



“Opportunities in the Mexican Landscape and Strategic Sourcing”

Dutch Energy Trade Mission to Mexico

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THE MEXICAN O&G SUPPLY CHAIN LOOK & FEEL



LOCAL MARKET INSIGHTS

- ✓ Most competitive total cost (>20% cost advantage) over 19 industries compared to NA countries
- ✓ Free trade agreements in place with ~46 Countries (including NAFTA)
- ✓ Cost competitive skilled labor force available
- ✓ Skilled labor productivity (improving)
- ✓ Fastest transit of goods & schedule benefits and low transportation costs/ lower
- ✓ Strategic geographic location
- ✓ Local supply chain with very good capabilities, experience working with NOC (specially onshore and shallow water projects)

Cons:

- Security concern
- Moderately mature local supply chain
- International standards to be meet

STRATEGIC SOURCING at a glance

- 3 SSD offices worldwide
- Opened in 2011 (Mexico)



Mexico Sourcing Office

>\$140 MILLION export spend for 2017
>\$215 MILLION target export spend for 2018



Success Story: Shell's Chemical Project awarded 80% of modular scope of work to Mexican Fabrication Yards
Locally sourced: spools, electrical equipment, linepipes, modular fabrication and integration.

SUPPLY CHAIN DEVELOPMENT

>30 certified vendors in key categories



- Desktop and on site assessments, audits (including HSSE Banding, TAMAP, Financial, ABC, IDD, SQS) .
- Ssupplier's development workshops
- Gap closure support



Opportunities:

- Upstream and DS supply chain
- Look for supply chain efficiencies
- Increase productivity
- Implement new technologies and digitalization tools
- Partnership and alliances (global + local)

NATIONAL CONTENT

- NC targets

Phases	Onshore	Shallow Water	Deep Water
Exploration	22%	13%	3%
Evaluation	22%	17%	3%
Development	27%	25%	8%
Year 2025	38%	35%	8%



Challenges:

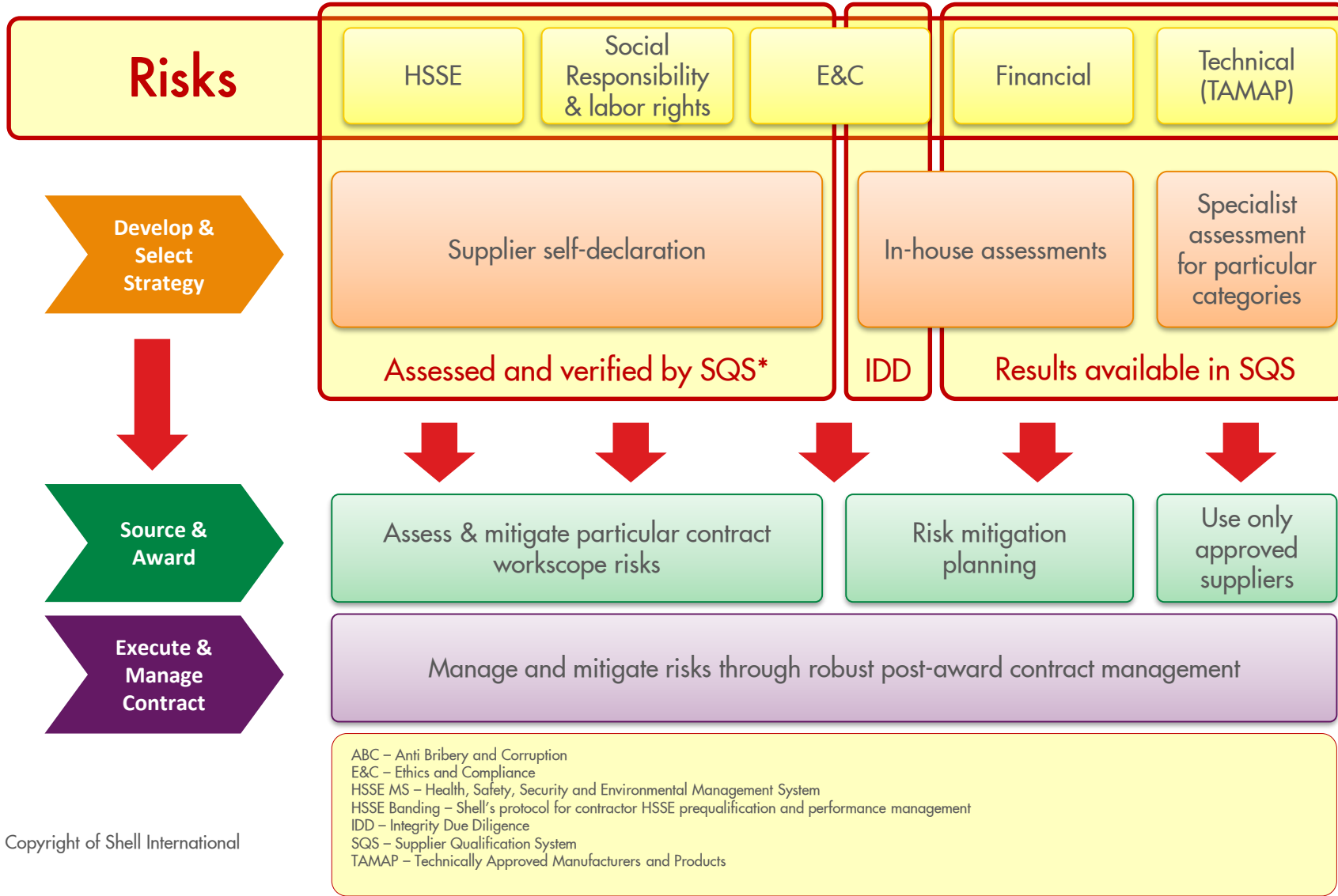
- "Complex" methodology and reporting mechanism
- Verification process to be published

Ongoing efforts (SE-AMEXHI):

- ✓ Simplification proposal
- ✓ Minimize administrative burden
- ✓ Focus on supplier's development journey



OUR APPROACH TO SUPPLIER









Shell Contracting & Procurement is responsible for nearly everything that Shell buys across the full scope of activities in the **Upstream, Downstream, and Projects & Technology** sectors of our business. With Shell active in more than **70 countries**, this means our Contracting & Procurement specialists are purchasing from thousands of suppliers worldwide.





Opportunities for Mexico O&G supply chain:

FPSO, Spars, Semi-Submersible Platforms	Heavy Lift Equipment	Specialized Steel
		
Subsea Equipment	Specialized Drilling Services	Mooring Systems
		

Upstream:

- Subsea equipment, x-mas trees, specialized valves, etc.
- Heavy lift Capacity to integrate/install topsides for DW projects (limited deep-water experience at this point of time)
- Shipyards, operation base.
- Vessels, helicopters, etc., with relevant certifications
- Specialized steel/steel structure for O&G Industry
- Increase OCTG production capacity in country and spools fabrication
- Training to local workforce to improve skills (i.e. DW activities)
- Logistics services with strong focus on HSE, ABC/E&C.
- Environmental & regulatory services.
- Waste management services
- Decommissioning & restoration (Recycling yards)
- Emergency response



Key challenges to develop and integrate local supply chain for O&G projects in Mexico:





Conclusions

- ❑ Past NOC activity has concentrated abilities in the onshore and shallow water projects. Suppliers have developed skills akin to these projects, such as fabrication, equipment and service suppliers with broad experience
- ❑ Categories with good capabilities include: jackets, wellhead decks and topsides fabricators, pipeline manufacturers, and services companies
- ❑ Mexican suppliers have strong record and experience mainly with the NOC (but low exposure to international standards: HSE, Quality, Technical). A robust qualification plan led by each operator is required to ensure key categories have a reliable base of qualified suppliers
- ❑ Collaboration between Government, Industry and Academia, is of utmost importance for the successful and reliable development of a robust supply chain in Country
- ❑ Services for projects are usually managed through an Integrator Company that is responsible for certifying and managing them
- ❑ Focus efforts on supplier's development arena
- ❑ Building local competitive capacity & reliable supply chain to attend future projects in Mexico and Export Projects
- ❑ The creation of local supply chains and pro-active identification by companies of those elements of the contracts that can be sourced by small and medium enterprises, has a strong economic multiplying effect for communities and regions around E&P projects



Q&A

