

## *Executive Summary*

**Mexico's energy reforms provide a historic opportunity to revitalize its ailing energy sector and bolster the overall economy. No Mexican assets will be privatized, but the nation's vast oil resources, including offshore and unconventional fields, will be opened to international companies. Still, many important, specific details of the reforms have yet to be addressed.** Pemex will give up its monopoly status but will remain the dominant player in the oil sector. Offshore deepwater areas have generated excitement abroad, as has the potential for unconventional development in the north and in the Chicontepec region. Development of these areas will benefit from the technological expertise and deep pockets of international oil companies.

**Important secondary and enabling laws are being discussed in congressional committees now, and the government wants them approved by end-June. Given the long-term importance of these laws and their complexity, a deeper review would be preferable.** This proposed legislation gives greater detail to structural changes and sets the stage for policy and strategy developments in the hydrocarbon and power sectors. Current discussions are taking place in an extraordinary congressional session. Allowing time for a fuller discussion might delay final approval into the summer, but it could be done before the next ordinary session at the beginning of September.

**Steep drops in oil production over the past 10 years and weak GDP growth are driving the need to open up the energy sector.** GDP growth has declined from 6.4 percent in the period from 1950 to 1980 to 2.4 percent between 1980 and 2010. Mexican oil production has slumped by over 1 million barrels per day since 2004, driven by decline in the giant Cantarell field. At the same time, Mexico will face increasing competition from Canadian heavy oil in the U.S. Gulf Coast, which could lead to market Maya crude to Asia at a discount. Ambitious government production growth targets of 3 million bpd in the medium-term will be difficult to achieve, and the more likely scenario is that production will remain flat. Offshore and unconventional developments offer longer-term solutions to achieve growth.

**Reforms in the power generation sector, which have attracted less attention, will also be critical for economic growth, including manufacturing.** Mexico's manufacturing sector pays high electricity prices relative to costs in other countries. Bringing these costs down is essential to improving Mexico's overall economy, but key issues around the market structure have yet to be addressed.

**Mexico's midstream has suffered after years of underinvestment by state companies, but no assets will be privatized.** Transport constraints due to pipeline bottlenecks have provoked a natural gas supply crisis and inadequate transport and storage capacity has increased the risk of supply interruptions in oil products. It is not clear how these problems will be solved.

**Reform of the retail fuel market will be gradual.** Monthly increases in pump prices will begin in 2014, with the aim of connecting to international market prices by 2020. Pemex retains the sole right to import fuel until 2018. The time frame is quite long and could be sped up. Treasury continues to be involved in setting prices, although could be delegated to the Energy Regulatory Commission as is the case with other regulated products and services.