

# MEXICO'S ENERGY REFORM IN 2015

## A BLOWOUT IN THE FIRST YEAR

**T**HE DEPRECIATION OF THE MEXICAN PESO, touching MX\$/19 to US\$1, reflects, in large measure, the unfulfilled expectations of lenders and investors concerning the results of the first year of the roll-out of the energy reform legislation of 2014. Lenders and investors expected that the new market design for the energy sector, especially in the upstream, would attract major oil companies with strong capital commitments. Such investments, in turn, would make the argument that oil production, exports and foreign exchange earnings would put Mexico in a position to assume new debt and replay existing obligations.

None of these expectations was met in 2015. Instead, oil production and oil exports declined in volume, and export receipts fell in value owing to oil prices that declined by half during the course of the year.

The bid rounds orchestrated by the Energy and Finance Ministries, and administered by the Hydrocarbon Commission (CNH), were of historic importance as symbols of a new orientation in oil policy; yet the results of those bid rounds did not create expectations that new oil production in 2020 by the winners would do much more than compensate for normal field decline.

What is missing from the story of 2015 is the commitment of any major American oil company as a bidder. Why didn't they bid? There are two general reasons: 1) lack of prospectivity, or perceived materiality, of the blocks offered and 2) a fiscal, regulatory and legal regime that is not perceived as commercially attractive.

Looking back, the discrepancy between expectations and results reflects the distinct ways in which the government and commercial actors viewed the elements of the energy reform. In this report, we itemize 26 elements and score each on a scale of value creation, once for perceived political value, and a second time for perceived economic value. The scores point to a big discrepancy in perception.

We interpret this discrepancy as a blowout of upstream policy (Fig. 1).

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