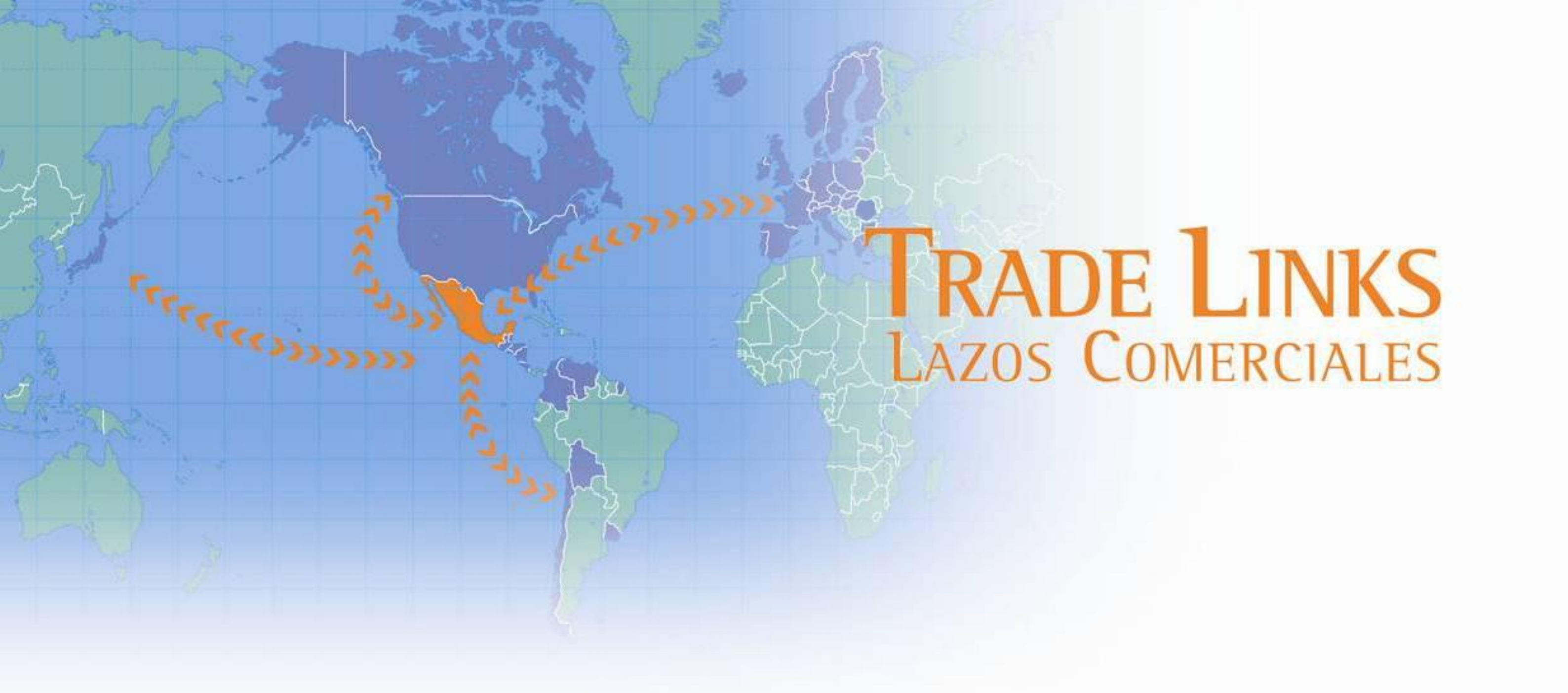

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MÉXICO

September 2011
Year 11, no. 9

Investment opportunity in Mexico's oil sector

Excerpts from the magazine "Negocios" published by ProMéxico*

Since 2008, Mexico's energy sector has undergone considerable reforms, notably the incorporation of integrated contract models for hydrocarbon exploration and production. Through these contracts, the state oil company PEMEX (Petróleos Mexicanos) expects to leverage the expertise and technology from other companies to recover fields that are in decline, but still have potential.

The new contract models consist of a profitable and competitive scheme that introduces innovative aspects of the relationship between PEMEX and contractors. This new model proposes payments based on a volumetric fee and on the percentage of recoverable expenses.

This contract scheme, which underwent a strict legal analysis by the Mexican Supreme Court, establishes that compensations considered in the contracts can be fixed based on the degree of goal-fulfillment or based on indicators that are commonly used in the hydrocarbon industry, such as productivity, capacity, reserves incorporated, hydrocarbon recovery, execution times, expenses, savings, and others that contribute to improving project performance.

The new contract models, approved by PEMEX's Board, offers the opportunity to pay for services based on performance, cost reduction, accident prevention or added value.

Thus, the new Mexican contract model is a sort of hybrid between contracts that share production and pure service contracts, also incorporating commonly used practices in the oil and gas industry. Many aspects of this contract model are notably similar to international practices, while still considering the constitutional and legal restrictions in the Mexican oil sector.

A Value Creation Mechanism

This contract model is designed to apply to long-term oil and gas development projects in Mexico. Each contract will cover services for the evaluation, development, and production of hydrocarbons within a contractual area. The contract term will be divided into an exploration phase (in which a minimum work obligation is imposed to the contractor) and a development and production phase.

(Continues on page 2)

* For more information visit: http://negocios.promexico.gob.mx/

Investment opportunity in Mexico's oil sector

(Continues from page 1)

Depending on the results of the exploration phase, the contractor may terminate the contract without the need to advance to the development phase. If the contractor moves forward, there is a minimum work required during each year, which varies depending on the contract.

The incentive-based contracts are designed to give outside companies greater flexibility than PEMEX's standard services contracts. The most notable difference between the new contract and its predecessors is the modification of the compensation system, from a fixed unitary price-based formula to a production-based system.

This new legal framework allows for the implementation of an economic model in service contracts that includes production-based incentives and additional ones for project efficiencies, both of which intend to increase the potential compensation for the contractor.

Under this new scheme, the contractor will receive payment in the form of a fee for each produced barrel plus a yet to be defined percentage of recoverable costs, subject to the project's available income.

A Valuable Opportunity for Oil Companies

Mexico's first efforts to implement these new contract models began in three areas of the Southern Region: *Magallanes, Carrizo and Santuario* (see inset), which are made up of six brown fields with a current production of 14,000 barrels a day and a reserve of 207 million barrels of oil equivalent.

The hydrocarbon volumes in these fields are not insignificant since the original amount of oil in place was close to 2 billion barrels and to date only about 400 million barrels have been produced. This leaves 1.6 million barrels remaining.

Given that current recovery factors in these fields are very low, Improved Oil Recovery (IOR) and Enhanced Oil Recovery (EOR) methods would be ideal means to increase profitability since recovery efficiencies can reach up to 50 or 60%, depending on the EOR method selected and used.

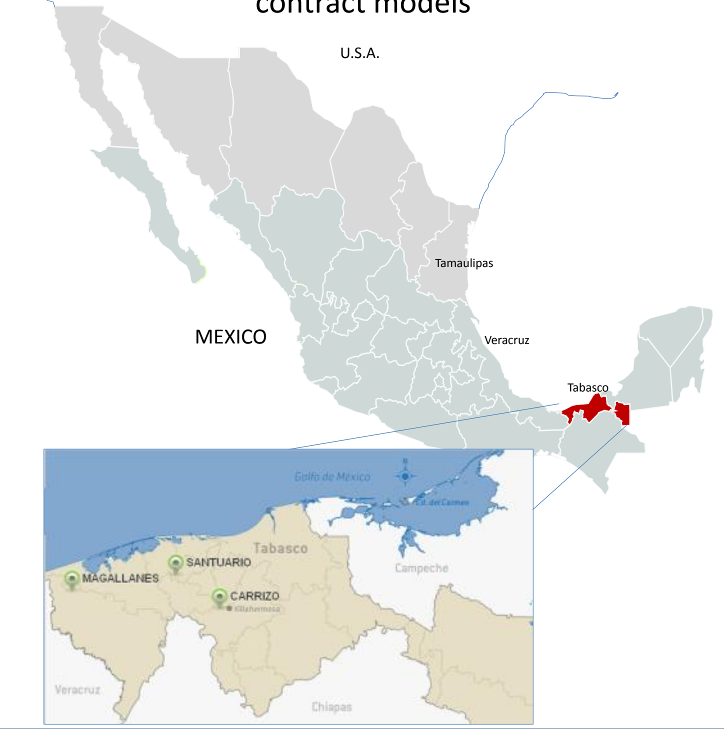
Therefore, these fields represent a valuable opportunity for oil companies that have both experience in brown fields and access to EOR technologies.

The Future of Investment in Mexico

Many countries are quickly moving towards the use of EOR, and it is estimated that this will be a very important component of the world's oil production in the future. For Mexico, EOR is an attractive alternative to increase its oil production, and the new contract models are an important new means to stimulate its development.

Mexico's new contract models in the energy sector prove the country's desire to innovate and compete internationally.

First oil fields under PEMEX's integrated contract models



Mexico's Total Trade in July (billion US$)			
	2010	**2011**	**%**
Total	47.7	56.9	19.3
Exports	23.3	27.9	19.4
Exports (excluding oil)	19.9	23.3	17.2
Imports	24.4	29.0	19.2

Source: Banco de México

Mexico's Trade with EU and EFTA (million US$)			
January - July	**2010**	**2011**	**%**
Exports to the EU	7,719.4	10,846.7	40.5
Imports from the EU	17,973.5	21,332.5	18.7
Exports to the EFTA	574.1	772.8	34.6
Imports from the EFTA	914.8	959.8	4.9

Source: Banco de México

PEMEX announces first integrated oil contract awards

After the reforms in the contract models for hydrocarbon exploration and production in Mexico (see article on page 1), a great interest from oil companies both domestic and foreign was awakened, which was reflected in the successful bidding process that was held on March 1, 2011.

At its conclusion, the two awarded companies were Petrofac Facilities Management Limited for the fields of *Santuario and Magallanes and Adminstradora en Proyectos de Campos* for the field *Carrizo*.

In the specific case of the British firm Petrofac, its contract will be signed on 18 October 2011 and will run for 25 years. Petrofac has committed to an investment of approximately 500 million dollars for a 90% interest in the contract to develop the blocks, while a subsidiary of PEMEX will retain a 10% economic interest in the contract.

This company will be reimbursed for 75% of its development expenditure through a cost recovery mechanism and will receive a tariff for each barrel of incremental production.

For their part, PEMEX officials expressed optimism about the potential of the new contracts, stating that nothing like this had been previously seen in Mexico. Furthermore, according to press reports, in the following months PEMEX could conduct another round of biddings for this type of agreements for the exploration and development of the *Altamira, Ébano, Pánuco, Arenque, Tierra Blanca, Atún* and *San Andrés* mature fields, located in the states of Tamaulipas and Veracruz .

For more information visit:

http://www.pemex.com
http://www.petrofac.com/937/_10663.html

More investments in Mexico

A *Fiat* born in Italy, made in Mexico, sold in China

Chrysler's Toluca plant in Mexico will soon be shipping *Fiat 500*s to China. The plant, on which the automaker invested 550 million dollars, is poised to produce 120,000 vehicles a year; half are earmarked for the US market and the other half will be sent to Brazil and China. Sales in China are expected to begin on September 2011.

Anticipating the official launch of the standard 500 in the Chinese market, the automaker unveiled the *Fiat 500 First Edition* at Shanghai, a special version limited to 100 units, which will be produced in Toluca, Mexico.

This special edition displays several custom graphics on its sides, created by five Chinese designers –Leilei, Mee Wong, Benny Luk, Yan Wei and Nod Young–, to represent the link between Italy and the Asian country.

L'Oréal expands operations in Mexico

The French company L'Oréal, world's cosmetics leader, announced that it will invest 50 million dollars in a new facility that will be located in the region of San Luis Potosi. This is an initial investment to which supplementary resources will be allocated over a five-year period, allowing a production of close to 700 thousand hair dye units per day, of which 70 percent will be exported to the US market

The new facilities, which will be L'Oréal's largest plant worldwide, will begin operations in March 2012, creating 400 direct jobs and close to 800 indirect jobs.

L'Oréal began operations in Mexico since 1962 and currently has a manufacturing plant with more than 300 employees, which serves Mexico, the U.S., Central America, the Caribbean and South America.

Mexico's Economic Indicators

Inflation rate: 0.16% (August, 2011);
3.42 % (2011, annual)
Industrial Production: 3.2% (July 2011 / July 2010)
Manufacturing: 4.8%; **Construction:** 4.1%, **Mining:** -3.2%
General Index of Economic Activity: 3.6% (June 2011 /June 2010)
Consumer Confidence Index: 93.4 pts. (August 2011)
4.7 percentage points (August 2011 / August 2010)
Open unemployment rate: 5.8 % (August 2011)

Source:

Mexico's Financial Indicators

Foreign exchange rate: 13.67 peso/dollar (September 26, 2011)

International reserves:$136,076 million dollars (Sep. 15, 2011)

Mexican stock market index (IPC): 33,386 (September 26, 2011)

Interest rate treasury bonds CETES 28 days:
4.27% (September 22, 2011)

Source: Banco de Mexico

Mexico's Official Gazette Notices

- **04/08/2011** Annexes 13, 22 and 27 of the General Rules for Foreign Trade for 2011, published on July 29, 2011.
- **09/08/2011** Annex 1 of the General Rules for Foreign Trade for 2011, published on July 29, 2011.
- **09/08/2011** Agreement amending the agreement which approves several blank formats used to perform procedures before to the Ministry of the Economy, the National Metrology Center, the Mexican Geological Service, the Mining Development Trust Fund and the Federal Attorney's Office of Consumer.
- **12/08/2011** Agreement establishing merchandise classification for exports subject to presentation of a certificate of origin issued by *Asociación Mexicana de la Cadena Productiva del Café*, and the procedure for the certificate of origin issuance.
- **16/08/2011** Agreement that publicizes the Decision No 64 of the Joint Committee to the FTA between Mexico, Colombia and Venezuela, regarding temporary use of non-originating materials to manufacture certain textiles and apparel goods and exporting them under the FTA's preferential treatment, adopted on July 19, 2011.
- **17/08/2011** Preliminary resolution of the ex-officio revision of the countervailing duty order to liquid caustic soda imports originating from the USA, regardless of the shipping country, (Mexican tariff item 2815.12.01).

EU Official Journal

- **9/08/2011 L204** Council Implementing Regulation (EU) No 791/2011 of 3 August 2011 imposing a definitive anti-dumping duty and collecting definitively the provisional duty imposed on imports of certain open mesh fabrics of glass fibres originating in the People's Republic of China
- **9/08/2011 L204** Council Implementing Regulation (EU) No 792/2011 of 5 August 2011 imposing a definitive anti-dumping duty and collecting definitively the provisional duty imposed on imports of certain ring binder mechanisms originating in Thailand
- **10/08/2011 L205** Commission Decision of 9 August 2011 terminating the anti-dumping proceeding concerning imports of tris(2-chloro-1-methylethyl)phosphate originating in the People's Republic of China
- **11/08/2011 L206** Council Implementing Regulation (EU) No 803/2011 of 4 August 2011 repealing the countervailing duty on imports of certain broad spectrum antibiotics originating in India and terminating the proceeding in respect of such imports, following review pursuant to Article 18(2) of Council Regulation (EC) No 597/2009
- **17/08/2011 L209** Commission Regulation (EU) No 821/2011 of 16 August 2011 imposing a provisional anti-dumping duty on imports of vinyl acetate originating in the United States of America
- **19/08/2011 L214** Council Implementing Regulation (EU) No 831/2011 of 16 August 2011 imposing a definitive anti-dumping duty on imports of barium carbonate originating in the People's Republic of China following an expiry review pursuant to Article 11(2) of Regulation (EC) No 1225/2009

Mexico-EU Trade Links is a monthly informational newsletter published by the Mexican Mission to the EU, Representative office of the Ministry of the Economy. Av. Franklin Roosevelt 94, 1050, Brussels, Belgium.

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