



Mexico's Energy Reform: A Game Changer in the Nation's History (An Upstream Perspective)

DAVID ENRÍQUEZ | SENIOR PARTNER¹

OIL & GAS | MARITIME

GOODRICH, RIQUELME Y ASOCIADOS

MEXICO CITY

1. FUNDAMENTALS OF THE MEXICAN ENERGY REFORM

The Mexican energy reform bill adopted by a narrow margin on December 12, 2013 and which took effect on January 1, 2014 formalizes the most liberal energy regime in the country's history.

Framed by the far-reaching political agreement promoted by President Enrique Peña Nieto at an early stage of his administration, the "Pact for Mexico" (*Pacto por México*)

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3. PEMEX'S CONVERSION INTO A "PRODUCTIVE COMPANY"

According to the bill's transitional clauses, Pemex is expected to progressively become, within two years, a "Productive Company" (along with the Electricity Federal Commission, CFE). The purpose of this transition is for greater managerial and technical autonomy of Pemex, which would involve a special budget regime. Pemex would be subject to financial balance as well as income taxes, as any other private company.

The distinction implies, first of all, a greater relief for Pemex as it will benefit from a whole new governance approach and a tailor-made budget, and secondly, greater expected revenue for the federal government as the private sector is likely further economic value for the country.

However, this conversion inevitably forces Pemex to pass its oil and gas traditional power to the new manager of the resource: the National Hydrocarbons Commission (CNH), and the Energy Ministry, as the country's policy maker.

4. INSTITUTIONAL DESIGN

The institutional design rests on a trinity driven by the CNH in collaboration with the SHCP (Tax Administration), the CFE (Electricity Federal Commission) and the SHF (Hydrocarbons Federal Commission). The SHCP is the main body responsible for the design and implementation of the tax system, while the CFE is the main body responsible for the design and implementation of the electricity system. The SHF is the main body responsible for the design and implementation of the hydrocarbons system.

Indeed Pemex will barely have a suggestion right as the CNH detains the power to have the last word as for the fields' assignments as well as for the partnerships, when Pemex decides to migrate its exploratory titles (*asignaciones*). In the same way, the contractual flexibility will mainly be regulated by the CNH along with the SENER, which should be in charge, among other matters, of es

In this regard, Pemex will also be required to meet the highest technical and financial requirements for exploration fields. CNH has the right to revoke Pemex's exploitation title after a five-year period, if the activity was proven unproductive.

7. ROUND ONE AND ONWARDS

The CNH's assignment decision after Round Zero will clearly give way to the portfolio of fields left for the following rounds. ~~As of 2022, the remaining fields are:~~

If deepwater projects related to shale gas may remain risky, plenty of onshore opportunities are available. The Burgos Basin is considered one of the country's most promising fields in shale gas and is currently arousing keen interest of private investors.

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