

## BACKGROUND

### *Historic reforms aim to revitalize Mexico's energy sector and bolster the economy*

Mexico has launched an ambitious transformation process that should bring to an end long-standing and entrenched state monopolies in its energy sector. The constitutional amendments of December 20, 2013 establish new industry structures in oil, natural gas, and electricity. Competition will be introduced in refined product and electricity markets, and private investment will flow into various segments of these industries, particularly in upstream oil and gas. The state will maintain ownership and control of subsoil hydrocarbon assets, and both Pemex and the Federal Power Commission<sup>1</sup> will remain dominant industry actors, wholly owned by the state. None of their existing assets will be sold to private parties.

The establishment of a new oil regime, with its own rules, institutions, players, patterns of engagement and policies, as well as the development of a centralized wholesale electricity market, constitutes a challenge that goes well beyond the more limited priority of mobilizing direct foreign investment to the energy sector. Reforms will require a concentrated and sustained effort, and a well-structured implementation strategy. There are still many unresolved issues that require specific solutions, some of which may be politically costly. The government must now transmit a clear sense of direction, articulate a rigorous sequence and timing of its reform agenda, and maintain the flexibility to adjust to the unintended consequences that its actions are bound to trigger.

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<sup>1</sup> Comisión Federal de Electricidad (CFE).