

# MEXICO'S SECURITY PROBLEMS CAN DERAIL SUCCESSFUL INVESTMENTS

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**Q: What are the main risks that companies operating in the Mexican oil and gas industry face today?**

A: Energy companies are facing the exact same risks as any other industry in Mexico. Some regions of the country face environmental risks, violence, and insecurity, which is why it is crucial for players to have an updated study of the local environment in which they will operate. Our firm offers those companies the chance to analyze the amount of risk they might eventually face, either associated to crime, social activism, or political changes. These factors not only affect the security of their workers but also the continuity of their business. We create awareness about the costs of those risks in order to prevent and mitigate them before they become a real problem that puts our clients' staff and operations in danger. Thirdly, we advise companies on how to mitigate and respond to said risks. It is important for companies to evaluate where and how to do business in the country, and during this stage perception tends to be generalized and does not always correspond to reality. Therefore, the first step is to analyze the exact geographical location a company has chosen for its operations. Although Mexico's opportunities far outweigh its risks, awareness must be kept and contingency plans put in place. This is an approach that has proven to be highly profitable for our clients.

**Q: How much of the risk present in Mexico can be managed or minimized by adopting risk management policies?**

A: One of the most extreme situations a company can face is to be located near where confrontations take place between authorities and the local criminal organizations. This creates personal risks for the company's staff, suppliers and service providers, and sub-contractors. Additionally, it can create difficulties in operations that depend on permits and licenses related to construction, environment, and rights of way. A violent setting can become very risky for companies, so it is crucial to know whom to address. In these circumstances, hiring local workers can be a double-edged sword. On the one hand, it can be in the interest of the company to align the incentives of the local community with those of the project. On the other hand, if done incorrectly, it can expose the companies to unsavory characters that put in danger the atmosphere within the company or even give them access to sensitive information. To prevent this,

the right local hiring policy must be put in place. In the event that authorities are corrupt, companies must know who they are dealing with. This is why we suggest a thorough risk assessment that is detailed enough for companies to take operational measures that will mitigate risks.

**Q: What are the differences between the security risks for companies partnering with PEMEX and independent operators?**

A: Some companies assume that, by being partners with PEMEX, they will be safer than when operating independently. This may be true to a certain extent. However, once PEMEX becomes a player in the open market, there will be no significant differences. Private companies will have to establish agreements with authorities to receive protection when at risk as well as internal security policies. Therefore, we have built a coordinated scheme for all players involved in public and private security in order to complement their responsibilities. Defining the borders of responsibility when there are no real precedents to follow has become a new challenge for security in Mexico. Traditionally, strategic PEMEX or CFE facilities were considered government-owned and were protected by the army or the navy. Following the Energy Reform, strategic facilities may be privately owned and the party responsible for protecting them is unknown. Private companies have to take their own precautions, which is a wholly new concept in Mexico.

**Q: PEMEX has a history of negotiating with ejidos or local authorities in order to deal with criminal threats or corruption. How can new companies face this in Mexico?**

A: This is a new path that has yet to be discovered. It will be interesting to see how private companies discuss and interact with ejidos given the implementation of the new rights of way. The transition into an open market will encourage companies to find innovative solutions that include a thorough knowledge of local characteristics in order to address these challenges. We are already experiencing this situation by advising companies on how to deal with private owners, such as ejidos, which have very complex communal decision-making structures. Furthermore, these decisions, even if they are legal and registered, are not always fully implemented in reality. Changes in the leadership of the ejido could invalidate them.

All of these seemingly minor things can become important issues within a project, so we make this information available to our clients and tackle the associated legal aspects.

**Q: What are the advantages for international companies of partnering with local players in order to share risk?**

A: Partnerships allow companies to share risk. There are several well-known Mexican companies that are ready to partner and share their local knowledge with foreign companies. However, for a partnership to be successful, companies have to do their homework, which entails carrying out a detailed due diligence of potential partners to minimize the risk. Moreover, we help companies that bring in their security teams and safety procedures to adjust to the Mexican reality. In the security arena, companies can improve their practices and trainings by adapting these to the local ways.

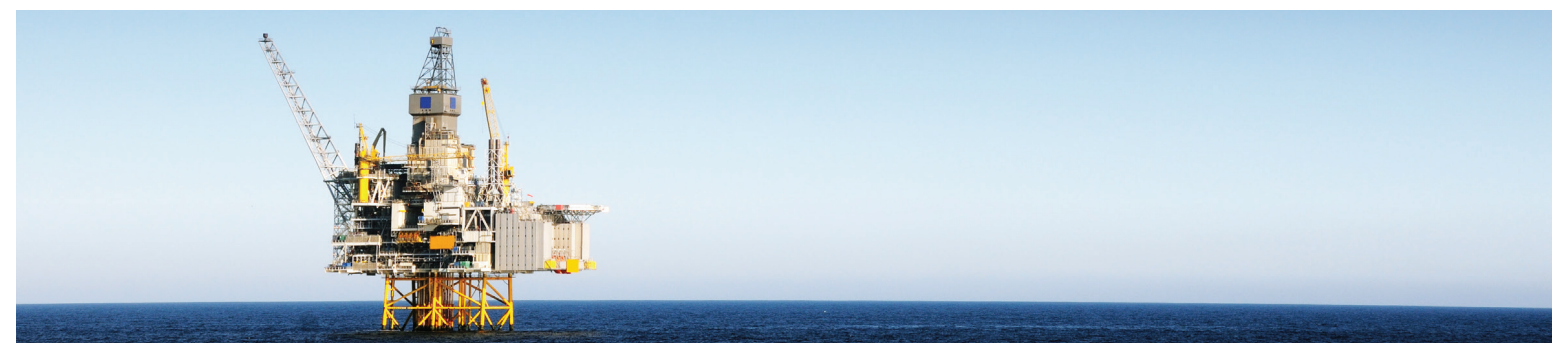
**Q: What is the firm's advice for companies that have to deal with corruption?**

A: Our advice is to never negotiate with criminals or corrupt officials, because once you go down that path, you never know where it will end. In the face of corruption, our first advice is to respect the Mexican legal system and report the problem. It is very important to know whom to report it to and to make sure to contact the authority that can help.

To acquiesce to a bribery suggestion from a corrupt official is punishable by law, but it is also a bad idea because this can quickly snowball. We advise companies that suffer from this, and we act quickly, intelligently, and legally to stop it.

**Q: To what extent have recent events regarding national security affected the country's international image?**

A: Over the past several years, the image of Mexico has been terrible although it had begun to improve. However, the events in Guerrero brought back the terrible image of violence and pointed to the country's structural problems. As the image of violence spreads, foreign stakeholders may assume that what occurs in one state of Mexico is representative of the entire country. This is not the case, as Mexico is a country of stark contrasts with both pockets of tremendous opportunity as well as highly challenging areas. Foreign companies must have a fine-grained view of the country so they can capitalize on the opportunities Mexico has to offer. The Energy Reform is showcasing the need to move toward a better rule of law. Just as NAFTA highlighted the weaknesses and potential of the Mexican economy 20 years ago, the opportunities and drawbacks of the modern Mexican energy market are being exposed. These events will serve as a platform that will allow the Mexican system to improve and push for institutional development, governmental accountability, rule of law, and justice.



## TECHNICAL ADVISOR TO THE OIL & GAS INDUSTRY

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