



MEXICAN ENERGY REFORMS

Where Are the Reservoirs of Talent?

In August 2014, the Mexican Congress passed a package of reforms that will transform the country's entrenched energy industry, opening it to private investment. For the first time since 1938, when Mexico's revolutionary government took over the oil and gas sector, both foreign and local companies will be able to explore, produce and refine oil in Mexico. The move, made possible by a constitutional amendment passed in December 2013, is a cornerstone of President Enrique Peña Nieto's agenda. It will end the monopoly power of *Petróleos Mexicanos* (Pemex), Mexico's giant state-owned oil company, and that of *Comisión Federal de Electricidad* (CFE), the state-owned electricity company.

The overhaul has the potential to attract more than \$20 billion a year in investment dollars¹ that can be used to develop difficult-to-tap reserves, including those in the deep waters of the Gulf of Mexico and shale deposits found in northern Mexico. Already, global giants like Royal Dutch Shell, Chevron and ExxonMobil are preparing to bid on development contracts and licenses that will be offered through a series of "Round One" public tenders beginning in early 2015.

"Given that private investment has not been allowed in Mexico's energy sector for so long, pushing through these reforms took years of political effort," said Juan Carlos Zepeda Molina, president of the *Comisión Nacional de Hidrocarburos* (CNH), the governing body responsible for evaluating and regulating the exploration of the country's hydrocarbons. "Now all Mexicans will finally benefit from international investment and increased commercial activity."

¹ Adam Williams, Eric Martin and Nacha Cattán, "Mexico Passes Oil Bill Seen Luring \$20 Billion a Year," *Bloomberg.com*, Dec. 13, 2013, <http://www.bloomberg.com/news/2013-12-12/mexico-lower-house-passes-oil-overhaul-to-break-state-monopoly.html>.

As the excitement builds, and players ranging from local entrepreneurs to global oil giants begin jockeying for position in a circuit of meetings, conferences and discussions, there is talk of the many challenges involved in turning around the Mexican oil and gas industry. Among the hurdles that everyone acknowledges is the enormous need for talent. It appears as an obligatory bullet point in every presentation. But more often than not, it remains a bullet point, and the discussion moves on. In this article, we will take a closer look at the industry's talent gap and how it is likely to be filled.

Looming talent needs

As investment begins to flow into Mexico, the hope is that the industry will be transformed by an entrepreneurial spirit and know-how that will allow the country to unlock its enormous untapped reserves.² As this occurs, the demand for talent will be acute. The country will need geoscientists who can read and interpret seismic data and engineers with deep technical knowledge. It will need operational leaders who can effect change and motivate people in the context of Mexico's unique culture. It will also need experienced financial executives who can value assets, budget costs and raise capital.

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Technical proficiency

Although Pemex's crude production has steadily declined in recent years, the company has demonstrated an ability to extract hydrocarbons in the shallow water along its coastline and onshore. It has little experience developing its deep-water fields or shale formations. Technical expertise in these areas of tremendous potential will be widely sought.

Petroleum engineers will be in demand during the bidding process, and especially so once awards are made. Companies will be looking for specialists in shale fracturing technologies; environmental systems; health, safety and risk analysis; and technical inspection and certifications. Particularly important will be the ability to analyze and interpret data to make decisions about optimal drilling locations.

Individuals with backgrounds in these areas are in short supply — and not just in Mexico. The oil and gas industry as a whole is experiencing a dearth of people with technical skills. Companies doing business in Mexico — including Pemex — that wish to attract and retain these professionals must prepare to offer attractive benefits and career-building opportunities.

²Adam Williams, “Pemex Granted All Probable Reserves Sought in Oil Opening,” *Bloomberg.com*, Aug. 13, 2013, <http://www.bloomberg.com/news/2014-08-13/pemex-s-production-future-set-at-21-share-of-potential-deposits.html>.

Leadership skills

Perhaps even more challenging will be finding executives who can lead employees in a complex and ever-changing industry.

Exploration and production companies hoping to do business in Mexico will need to either enter into joint-venture agreements with Pemex (in its fields and exploratory areas) or bid on blocks that will be auctioned and granted by the government. In both cases, the awards will be approved by CNH during Round One and future rounds.³ The ability to negotiate in this environment calls for both diplomacy and cultural sensitivity, as well as familiarity with the Mexican legal system, including contracts and local employment laws. Although Mexican citizenship is not a requirement, command of the Spanish language is critically important.

“Opening the oil and gas industry to foreign players will bring a level of competition never seen before in Mexico,” observed Juan Castaneda, Mexico country manager for Halliburton Company. “Companies will need leaders who can build relationships with new operators, create the right amount of labor and manufacturing capacity and prepare for added pricing competition. That does not happen overnight.”

In the longer term, the Mexican oil and gas industry will need leaders who are able to attract and retain top-notch employees and motivate them to perform and grow. On the one hand, this means executives and managers must have an appreciation of Mexican cultural values, including the importance of family and friendship. On the other, they will need to have the international experience that will allow them to build diverse, performance-driven teams that can thrive in the competitive world of global energy. These leaders will need to embed safety policies and practices into the fabric of their organizations, establishing the appropriate tone at the top for this critically important issue.

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Financial expertise

Once the industry opens to private investment, financial professionals will find plenty of opportunity. Whether they are in corporate finance, private equity or investment banking, individuals with deal-making and analytical skills will be in demand.

Of particular importance will be the ability to assign value to properties and companies and to make investment decisions in an oil and gas landscape that is relatively unproven. Investing in oil and gas projects is not for the faint of heart; it requires deep pockets and long-term commitment. Having top-notch modeling and risk management talent can significantly improve a company's ability to select the right projects and, accordingly, allocate capital.

³ “Analysis of Proposed Hydrocarbon Legal Regime in Mexico,” Mayer Brown, May 30, 2014, http://www.mayerbrown.com/files/Publication/e19c6eaa-7837-4ab1-97f5-a0788daf3f3d/Presentation/PublicationAttachment/2a11c341-5934-4coa-b114-b975565b004/UPDATE-AnalysisProposedHydrocarbon_Legal_Regime.PDF.

Regulatory experience

Once private investors are permitted entry, it will be important to set up regulatory structures to provide transparency and ensure that everyone plays by the same rules. Mexico will develop regulatory guidelines to establish a level playing field, ensure worker safety and minimize environmental impact. The CNH is stepping up its own hiring efforts, and Zepeda estimates that the commission will bring in 50 new employees by the end of the year, and 100 by the end of 2015.

Mexico can benefit from the regulatory experience of other nations that have similarly opened to investment in energy — particularly from the likes of Brazil and Colombia — if only to learn from their mistakes. In Brazil, one element that increased human resource challenges was the government's stipulation of “local content” requirements, varying from 37 to 77 percent, depending on the phase of a given project and the location of assets. These requirements encouraged the creation of new businesses in Brazil and allowed certain segments, such as offshore construction and shipbuilding, to flourish. But, the downside was that it inflated compensation and slowed E&P programs when companies were unable to comply.

The details of Mexico's local content laws will become clearer with time. It is difficult to know how strictly Nieto's government will set and enforce them. As it relates to human resources, however, it is not expected that these laws will overly encumber industry participants.

Prospecting for talent

Most observers agree that once Round One allocations have been made, the scramble for talent will begin in earnest. Pemex will need to keep an eye out for poaching activity and develop retention strategies for its top employees, including raising its salaries, an issue the company has already begun to address. Making Pemex an attractive place to work for young people and aspiring leaders will be critical in this new environment.

All companies will need to look both inside and outside of Mexico to fill their ranks; and given the global shortage of qualified candidates, they will have to cast a wide net to find people who can deliver. Following are some of the potential sources of talent:

- > **Pemex:** One of the most likely targets within Pemex are seasoned employees who are reaching the end of their careers or have already retired. These experienced professionals bring to the table a firsthand understanding of how to work within its inner sanctum. Another target will be younger professionals in Pemex who are eager to join a more nimble enterprise.
- > **Oilfield services companies:** Services companies have been complementing Pemex expertise for many years. Their executives have long track records working with the oil giant and know how to negotiate for its contracts. Their engineers and other technical professionals are also familiar with Mexican oil fields.
- > **Management consultants:** Senior-level energy consultants operating out of offices based in Mexico have no learning curve when it comes to working with Pemex — often at leadership levels. Many are Mexican nationals who have a command of the English language, making them good candidates for country manager positions.

- > **Oil and gas professionals from other Latin American countries:** A number of other Latin American companies have sophisticated oil and gas industries. These countries include Brazil, Argentina and Colombia, all of which offer potential sources of talent. Venezuelan professionals are also a likely source. The Venezuelan oil industry has faltered badly since 2003 when Hugo Chavez blacklisted some 18,000 employees, almost half the workforce of the government-run oil corporation, Petróleos de Venezuela (PDVSA). A decade later, however, those professionals are working all over the world. They are highly skilled and Spanish-speaking. International oil companies that previously had operations in Venezuela may be ready to deploy parts of their Spanish-speaking technical workforces to Mexico.
- > **Companies that specialize in “unconventionals” or deep water:** The area where the Mexican oil industry could use the most expertise and investment is in unconventionals and deep water. It is possible that U.S.-based companies that have been successful in the “shale revolution” will bid to win onshore unconventional projects and seek to deploy their expertise south of the border. But they will be looking for professionals who will be able to get up to speed quickly in Mexico, especially those with command of the Spanish language. The same goes for deep-water projects. Whether a company like ExxonMobil, which has been eyeing the prize of Mexico for several years, partners with Pemex or bids on its own, technical requirements will far outmatch its existing labor force. Even with an in-country workforce of roughly 250 employees, it will need to look further afield for talent.

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Looking ahead: Challenges in producing talent

There is considerable excitement, both in the country and abroad, about the potential opportunities that will arise when the Mexican oil and gas industry opens. The reforms are taking shape at a startling pace compared to what experts had anticipated. The clear message from the Mexican government is that it is resolute in its commitment to change.

Nevertheless, the talent shortage is a roadblock. Simply put, there are not enough Mexican professionals to meet the needs of a growing industry. While the government is pushing through a number of educational reforms that will make higher education more accessible to the average citizen, as recently as 2012, only 24 percent of Mexicans ages 25 to 34 had attained a tertiary-level education.⁴ Pemex has tried to fill in the gaps, establishing Pemex University in 2012 to train employees in specific technical competencies. The company also provides management training and expects to open a Management College in 2015.⁵ But these measures are not enough.

⁴“Education at a Glance 2014: OECD Indicators,” OECD, 2014, <http://www.oecd.org/edu/Mexico-EAG2014-Country-Note.pdf>.

⁵Roddy Miller, “Corporate Universities – What’s New?” *Developing Leaders: Executive Education in Practice*, Summer 2014, <http://www.iedp.com/magazine/2014issue16/files/assets/basic-html/page60.html>.

The industry will need to improve its image with young professionals, who may view it as slow and unexciting. This has to change if Pemex and others expect to compete for talent. They will need to create formal career paths for their employees, doing more to cast themselves as places that offer exciting opportunities and enticing rewards.

Conclusion

Mexico's new energy legislation offers a compelling example of how government and public agencies can increase investment and create jobs by working with the private sector. The reforms have moved quickly, and their impact is likely to be felt sooner than expected with new deals and projects lining up soon.

On the one hand, given Mexico's huge potential, professionals with the right qualifications should expect an abundance of opportunities. On the other hand, companies with plans to participate must begin preparing now for what will be a very competitive market for talent.

The question to consider is whether the Mexican oil and gas industry will be able to produce and develop enough talent to tap the country's vast reserves.

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