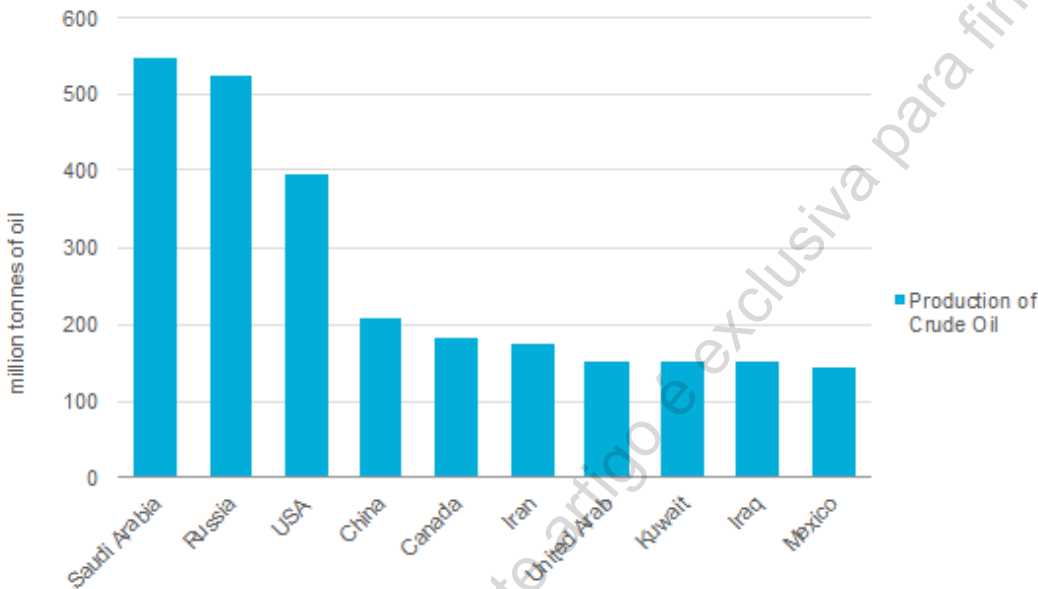


# Mexico's Proposed Energy Reforms Will Benefit Economy

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In August 2013, Mexico's President proposed new energy laws to its Congress that, if approved, have the potential to transform the country's energy sector and are likely to affect global oil markets. A reform to partly reverse an over 75-year old law of having only state-owned oil production will open up the industry to the private sector and increase oil exploration. However, the proposed reforms failed to address "greener" issues facing the country.

## Top 10 Global Crude Oil Producers: 2012



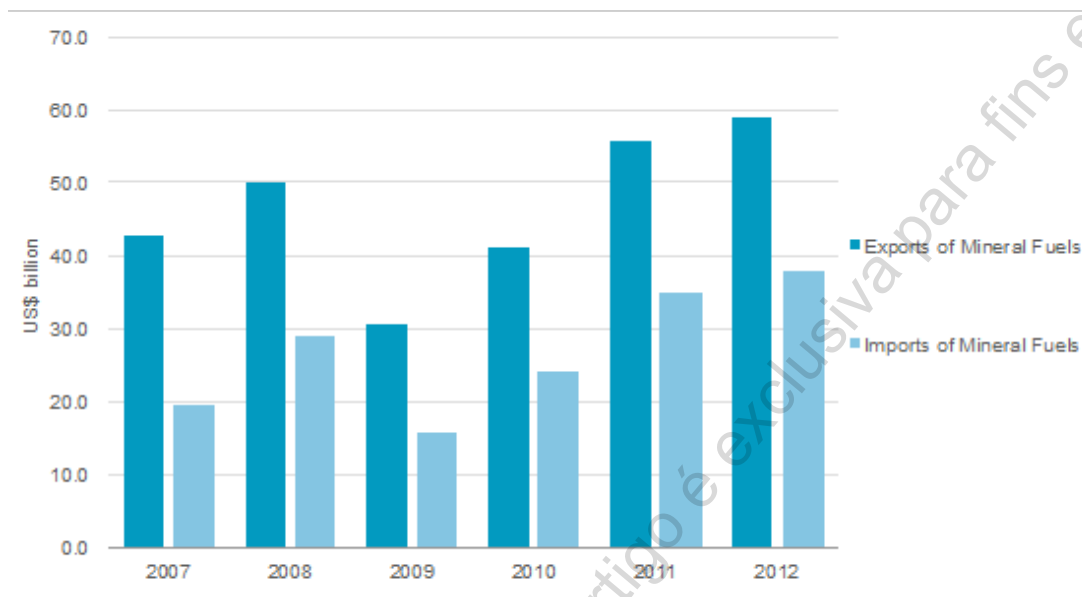
Source: BP Amoco, BP Statistical Review of World Energy

- Mexico's President announced a proposal in August 2013 to reform the country's energy laws by allowing foreign private investors access to the country's state-owned oil sector for the first time since it was nationalised in 1938. While the proposal was announced in August 2013, details of subsequent laws are yet to be disclosed;
- It is estimated that one-third of the government's income comes from oil sources. In 2012, Mexico was the tenth largest crude oil producer in the world with a production level of 144 million tonnes of oil. However, Mexico's production of crude oil has steadily dropped over the 2007-2012 period, down by 16.4%. In 2007, it was the sixth largest crude oil producer in the world;
- Despite being a net exporter of crude oil in 2012, Mexico runs the risk of becoming a net importer of crude oil by 2020 if existing trends of underinvestment in production, lack of development of new fields and large-scale corruption in the sector continue.

## Implications

- Energy reforms proposed in 2013, if approved, will revive Mexico's energy sector by increasing its oil and gas production and fulfilling its potential of being one of the larger global contributors of energy. The initiative will, in the long run, reduce energy prices and increase employment in the oil sector. Mexico's unemployment rose from 3.7% of its economically active population in 2007 to 5.0% in 2012;
- Large oil companies, particularly in the USA, will benefit from Mexico's large untapped shale gas reserves. According to the Energy Information Administration (EIA), Mexico is estimated to have the world's sixth largest shale gas reserves, with 555 trillion cubic feet of recoverable reserves and 13.0 billion barrels of recoverable shale oil reserves;
- The opening of the state-owned oil sector will boost foreign direct investment (FDI). FDI inflows into Mexico have dropped by 60.9% in real terms over the 2007-2012 period to reach Mx\$167 billion (US\$12.7 billion) by the end of the period;
- Higher production levels of crude oil will reduce Mexico's dependence on the USA and other OPEC (Organization of the Petroleum Exporting Countries) producers and increase exports of mineral fuels. Net exports of mineral fuels declined by 8.7% between 2007 and 2012 to US\$21.2 billion in 2012 thanks to the massive 95.7% increase in imports of mineral fuels during this period;

### Mexico's Exports and Imports of Mineral Fuels: 2007-2012



Source: Euromonitor International from United Nations (UN), International Merchandise Trade Statistics

- Given the weight of oil-related income in Mexico's government finances, falling oil production levels had become a concern for the government. However, increased energy production and higher energy exports will benefit government revenues. In 2012, government revenues amounted to 22.7% of total GDP;
- The reforms proposed failed to address "greener" issues like the use of renewables and tackling climate change. Natural gas and oil exploration through new drilling techniques to tap into shale gas reserves will worsen environmental problems. Mexico is Latin America's largest emitter of CO2 emissions at 474 million tonnes in 2012.

### Prospects

- The proposed energy laws represent a major shift in Mexico's energy policy. If approved, the proposal to transform Mexico's energy sector will not only boost the country's oil and gas production but also significantly improve its economic growth prospects. Real GDP growth is forecast to rise by 3.0% in 2013 and 4.1% in 2014, compared to the 3.9% increase witnessed in 2012;
- The President's proposal still awaits Congressional approval, which is likely to face significant opposition. In addition, the limited participation by private companies is not entirely welcomed as the proposal suggests that the contract would be profit-sharing and not production-sharing.



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**Fonte: Euromonitor International, 16 Sep. 2013. [Base de Dados]. Disponível em: <[http://portal.euromonitor.com/Portal/Pages/Common/Pdf.aspx/Mexicos\\_Proposed\\_Energy\\_Reforms\\_Will\\_Benefit\\_Economy](http://portal.euromonitor.com/Portal/Pages/Common/Pdf.aspx/Mexicos_Proposed_Energy_Reforms_Will_Benefit_Economy)>. Acesso em: 20 Sep. 2013.**

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