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National Plan for the Production of Hydrocarbons

On December 15, president Andrés Manuel López Obrador introduced the National Plan for the Production of Hydrocarbons ("Plan"), which targets an increase in the current crude oil production from the average 1.75 million barrels daily to 2.4-2.6 million by 2024.

The Plan focuses on two main axes of action:

1. Reactivation of production processes.
2. Extensive exploration through areas more likely to harbor reserves.

Exploration and drilling activities will focus on 20 oil fields with probable and proven reserves (2P), with an extraction expectation of 50% in relatively short periods of time, and which already show a significant advance.

Similarly, the Plan intends to:

- a) Bolster the recovery of mature fields.
- b) Reduce oil depletion through new technologies and efficient management.
- c) Timely develop new fields with the new exploration strategy.

The Plan foresees the drilling of new wells in 12 shallow water fields and 8 land fields in the states of Tabasco, Campeche and Veracruz.

In addition, in order to reduce costs and risks, the Plan considers two new contract models to be signed with private companies, namely:

1. Marine infrastructure: comprehensive contract for the entire infrastructure, including the offshore platform, its mooring, transport and installation, as well as pipelines and their mooring to the platform.
2. Well drilling: turnkey contract, under which the contractor will be responsible for the delivery of the well in time and within price.

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PEMEX will be responsible for the engineering and supervision of services, and incentives will be offered to competent contractors whose performance will be measured through indicators provided in the contract.

Finally, the Plan includes the allocation of two contracts for the construction of offshore infrastructure:

- a) Contract for 7 offshore platforms and 114 km of pipelines, for the production of oil and gas.
- b) Contract for 6 offshore platforms and 62 km of pipelines, also for the production of oil and gas.

For its part, on January 28, the Ministry of Finance and Public Credit (SHCP) issued release no. 009-2019, announcing the implementation of two key measures aimed at strengthening PEMEX investments in new exploration and production projects, as follows:

1. Increase on deduction limit for costs concerning extraction and exploration projects, from 2019 to 2024, for a production volume of around 90,000 barrels per day, equivalent to 5% of PEMEX platform. For that purpose, the cost deduction limit shall be homologized according to bidding rounds carried out between 2015 and 2018.

It is estimated that such measure will deliver PEMEX around 11 billion MXN each year, and a total of 66 billion MXN may be collected by 2024. Resources will be allocated exclusively to investments in exploration and production.

2. A special tax regime for secondary and tertiary recovery projects which, according to the statement, will have no repercussion on the budget for it will only benefit additional production regarding projected estimations for 2019.

Lastly, on February 15, through release no. 011-2019, the SHCP announced additional measures to consolidate PEMEX, as follows:

1. Capitalization: 25 billion MXN.
2. Monetization of SHCP promissory notes with PEMEX: 35 billion MXN.
3. Tax burden reduction: 15 billion MXN (it is expected to accumulate 90 billion MXN for 2024).
4. Revenue obtained from combating fuel theft: 32 billion pesos.

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The above measures equal a total of 107 billion MXN of additional resources for PEMEX. Furthermore, an investment of 288.1 billion MXN is provided, as well as a policy to not contract new debt for 2019.

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