Not that there aren't risks, admits Mr Effendi: "Obviously, there is the question of oil prices right now, but this is a long-term business, cyclical. That said; we're going to have to make some tough investment decisions. We've been clear from day one that the risk and rewards has to balance; when we are considering the potential of hundreds of millions of dollars in exploration investment, the potential for the pay-off has to be

there. We know the hydrocarbons are there, but the upside still has to be very clear.”

Mr Effendi says BG is not focusing on bidding for tenders to build gas pipelines from the United States into Mexico and is focused on offshore drilling opportunities in the Gulf of Mexico, still one of the world’s largest unexplored reserves of oil and gas. Some 1,600 wells have been drilled in US waters, compared with 50 or so on the Mexican side.


“There are other companies better placed to build and operate pipelines in Mexico. Our strength is exploration and LNG, which is what sets us apart from our competitors. We focus on where we can add value across the value chain,” says Mr Effendi, adding: “We have a lean management structure, which gives us the capabilities of a much larger company while retaining the speed and agility of a much smaller outfit.”

Mr Effendi says that Mexico fits perfectly into the company’s global plans: “Mexico is in line with BG Group’s strategy to focus on securing prospective frontier acreage and enter, on average, one new basin each year. We’ve got a unique Caribbean strategy, a Latin American strategy. We have acreage positions in Colombia, Trinidad, Aruba, Honduras, Brazil, and Uruguay... so for us, this is about moving north. Mexico is an established producer with a fantastic track record. At present they produce approximately two and a half million barrels a day. So the focus is on scaling up the

industry over time, but for a player like us coming in, it’s a lot easier than building from scratch, like companies have had to do in other locations, such as East Africa.”

He’s confident that BG can repeat its successes in Mexico, pointing to the company’s wide technological expertise and its people and culture. “We apply consistent and robust screening processes that enable us to make fast and efficient decisions, and establish positions rapidly.”

Mr Effendi points out that until now, the country’s huge deepwater reserves have been untouched by Mexican state oil company Pemex because of the technical expertise and the capital required to develop them. Which is where BG’s experience over the last two decades, as well as its sustainable approach to exploration, makes it the perfect partner for Mexico as it embarks on its energy sector revolution.

“Mexico needs technical expertise and capital to unlock the deep water reserves. That’s part of the reason they opening the hydrocarbons sector up. The country is in the early stage of developing their deep water reserves, while the UK is an advanced player and has mastered the skills to work in offshore fields. There is this great capability here in the UK, and British companies have acquired expertise and experience from the North Sea. Overall, the UK can help provide Mexico with technological help. That’s where the big connection is,” says Mr Effendi. 

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Platform for growth: Mexico is in line with BG Group’s strategy to focus on securing prospective frontier acreage and enter, on average, one new basin per year