

Paul Zecchi Discusses Mexico Opportunity, Outlook for Argentina

By Nissa Darbonne, Hart Energy
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Also, Zecchi is more optimistic about international gas futures than US oil futures.

Paul Zecchi is looking to expand into Mexico now that the country is opening its oil and gas resources to private ownership. Oil and Gas Investor visited with the co-founder, president and CEO of privately held, Denver-based Central Resources Inc. recently about his upcoming induction to the [Western Energy Alliance's Hall of Fame](#).

A Massachusetts native, Zecchi began his oil and gas career with a petroleum engineering degree from Marietta College in Ohio and went on to work for Schlumberger Ltd., Tenneco Inc., Parker Drilling Co. and other companies, while getting his master's in management science from Rensselaer Polytechnic Institute in New York. He formed Central in 1988 to exploit mature properties in the U.S. and began transitioning its focus to properties abroad in 1997, beginning with Argentina.

At press time, he was at his home in Connecticut after a business trip to South Korea and before working his way back to Denver. "It's been a busy year," he said. "It's going to finish up well. If

things go the way I think they should, by the end of next year we should be at a multiple of our current size. We'll see what happens."

Here are his thoughts on operating in Mexico, as well as his outlook for an improved environment for oil and gas investments in Argentina.

Investor: Where do you operate these days?

Zecchi: California, Argentina, Brazil and Canada. We would love to do another deal in Europe. We have been very close on several there and continue to make it a focus area. We have some nonoperated assets in Hungary and New Zealand as well. For the foreseeable future, it will be principally Canada and Brazil and, to a lesser extent, Argentina and the U.S. New countries of interest include Italy, Ecuador, Colombia, Mexico and Portugal.

Investor: In Mexico, is it for the Eagle Ford?

Zecchi: We're looking for conventional properties. Central is pretty much a conventional player. However, Central's chief operating officer, Paul Gagnon, is one of the world's leading unconventional experts (and a founding director of the Canadian Society for Unconventional Resources). We might do unconvensionals one day but today, our focus is strictly on conventional acquisitions. Mexico is opening up right now. We have been approached by three or four parties to assist them, due to our knowledge of mature properties in both acquisitions and operations.

In Mexico, the implementation of private ownership of hydrocarbon resources is a long way out. It's like Obamacare; the legislation and implementation are very different things. Getting this done in Mexico may be as big a challenge as Obamacare or bigger.

Investor: Hopefully it will have better results.

Zecchi: I'm hoping it will. It's just one of those things you can't bet on.

Investor: Your first foray into operating abroad began in 1997 in Argentina. Was it easy?

Zecchi: Central's first deal was a lot like riding a bike—a bigger bike. We fell off a few times, skinned our knees and elbows, knocked off a shoe or two, and wrecked at least one. We're used to it now. In time and with experience, you become a lot smarter, know what to look for and know what you *don't* know.

When entering a foreign country, something you need to know is that you can't do it alone. A lot of U.S. companies fail internationally, thinking they will go in with a bunch of expats, expecting it is going to be a taut ship. The expats may be more technically knowledgeable, but it is a foreign country and things are different—not better, not worse, just different. When in Rome, do as the Romans do. And that means bringing in local expertise to assist in the launch and ongoing operations.

Investor: What prompted you to look abroad?

Zecchi: Domestic oil and gas acquisition prices were going up significantly and we were a little frustrated. Internationally, lower acquisition costs are usually offset by the higher cost of operations. But—and a big “but”—the potential prize can be so much greater. Central bought a field in Brazil very similar to a West Texas San Andreas field. If it had been a San Andreas property, the price would have been four to five times greater. At the end of the day, we find that we can do better in a lot of the international arenas.

We tried to return to the states this year and we were getting shut out. Central is a private company and we just could not compete with the MLPs and trading houses for these mature assets.

Investor: Investing in Argentina has been complicated, particularly in the past couple of years.

Zecchi: I believe that it is going to open up in the very near future. Cristina Kirchner will be leaving office in 2015 and there is much anticipation that her successor will be significantly more business-oriented. I get a call a week now about our plans. In the past, if I called someone in reference to a potential acquisition there, I would be talking to myself as soon as I said “Argentina.”

There had been a cap on how much could be invested from outside sources. And, in turn, it was extremely complicated to take your money out. It was not conducive to making any investment in the country.

Investor: Any concern about Standard & Poor’s default declaration?

Zecchi: When oil people see a place where they can produce oil, these things take second place. ExxonMobil is doing a huge deal in Siberia. Others are investing in Venezuela. And the U.S. is not without risk: I have to remind some of my friends from time to time that we did have a windfall-profits tax here.

And, except for Canada and a few other countries where natural gas is still a nuisance, the U.S. is the only country in the world where you can buy natural gas for \$4. Even in Argentina, new gas can be sold for \$7.50. In Brazil, natural gas is sold on a Brent index, usually in the \$8 to \$10 range. Most places in Asia, the going prices are in the \$14 to \$18 range.

In the U.S., without export facilities and no mandate for CNG-powered vehicles, we have de facto price controls on natural gas. That is finally beginning to change; hopefully it will get better.

Investor: Same for exporting oil?

Zecchi: As U.S. production keeps ramping up, I think we will see some downward price pressure on oil. The U.S. is now competing with the Saudis, the Russians and the north and west coasts of Africa. Other countries will import their oil from them at reduced prices. The U.S. will

remain an importer for the foreseeable future but, as the U.S. pares back its need for imported crude, the price of that crude will be lower.

Natural gas is different. There is such a clamor for natural gas around the world. There are countries, as in the Middle East, that have an enormous supply, but the construction of facilities and the exportation is a whole different deal. Political unrest and unstable governments can be a tremendous disincentive. I see the gas market as being significant for a long time. I believe the world will depend on U.S. natural gas.

Investor: Would you take Central public?

Zecchi: I only think about it three or four times a week, then Patti says, “You know the market melted down this week.” I will bring it up again and she’ll say, “Oil prices are taking a tremendous hit today.” Or her old standby: “Well, go public if you want, but do you want a bunch of 22-year-old analysts telling a 65-year-old oil and gas guy he has to do better on his water handling in Brazil?”

She makes good points.