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ABOGADOS
SIERRA
VAZQUEZ

“DILIGITE JUSTITIAM QUI JUDICATIS TERRAM,” “Ye who judge the earth, give diligent love to justice”

The importance of the energy reform: Economic and Social Benefits.

by Alejandra Llopis.

Mexico faces a historic opportunity by having the energy reform initiative formally become law. This new law aims to transform and improve the quality of life in Mexico. It now is expected that with this reform, the energy sector will become one of the most powerful engines of the national economy and thereby will transform Mexico and offer many benefits, which we will discuss below.

On January 2014, an article was included in Terrum in which the author wrote about the reform of the Mexican energy sector, explaining the importance and the significant impact on the National electricity system with regard to the reforms made to articles 25, 27 and 28 of the Constitution in order to execute agreements with the private sector for the exploration and extraction of hydrocarbon products and electricity[1]. The constitutional reforms will be conducted by the secondary legislation, published on the Federal Official Gazette *("Diario Oficial de la Federación")* on August 11, 2014 in order to now permit the exercise of the reform and to radically transform Mexico´s hydrocarbon and electricity sectors.

Secondary legislation was introduced by President Enrique Peña Nieto to the Mexican Congress on April 30, 2014 and on August 11, 2014, the decree was published consisting of twenty-one component parts of a comprehensive energy reform. Nine new laws as well and twelve amended laws to implement the constitutional energy reform passed on December 20, 2013. The reform eliminates a restrictive legal framework that has limited private investment and participation in Mexico's energy industry for more than 75 years.

The nine new secondary laws introduced are:

1) Hydrocarbon Law *("Ley de Hidrocarburos")*
2) Hydrocarbon Revenue Law *("Ley de Ingresos sobre Hidrocarburos")*
3) Electric Industry Law *("Ley de la Industria Eléctrica")*
4) Geothermal Energy Law *("Ley de Energía Geotérmica")*
5) Coordinated Regulating Agencies of the Energy Sector Law *("Ley de Órganos Reguladores Coordinados en Materia Energética")*
6) National Agency of Industrial Security and Environmental Protection of the Hydrocarbon Sector Law *("Ley de la Agencia Nacional de Seguridad Industrial y de Protección al Medio Ambiente del Sector Hidrocarburos")*
7) PEMEX Law *("Ley de Petróleos Mexicanos")*
8) CFE Law *("Ley de la Comisión Federal de Electricidad")*
9) Mexican Petroleum Fund for Stabilization and Development Law *("Ley del Fondo Mexicano del Petróleo para la Estabilización y el Desarrollo")*

The twelve amended laws are:

1) Foreign Investment Law *("Ley de Inversión Extranjera")*
2) Mining Law *("Ley Minera")*
3) Public Private Associations Law *("Ley de Asociaciones Público Privadas")*
4) Organic Law of the Federal Public Administration *("Ley Orgánica de la Administración Pública")*
5) Federal Law of Public Entities *("Ley Federal de las Entidades Paraestatales")*
6) Acquisition, Leases and Services of the Public Sector Law *("Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público")*
7) Public Work Law and Services related to the Same *("Ley de Obras Públicas y Servicios relacionados con las Mismas")*
8) National Waters Law *("Ley de Aguas Nacionales")*
9) Federal Budget Law and Fiscal Responsibility *("Ley Federal de Presupuesto y Responsabilidad Hacendaria")*

1.- Terrum. Previous issues. January 2014. http://www.asyv.com.

10) General Public Debt Law *("Ley General de Deuda Pública")*
11) Federal Rights Law *("Ley Federal de Derechos")*
12) Tax Coordiantion Law *("Ley de Coordinación Fiscal")*

The secondary legislation was provided specially for contracts in the form of licenses as well as production-sharing and profit-sharing contracts. They also establish local content requirements for oil and gas operations that will be implemented gradually beginning as of 2015 and will reach at least 25 percent by 2025. The law gives preference to the need to exploit the hydrocarbon resources over other uses.

The reforms approved have a positive impact on the general activities of the national electrical system, offering new opportunities for investors and consumers and transforming the *Comisión Federal de Electricidad* (CFE) company into a state-owned productive business that will favor transparency and competitiveness. It will also improve the creation of a wholesale energy market. As mentioned, this new paradigm offers the private sector the opportunity to participate in the electricity sector more actively. The private sector will be able to finance, install, maintain, manage, operate and develop distribution networks thorough contracts with CFE. Consumers will have more options to choose who will be their energy supplier; enabling to compare the tariffs offered by CFE and other private generators.

> "Mexico will have about 1 percent more economic growth in 2018 and approximately 2 percent more by 2025. This development will drive the economic activity in different regions of the country and will generate many employment opportunities to benefit present and future generations."

On the other hand, *Petróleos Mexicanos* (PEMEX) will be more independent of the government and of its union, once it becomes a State Productive Company. It will have greater budget management autonomy with transparency; also it will have more funds for new projects and to invest in technology. PEMEX will maintain the role of the national oil industry through a mechanism created named "Round Zero". This mechanism will assign the exploration areas and production fields that PEMEX will preserve, it means that PEMEX will have the right to protect the existing investments and will be able to improve its workers' productivity by improving their knowledge. The most important benefit is that the nation will remain the owner of hydrocarbons.

Pemex alone or associated with other companies or other operators on their own, may search for and extract more oil and thereby increase revenue for the benefit of all Mexicans.

Oil revenue derived from all new contracts can be reviewed at any time; also there will be annual audits of all existing contracts in Mexico. The oil industry will thus be more transparent and controlled, ending the special privileges and ending corruption.

PEMEX as the reformed state oil company has a critical role to play. PEMEX's historical role as the defender of the national petroleum resource has the capacity to encourage support for the reform. It was thus critical for the legislatures to meet most of PEMEX's demands and to ensure the long-term viability of the emerging state oil company.

The energy law establishes that after 2025 the national content shall rise to 35 percent based on two presumptions: Significant private investment from Mexican and foreign companies, and reduced dependence upon foreign sources for technology and management. We might assume that if private investment proves to be insufficient and dependence on foreign sources endures, the commencement of the 35 percent national content can be postponed. Mexico will have about 1 percent more economic growth in 2018 and approximately 2 percent more by 2025. This development will drive the economic activity in different regions of the country and will generate many employment opportunities to benefit present and future generations.

"The great challenge for Mexico is now to consolidate its oil industry to compete with the U.S. and other competitive countries."

Energy reform is designed to modernize the legal framework and the energy sector will strengthen the oil industry and increase oil revenues for the benefit of Mexicans. Pemex and CFE will have better organization and tools to improve their corporate governance. They will be strengthened to make Mexico more competitive. They will not be privatized but will have more autonomy and will be more efficient. It now means that while all petroleum and gas will continue to belong to the nation, but private participation will be allowed in extraction, exploration, refining, transport and storage.

Energy reform proposes that at the constitutional level, oil revenue will remain in the hands of the nation. This legal strength is exactly what allows various operators to undertake exploration and extraction activities, but only the Mexican state will be able to obtain revenue from this, since it retains ownership of the oil and gas in the ground. Oil revenue will create quality schools, hospitals, social programs, roads and water services and will grow, as there will be more oil and natural gas, new refineries and petrochemical production.

As we have being discussing in this article, the reform is designed to ensure the supply of oil and gas in Mexico and thereby promote the development of Mexico. In the past five years, oil production in the U.S. has increased by two million barrels per day, while in Mexico, production has decreased since 2004. The U.S. expects to achieve up to 10 million barrels per day in the next few years, reducing its need to import oil from other countries.[2]

The great challenge for Mexico is now to consolidate its oil industry to compete with the U.S. and other competitive countries.

The reform proposes a unique model for Mexico based on the schemes that have been implemented in other countries where energy reforms have been successful and have generated economic growth and important benefits for their countries. For example the success cases of Brazil and Colombia where as a result of their energy reforms, through concessions and contracts they have allowed private participation into the oil sector for the purpose of increased their oil production. Countries such as China, Cuba, and North Korea have also opened up their laws so that private companies can participate in the oil industry.

In conclusion, this reform, has generated controversy and different views because of the economic consequences arguing that Mexico will have exhaustion of oil reserves and will lose the opportunity to increase the economic productivity, the income will increase and will be transfer abroad because the requirements for the participation of the private sector in the hydrocarbon and electricity sectors, will be difficult to fulfill including PEMEX, for that reason, generated profits will be transferred abroad. National debate also argues that in other countries which it was implemented the energy reform, the consequences were the increase of poverty, loss of governmental control, destruction of national heritage including the environment and foreign intervention as in the case of Nigeria, Egypt, Iran, India, Pakistan, Cameroon, inter alia. The controversy sustains that the secondary legislation of the energy reform does not have any connection with the investments for the poverty reduction resulting weakness of the national industry. In the other and positive opinion, this energy reform, will enable different operators to search for and extract oil and gas, once these operators produce oil and gas, they will receive a fee for their activities and pay taxes to Mexican state and Mexico will be able to keep most of the income obtained from the sale of every barrel of oil. In that way, Mexicans and investors will both profit from increased oil revenues.

2.- Oil production forecasts for the United States: http://www.eia.gov/forecasts/

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Private investment possibilities for the Petro-energetic sector.

As part of the Energy reform that has been set forth by the Mexican president and approved by the Mexican Congress, the structure of Mexico's biggest state owned company, PEMEX has been drastically changed. As a result of opening the petro-energetic sector to private investment, the Mexican government has grantes national oil firm Pemex, the rights to 83% if the nations proven and probable oil reserves, leaving however, only 21% of possible reserves. Private owned companies may set for the bidding for 79% of possible reserves. The possibilities for investment in Mexico have now skyrocket. *Bbc.com 13/08/2014.*

Mexico's Energy Reforms Become Law.

On August 11, 2014, President Peña Nieto signed into law the 21 component parts of a comprehensive energy reform. Eight months after introducing constitutional amendments to radically transform Mexico's hydrocarbon and electricity sectors, private investors and Petróleos Mexicanos (PEMEX) can leave the starting gate. Peña Nieto was among the first to make the dash, announcing that he would speed up the creation of a new power-grid and advance the date for declaring which fields would be available for bidding by private and foreign companies. In signing, he announced that "This is the moment to put the energy reform into action." *Brookings. 14/08/2014.*

Mexican President Calls for Immigration Reform.

Mexico's president spoke of the need for U.S. immigration reform on a two-day visit to immigrant-friendly California, saying those who reject diversity and inclusion will ultimately be proven wrong. "We want to be a factor of cohesion, not division, with full respect for the sovereignty of the United States," President Enrique Pena Nieto said Monday. "This, at the end, is about — and only about — a matter of justice for those who contribute so much to the development of the American society." Pena Nieto was welcomed by Gov. Jerry Brown, who played up his immigration credentials in a speech that highlighted the close cultural and historical ties they share across borders. *abc News. 25/08/2014.*

Mexico's Pemex aims to start importing light crude this year.

Mexican state-owned oil company Pemex wants to launch light crude oil imports later this year, potentially reaching up to 70,000 barrels per day (bpd) and aimed at boosting refinery output, the head of its commercial arm said. The imports would mark an abrupt shift from a decades-old devotion to crude oil self-sufficiency in Mexico, long a major exporter to the United States. It also comes after a sweeping energy sector overhaul which seeks to reverse many years of declining output and export volumes. *Reuters. 28/08/2014.*

Remittances grow 8.44% July according to BanMexico.

Remittances to Mexico in remittances amounted to thousand 996 million dollars in July, implying an increase of 8.4 percent versus the same period last year, accumulating 12 months of positive growth rates and also marked its biggest gain since last March, when it rose 16.7 percent. According to data released by the Bank of Mexico, 97 percent of the total flow was carried out by electronic transfer; while the rest in cash and money orders. he amount of remittance transactions was six million 778 thousand in the month in question, which also represented an increase of 8.4 percent annually; while the average remittance stood at $ 294, unchanged from the level observed in July 2013. *El Financiero. 31/08/2014.*

Taiwan see opportunities of investment in Mexico now that constitutional reforms were accomplish.

As the ninth business partner in Mexico and one of the seven largest providers of electronic products and components, Taiwan analyze the benefits of increased investment in our country to "new opportunities" offered by structural reforms, such as energy. *El Financiero. 31/06/2014.*

In this month extract was prepared by Vera García, Lorena Gay, Patricia González, José Manuel Muñoz and Miguel Ruelas.

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CONTRIBUTORS

Alejandra Llopis

Attorney at Law: Admitted to practice law in 2008. Ms. Alejandra Llopis, of Mexican nationality obtained her law degree at Universidad Anahuac del Norte, Edo. Mexico.

PRACTICE AREAS: Customs Law, Aviation Law and Corporate Law.
LANGUAGES: Spanish and English.

e-mail: allopis@asyv.com.

ABOGADOS SIERRA VAZQUEZ

Prol. Reforma No. 1190 25th Floor
Santa Fe México D.F. 05349
t. (52.55) 52.92.78.14
f. (52.55) 52.92.78.06
www.asyv.com | www.asyv.aero
mail@asyv.com