

Hydrocarbon Reform in Mexico: What can we expect?

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What may happen...

- At this moment, uncertainty prevails.
- For the first time, two of the major parties (PRI & PAN) are proposing substantial changes to the industry model, by way of a Constitutional amendment. PRD, on the other hand, insists on a state dominant model.
- This time, as opposed to 2008, a unified solution among the three parties may be unviable. This time the differences are a matter of principle.



Proposals and scenarios

PACT FOR MEXICO. Political principles or barriers?

Hydrocarbons shall remain National Property, due to which the property of hydrocarbons and control of the industry shall remain in the state. In all cases, the state shall have title on the production. (Commitment 54)

Reforms shall be undertaken so that Pemex becomes a competitive, global company. For such purpose, it will be vested with new rules of corporate governance and transparency. (Commitment 55).



More from el Pacto

- PEMEX shall be the pillar for the creation of national industry and content.(Commitment 59)
- PEMEX shall be the axis of the fight against climate change by adopting alternative energies and sustainability measures.
(Commitment 60)
 - In the light of these commitments, did the Peña government limit itself to a modest reform from the outset?



The outcome of “el Pacto.”

- How does el Pacto por México limit or shape the reform?
- How is el Pacto reflected in the bills submitted by the leading parties? (PAN, PRI, PRD)
- How will the parties react if there are breaches in the Pacto?



Pan Proposal

- Submitted July 31, Such initiative is solely composed of the constitutional amendments to articles 25, 27 and 28 of the Mexican Constitution.
- It is the most clear and comprehensive one as it:
 - Distinguishes national property of the hydrocarbons from the exclusive right of the state to exploit them.
 - State shall conduct the measures to maximize economic rent, with or without Pemex.
 - Hydrocarbon policy must be laid out to the best benefit of Mexico (not of Pemex)



PROPUESTA PAN

Sixth paragraph of the Constitution is amended: as regards hydrocarbons coming from geologic formations, the state shall guarantee the performance of E&P activities by operators in accordance to value maximizing schemes.

Thus, the prohibition of entering into concessions and contracts is eliminated from Article 27.



- REGULATION and OIL REVENUES: (Article 28)

Substantial regulatory strengthening is proposed in this bill. The Federal Energy Regulatory Commission and the National Hydrocarbons commission are given the status of Constitutional Autonomy.

Also, a constitutionally protected Oil Fund is created to ensure that oil revenues are used with a social purpose (retirement funds, infrastructure, etc.)

- The new wording of article 29 eliminates oil and other hydrocarbons from the activities that are exclusive to the state, which lessens state monopoly from refining to the retail market of fuels.



The PRI Reform

- After much uncertainty the PRI proposal was launched August 12 of 2013.
- The bill contained reforms only to articles 27 y 28 of the Constitution.



The new wording

- ARTICLE 27

“As regards solid, liquid and gaseous hydrocarbons, no concessions will be granted and their exploitation shall be performed in accordance to the corresponding Regulatory Law.”

- ARTICLE 28

“Electricity and hydrocarbon industry shall be regulated in terms of what is established in article 27.”

(No longer monopolies)

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¿WHAT AWAITS US?

- PRONÓSTICO INCIERTO.
 - Today, it is expected that PRI and PAN together have 2/3 of the Congress to attain the constitutional reform.
 - Will the PRI be fully disciplined?
 - Is it only a matter of votes?
 - If it does get approved, what kind of social reaction could there be?



■ ¡Gracias!

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