



MEXICO'S ENERGY SECTOR: COMMERCIAL & POLICY OUTLOOK

2018

November

FRI, NOV 2, 18 **Unitization as policy, strategem or happenstance? Area 7 in CNH Round 1.1 revisited**

File **882**
Pages 12
Charts 2

In this report, we ask about how did it happen that the boundary of Area 7 of CNH Bid Round 1.1 left a significant portion of a reservoir on Pemex's side, triggering negotiations for unitization. The giant reservoir that was discovered by Talos Energy and partners will be shared with Pemex, which will receive as much as US\$20 billion with no risk and little cost. Absent a grid system and public rules as to the configuration of present and future Contract Areas, all CNH contractors are at risk of having to share their discoveries with Pemex or another contractor. 1

October

MON, OCT 22, 18 **British Energy Day® in Mexico: Opportunities, Seized and Missed**

File **1000092**
Pages 1
Charts 1

This report offers observations on the history and programming of Energy Day®, the one-day annual conference that is sponsored by the British Chamber of Commerce in Mexico. George Baker's participation as keynote speaker in 1996 and the use of the Chatham House Rule are mentioned. 2

THU, OCT 18, 18 **Setting Expectations for 2018-24: Mexico's Fourth Transformation**

File **881**
Pages 11
Charts 1

This report gives attention to the announced vision of President-Elect Andrés Manuel López Obrador to achieve a "fourth transformation" of Mexico society that would have historical importance comparable to the earlier transformations of the Conquest, Independence and Revolution. The report examines three themes related to the energy sector: one, concerning the upgrading of Pemex, a second about improving the lease auctions and a third about the performance of energy regulators. In the second part of the report, we offer our own ideas about policy and legal innovations that could contribute to improving the standard of living, the business environment and democratic rule. Annex A is an invitation to the inauguration on December 1. 3

FRI, OCT 5, 18 **The Cárdenas Penumbra in Mexico's oil industry and politics**

File **1000091**
Pages 5
Charts 0

This report examines the views of President Lázaro Cárdenas about foreign investment in the oil sector nine months after the expropriation of 1938 and again in 1968, thirty years later, as a citizen. The legacy of Cárdenas continues to distort public discourse and policy away from market approaches to the exploration and exploitation of Mexico's hydrocarbon resources. The report describes how Cárdenas misunderstood the intellectual requirements and features of the oil industry. Had those elements been fully appreciated, he would have been motivated to find a solution to the political crisis of 1938 other than by expropriation. 4

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REPORTS ON MEXICO'S ENERGY SECTOR

Mexico Energy Intelligence®

THU, OCT 4, 18

Res Nullius: Why hydrocarbon molecules don't belong to the Nation

File **1000090**
Pages 5
Charts 0

This report asks about the meaning of terms like “property,” “direct domain” and “reserves” as found in Mexico’s constitutions and laws. The report regards the ownership of hydrocarbons applies to the terms of a commercial lease, not the ownership of molecules. The riddle of Mexican oil is seen as keeping Pemex as a state agency that is disadvantaged relative to industry peers with which it would like to have joint ventures in Mexico and beyond.

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WED, OCT 3, 18

AMLO to AMEXHI: Show results!

File **100230**
Pages 1
Charts 0

On September 27, 2018, President-Elect Andrés Manuel López Obrador spoke at a private meeting in Mexico City to members of AMEXHI, the trade association of oil companies in Mexico. He expressed his disappointment with the results of the energy reform and urged the companies to show results. In a parallel meeting, MORENA speakers hinted at their expectations for crude oil production. A video of a segment of his remarks may be seen online: <https://www.youtube.com/watch?v=8WDC8nzF6cU>

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September

WED, SEP 26, 18

MORENA in Houston: Amb. Fluvio Ruiz Alarcón

File **880**
Pages 11
Charts 1

This report draws on attendance at five of seven discussions that were held in Houston during the week of Sept. 18-25, 2018 about the outlook for energy and environmental policies in Mexico under the incoming MORENA-led administration. The presentation and Q&A on Sept. 19 of Dr. Fluvio Ruiz Alarcón may be viewed online at the website of the Baker Institute. Also in Houston was Dr. Luis Vera, the incoming leader of ASEA and a well-known environmental lawyer. It was seen as a good omen that an emissaries of MORENA had visited to Houston prior to the change of government on December 1. Table 1 is a selection of topics and proposals, taken from the slides shown by Dr. Ruiz.

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THU, SEP 6, 18

Reimagining Mexico's Hydrocarbon Law: 15 articles to be amended

File **879**
Pages 9
Charts 3

Houston, Aug. 20, 2018 (MEI 879). In a presentation in Mexico City on August 10, 2018, Dr. Fluvio Ruiz, a former member of Pemex's Board of Directors and an advisor to the incoming MORENA administration, outlined his vision for the hydrocarbon sector. This report reviews the articles of the Hydrocarbon Law that will be reviewed. These are articles 4, 6, 12-17, 20-21, 28, 42, 95, 100 and 117. In this report, we sort the proposals by industry segment (Table 1). Exhibit A provides the original comments of each proposal; Exhibit B is a preliminary translation. In a future report, we shall consider the implications of such changes for investors, regulators and the economy.

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August

MON, AUG 20, 18

Urging MORENA to be More Ambitious: Ideas for an expanded agenda for energy policy

File **878**
Pages 10
Charts 3

This report urges the incoming MORENA administration to be more ambitious in its planning for the energy sector. We list two dozen topics grouped in to six categories: Corporate governance and culture, downstream regime, legal, regulatory oversight, social and environmental policy and upstream regime. We observe that insofar at the recovery of oil and gas production depends on the success of non-Pemex operators, the new administration should pay careful attention to take measures to favor their success. Annex A is a statement of how we visualize the energy and environmental future of Mexico and about our role in shaping it.

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FRI, AUG 17, 18

MORENA's Energy Agenda: Silver (Ag), Bromides & Plutonium (Pu)

File **877**
Pages 19
Charts 4
Updated 8/19/2018

This report critiques the 50 proposals of the MORENA party related to energy as set forth in a document dated July 10, 2018. We characterize the proposals using metaphors from chemistry: interesting (silver), crowd-pleasing (bromide) and problematic (plutonium). MORENA roots go deep in Mexican history to the post-revolution under President Lázaro Cárdenas, whose statist vision of the oil industry continues to this day. Table 1 scores the proposals by their topics. Table 2 sorts the proposals by our 3 scoring classifications. Table 3 offers two dozen policy items that are not mentioned in MORENA's agenda (such as recycling). Annex A is the extracted section on energy (in Spanish) to which some 40 call-out notes (in English) are appended.

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WED, AUG 1, 18

The New York Times and Mexican Public Opinion: 2018 and 2006

File **100229**
Pages 12
Charts 2

This report concerns two instances in which the pages of *The New York Times* have been employed to communicate messages to Mexican audiences and influence public opinion outside of Mexico. In July 2018, the shareholders of a struggling drilling contractor, Oro Negro, utilized a paid insertion that was intended to threaten Pemex with a claim for liquidated damages in a NAFTA panel for the resolution of investor-State controversies. On Aug. 11, 2006, an op-ed by a struggling presidential candidate, Andrés Manuel López Obrador, set forth his grievances about the recount of the votes that had been cast on July 2nd. Annex A is the edited draft of the op-ed that was submitted for publication.

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July

THU, JUL 19, 18

Mexico's 2018 Elections: Voter Rebellion or Electoral Syzygy?

File **876**
Pages 15
Charts 1
Updated 7/23/2018

This report seeks to understand the electoral victory of Andrés Manuel López Obrador and his MORENA party in the general elections held on July 1, 2018. The party wins dominant positions in Congress, putting within reach of rolling back the energy reform that was written into amendments of the constitution in 2013. Was voter sentiment mainly about the rejection of something politicians and parties or about the embrace of a new vision and leadership? The report considers the encoded meanings of MORENA as an acronym and about the outlook for energy policy. We consider the intimations of energy policy of the MORENA party.

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MON, JUL 16, 18

Reimagining the Mexican Constitution: Ideas for 2024

File **10053**
Pages 9
Charts 0
Updated 9/4/2018

This report began as a search in the Mexican constitution for any precept that would prevent the development of a secondary market in upstream leases, that is, new investors in existing leases. Outside of Mexico, such a market is driven by the legal divisibility of a lease by area or depth. Inside Mexico, the contract area in leases issued by the National Hydrocarbon Commission (CNH) are not divisible. The main impediment is a requirement in Art. 27 that the State have "direct dominion" over lands and waters. We urge consideration of unifying the minerals and hydrocarbon regimes based on the figures of concession and farmout.

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June

FRI, JUN 29, 18

Mexico's Unitization Rules of 2018: Bilingual Glossary

File **875**
Pages 27
Charts 7

This report examines the terms and definitions of the unitization guidelines that were issued by Mexico's Energy Ministry on March 15, 2018, comparing them with those that were posted for public comment on October 20, 2017, on the website of the Regulatory Review Commission. The simplified definitions reflect the criticism that the draft regulations received from diverse sources, the common element of which was that the government was seeking to micro-manage matters that should best be handled by the parties.

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MON, JUN 25, 18

Economics of Unitization: perspectives of society and leaseholders

File **10052**
Pages 14
Charts 3
Updated 7/5/2018

This report examines how society has legitimate interests in the exploration and exploitation of oil and gas reservoirs. Society wants its resources exploited efficiently and it wants to protect the interests of leaseholders when more than one holds rights to a common reservoir. In such a case, a regulator may require unitization as a condition for operations. The unitization regimes of the United States and Mexico differ in important respects. Improvements in the unitization framework in Mexico will require attention to collateral topics, including the national oil narrative. There are 30 technical footnotes.

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WED, JUN 20, 18

Corporate Concentration in Mexico's Energy Sector: Regulatory Immunity

File **100228**
Pages 7
Charts 1

This report draws on distinctions in a Wall Street Journal article of June 20, 2018 on "the Perils of Corporate Concentration." The columnist, Bill Galston, distinguishes between 1) exclusionary behavior and 2) exploitative behavior. The first is to keep competitors out, the second is to use market power to limit competitors. He notes that regulators have few tools to remedy the second-mentioned behavior. This classification and general observation fit the situations in the power and refined product markets in Mexico. The report provides examples for each of these classifications for both markets.

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WED, JUN 13, 18

Adding the "E" of English to STEM: The core curriculum should be STEME

File **10051**
Pages 9
Charts 2

This report was prompted by the disparity in conference presentations in Houston between speakers from Mexico, most of whom address the audience in English but some of whom continue to be delivered in Spanish. We note that no petroleum engineering program in Mexico is on the list of the 35 top-ranked worldwide. We speculate that the inadequate attention to English proficiency in the science curriculum is one of the explanations. In the report, we draw on the technical literature of linguistics to offer five tips for enhanced English proficiency.

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WED, JUN 6, 18

Fuel Export Markets under AMLO: Revanchism by Pemex

File **874**
Pages 6
Charts 0

This report asks about the outlook for the export of petroleum products to Mexico by shippers who wish to compete with MGI and PMI, Pemex's trading affiliates. Shippers say that customers in Mexico have reported that they have been offered discounts on the condition of suspending direct imports. Such an arrangement, if true, is in violation of Mexico's Anti-Monopoly Act of 2014. There are protocols for reporting market abuses, but it's unlikely that they will be used against Pemex. Looking ahead, in the energy program of Andrés Manuel López Obrador (AMLO) for 2018-24, there is an emphasis on ramping up the market presence of Pemex and reducing Mexico's dependence on imported fuels.

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FRI, JUN 1, 18

Oil Policy Agenda of López Obrador's MORENA Party

File **860.1**
Pages 13
Charts 1

This report updates our report, MEI 860, that was issued on December 7, 2017. The report discusses the 10-point program for the oil sector and provides the original text in Spanish.

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May

SUN, MAY 20, 18

OTC 2019: How the oil industry sees Mexico's minerals regime

File **873**
Pages 15
Charts 4

This report draws on a panel discussion on the "One Gulf of Mexico" that took place at the Offshore Technology Conference (OTC) 2018 in Houston. A panelist made reference to the recommendations of AMEXHI regarding principles that should be followed by future administrations. This report imagines a panel for OTC 2019 at which oil company speakers could give a frank assessment of issues that would still need attention by the new government.

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MON, MAY 14, 18

OTC 2018: Mexico's Minimalist Presence

File **100227**
Pages 8
Charts 0

This report is the second on the 2018 Offshore Technology Conference (OTC). No MX government speakers attended. Their absence would mean that oil reform would be ignored in the OTC program. IMP's Ernesto Ríos spoke, as did Pemex's Ulises Hernández, each about their interest in partnerships. We comment on activities at the Pemex stand and at the Mexico Pavilion.

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THU, MAY 10, 18

Duncan's Ratio: How to measure the success of the upstream reform?

File **872**
Pages 9
Charts 1

This report asks about the success of the upstream reforms in Mexico. At OTC 2018, a speaker suggested that the ratio of reform-linked oil and gas production to total production (expressed as a percent) would be a good indicator of the success of the upstream reform. In this report, we analyze the likelihood that CNH and CNIH would publish such statistics (also for reform-linked reserves). We conclude that the data from Pemex will never be available to make this computation. Opponents would characterize an increase as a loss of sovereignty, while a decrease would signify failure. The report asks about other metrics of success, especially ones that would show improvements in the energy-poor half of Mexican society.

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April

SUN, APR 29, 18

Speaking Truth to Power: a la mexicana

File **871**
Pages 11
Charts 1

This 11-page report asks about the candor of public speakers about the new minerals regime that was put in place by the upstream reforms of 2014-15. Attention is given to the use of Chatham House Rule (CHR) as an incentive for presenters to speak their minds. While CHR is do doubt convenient (even mandatory) for speakers with international oil companies, it is of questionable value regarding others. No one is willing to say anything that might put at risk their access to the upper levels of government (to include Pemex and CFE) or put in jeopardy a contract or permit that may be in the works. Annex A is our translation of the prepared remarks of Energy Minister Pedro Joaquín at the energy conference held in Mexico City on April 10.

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FRI, APR 27, 18

First Presidential Debate of 2018

File **1000089**
Pages 2
Charts 1

In the first of three presidential debates of 2018, four of the candidates competed in trying to discredit the front-runner, Andrés Manuel López Obrador (AMLO). The debate was not a debate, as there was no common proposition or statement that the candidates could consider, such as "The reforms that the current government has made in diverse areas of the economy, including energy, will promote economic growth, jobs and energy security." The report considers the question of measures that may be taken to prevent AMLO from winning.

[24](#)

THU, APR 26, 18

Business Culture Shock in Mexico: Vignettes, stereotypes & insights

File **100226**
Pages 4
Charts 0

Comments on the presentation of Thibaud Cadieu at a Houston meeting on April 23 of the International Association for Mexico Energy. He spoke about cultural idiosyncrasies in Mexico, such as the shyness in business circles to say "no" to a proposal. The report notes questions and observations of members of the audience, and adds our own thoughts on the Mexico experience.

[25](#)

MON, APR 23, 18

AMLO and the Elections of 2018

File **100225**
Pages 1
Charts 0

This report provides the highlights of a discussion at the Baker Institute on April 19, 2018 that was led by Dr. Tony Payan, director of the Mexico Center. With AMLO's having 48% of voter preference, for 2nd place Ricardo Anaya of the PAN to win it might be necessary for the PRI to "release" its voters in favor of the PAN candidate. Regarding energy reform, Dr. Payan said that to judge by the nominees for cabinet positions, there would be no radical changes to the energy reform.

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SUN, APR 8, 18

Oil Agenda for Mexico for 2040

File 870
Pages 25
Charts 1

The report offers a summary and critique of the 170-page study prepared for Mexico's trade associations of oil companies. The document argues that only by continuing what is called "the New Energy Model of Mexico" will Mexico be able to achieve the level of oil production and economic rewards by 2040 that is foreseen in a 2016 study by the Paris-based International Energy Agency. The report ends with ten proposals, reading between the lines of which many of the unspoken concerns of the oil companies are expressed.

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MON, APR 2, 18

Alberto Escofet Artigas: Questioned government's line about oil policy

File 1000088
Pages 3
Charts 0

Alberto Escofet (1933-2018) was director general of CFE (1980-82). Later, in 1990, he was Deputy Secretary for Electricity of the Energy Ministry. He was quickly removed from his position after he was quoted in a press interview saying that consideration should be given to including oil in NAFTA discussions. His removal from office sent a powerful signal to the rest of the federal government that no deviation from its negotiating position would be tolerated. In this reminiscence, Alberto's action is characterized as "philosophic manliness."

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March

MON, MAR 19, 18

Educating the electorate about energy policies

File 10050.1
Pages 9
Charts 1

This report is intended to encourage government agencies in Mexico's energy sector to make a renewed effort to inform candidates and the electorate at large about the need for energy reform in each market segment and the results that have been observed to date. Table 1 offers talking points around which agencies could develop their own narratives about challenges, successes and steps that are still pending.

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MON, MAR 12, 18

Deepwater Motivations

File 736.1
Pages 16
Charts 1

In June of 2008 we wrote: The logic of partnerships in deepwater ventures responds to the interests not only of the oil companies but also to those of society: all parties want new oil supplies and optimized value-generation. In Mexico's case, Pemex has told the government that it cannot develop the deepwater areas of the Gulf of Mexico alone. The current energy debate hinges largely on this one statement. A new window into the debate in Mexico is offered by the experience of IOCs for whom such associations are routine. Nine years later, in December of 2016, Pemex got its first "partner" by an auction conducted by the National Hydrocarbon Commission. In a new introduction, we ask: What counts as a partnership?

30

THU, MAR 1, 18

Defending the Energy Reform

File 10050
Pages 8
Charts 1

The merits of the Energy Reform of 2013-15 may emerge as a major issue in the presidential campaigns and debates. Only the MORENA party led by Andrés Manuel López Obrador has an energy program. Its program is skeptical, if not hostile, to the reform. The other candidates need a crash course of instruction that will not be provided by the online posting of documents and press releases. As of April 1, a "silent period" begins in which the government may not use the public media to promote its programs or educate candidates and voters. This report offers suggestions a counter-narrative of success.

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February

REPORTS ON MEXICO'S ENERGY SECTOR

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- WED, FEB 21, 18** **What should CNH tell the next government? Interview with Juan Carlos Zepeda**
- File **867** An interview held with President-Commissioner Juan Carlos Zepeda on February 6, 2017. The topics cover items flagged in our earlier report that was issued on January 10 in which we imagined his responses to questions about the design of the upstream regime and CNH's role. One of the questions was about the divisibility of lease areas and the conditional conveyance of title in a farmout agreement. Mr. Zepeda also offers his recommendations for the next government concerning natural gas. **32**
- Pages 14
Charts 0
Updated 2/25/2018
- TUE, FEB 20, 18** **Bilingual Glossaries of Mexico's Energy Sector: Lexical Database Report 2014-17**
- File **869** This report provides a list of the glossaries that we have prepared using our in-house LEXICAL DATABASE OF MEXICO'S ENERGY SECTOR. from 2014-17. **33**
- Pages 6
Charts 1
- SUN, FEB 18, 18** **Outlook for Mexico's Energy Reform**
- File **868** Rice University's Baker Institute hosted a panel discussion on the outlook of Mexico's energy reform under the scenario in which a party of the Left led by Andrés Manuel López Obrador wins the presidency in the general elections that are scheduled for July 1, 2018. This report reviews highlights of the comments by the keynote speaker, Jesús Reyes Heróles, and those of panelists Lourdes Melgar, Miriam Grunstein and Pablo Zárate. In the Background section, prior elections are reviewed in which the candidate of the Left has been denied the presidency, fairly or otherwise. We identify features of the design of the energy reform that should be understood as accommodation to the views of the Oil Left. In the section of Observations, we identify upstream design flaws. **34**
- Pages 17
Charts 1
-
- January**
- FRI, JAN 26, 18** **Mexico's Energy Reform in 2017**
- File **866** Provides titles lists and scope of MEI reports sorted by topic (Table 1), in chronological order (Table 2) and in reverse order (Table 3). There were 38 reports in 655 pages. Topics of special interest was the rush to open gas stations by non-Pemex operators, the liberalization of motor fuel prices, and the (flawed) attempt by the Energy Ministry to rush through guidelines on unitization. **35**
- Pages 19
Charts 4
- WED, JAN 24, 18** **What should CRE tell the next government?**
- File **865** This report reviews topics that were presented in the CRE workshop that was held at the Law Center of the University of Houston on December 6, 2017. Among the topics were the pricing of motor fuel, LPG and natural gas. As for what should CRE tell the next government, the report identifies bottlenecks to commerce that the next government should clear up. **36**
- Pages 17
Charts 1
- WED, JAN 10, 18** **What should CNH tell the next Government?**
- File **864** This report falls in our series "What should [a government agency in Mexico's energy sector] tell the next government?" This report follows, historically, with earlier reports issued in 2012 and 2015. In the course of a dialogue that traces the history of Mexico's National Hydrocarbon Commission (CNH) from 2009 to the present, questions and topics are raised that are pertinent to the current upstream regime that was made possible by the Energy Reform of 2013-14. **37**
- Pages 25
Charts 0



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TUE, JAN 9, 18

Persistent questions about CNH lease auctions

File **863**

Pages 7

Charts 3

This report identifies persistent questions and concerns about Mexico's leasing program, taking, for illustration, the outcomes of shallow-water bid round 2.1. There are persistent questions about the many aspects of the leasing program in respect to which there is little or no transparency. [38](#)

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