



## INSTITUTE OF THE AMERICAS

*Promoting public policies for development, trade and investment, good governance, and regional integration*

### *Optimists, Skeptics & Pessimists: Mexico's Energy Reform & Implementation*

2008 was a bad year for PEMEX, but the future holds promise for the company according to its Director General Jesus Reyes Heróles who spoke at the Institute of the Americas energy roundtable in Mexico City on February 3.

For Reyes Heróles the 'bad' was precipitated by the significant decline of the country's oil production, particularly at the massive Cantarell field: 2008 saw oil production drop 9% to a 13 year low.

Reyes Heróles was quick to state that 2009 provided PEMEX and Mexico's oil outlook with a proverbial new leaf. In speaking of the opportunity that the reform measures afford PEMEX, he emphasized that he prefers the current 'day after tomorrow' from the alternative of no reform which he noted was a real possibility as the debate dragged on last year.

Indeed, as oil production – and global prices – fell off the cliff, Mexico made a giant political leap in 2008 by approving energy reform legislation aimed at reinventing PEMEX and its financial, managerial and contractual abilities as an oil company. Reyes Heróles also echoed Secretary of Energy Georgina Kessel's opening keynote remarks stating that the new mandate is clear: Maximize the economic value of the company (PEMEX).

But can the ominous trends so imposing in the near term be arrested or reversed in the medium to long-term? Is this in fact a better 'day after tomorrow' for PEMEX and by extension Mexico's oil future? These central questions, together with a closer look at the some of the broader issues facing implementation of the reform measures, were at the core of the discussions during the day-long roundtable.

After months of acrimony, the Mexican Congress approved energy reform legislation and President Calderon signed it into law in late 2008, effectively leaving the first stage of implementation to 2009.

However, there continues to be fierce debates over many of the pieces of the law, such as the nomination and confirmation of the four new PEMEX board members, as well as further definition of the contract schemes that PEMEX will be able to utilize and when they will be unveiled. Some have pointed to the delayed appointments at PEMEX as symbolic of impending failure for the overall package; others see it more as a delaying tactic by the government and Congress.

When it comes to the debating the merits of the reform, there seem to be three clear camps that have evolved across Mexico's energy landscape, or at least its opinion making terrain: Optimists, skeptics and pessimists.

Each camp has its core members and central tenets and thus the three are useful categorizations to broadly capture the divergent viewpoints.

Government officials followed closely by oil field service companies lead the group of 'optimists' and those who feel that the reform measures will indeed enable the recovery of Mexico's oil production to a level such as the 3 million barrels/day platform as set forth by Secretary Kessel in her remarks. Indeed, the government of President Felipe Calderón is unapologetically optimistic about the historic nature and potential of the reform measures passed last fall. Moreover, and as noted above, PEMEX management fits squarely into this camp as well.

Having endured months if not years of running discussion, statistics, and intrigue there remains a large and important group of 'skeptics' across Mexico's energy industry. They are slow to buy the numbers or the potential of what the government is selling vis a vis the reform, and have many reasons to wonder about its potential, but nor do they wish to pass final judgment. Skeptics are quick to note that in addition to the debatable oil production outlook, what is not abundantly clear yet is how the government has arrived at its economic projections of \$158 billion in investment in the sector over the period of 2010 to 2025 and the estimated 1% additional bump in the country's GDP. Yet, a quick survey of the world's oil opportunities and companies' histories strongly supports the notion that while they may bemoan the measures, they will indeed reserve the right to consider the opportunity in Mexico. News reports out of Davos that President Calderon had met with a group of international energy firms on the sidelines of the World Economic Forum lend credence to the idea that while skeptical, major energy industry players will continue to engage in dialogue with the government as 2009 unfolds.

And then, there are the 'pessimists,' those who point to the political, geological and - especially now - economic challenges of the times rendering the reform wholly inadequate for the challenges at hand. While Secretary Kessel and other government officials anointed Chicontepec as a major piece of the supply and output puzzle - production at the onshore field is to more than double in the next ten or so years - they also heralded the potential of a reinvented PEMEX to exploit the country's hydrocarbon potential. Yet, the pessimists point to Chicontepec as a hallmark of the distorted perception of reality that pervades the government and the argument for the potential of the reform measures. The more pointed of the pessimists call Chicontepec an inexplicable obsession and they deem the culture at PEMEX virtually impossible to alter.

But despite the ferociously polemic nature of the matter, there is and continues to be ample discussion, dialogue and interaction amongst all of the key stakeholders. This was perhaps the most salient take away from the February 3<sup>rd</sup> meeting: Upwards of 120 participants from across government, industry, civil society and academia and across Mexico and the world participated in an open, honest and civil discourse on the reform measures and next steps.

Simply put, Mexico has no choice but to move toward a post-Cantarell energy sector. How to reconcile this plain fact with the reality of the reform measures at hand is Mexico's worthy energy challenge over the next several years. Whether such a scenario is feasible brings us back to where one sits among the three distinct opinions gripping the discussion in Mexico today.