



SIGNIFICANCE OF MEXICO'S ROLL-BACK ON ITS ENERGY REFORMS

INTRODUCTION

Mexico's new energy reform proposed in Oct 2021, under the current Mexican president, Andrés Manuel López Obrador, was set to undo the historic move of 2013. However, on 17 Apr 2022, opposition leaders united against the bill, which required a two-thirds majority to pass. Since 2013, the liberalization of energy production and supplies, attracting foreign investments to the land, has taken place. However, to protect the 75 yearlong oil nationalism, Mexican president López Obrador is convinced to stop further effects of neoliberalism. The energy reforms are proposed to save the country's beleaguered state-run corporations, Petróleos Mexicanos (Pemex) and Comision Federal de Electricidad (CFE). The proposition is to generate clean, cheap, and efficient hydropower to meet the country's energy needs.

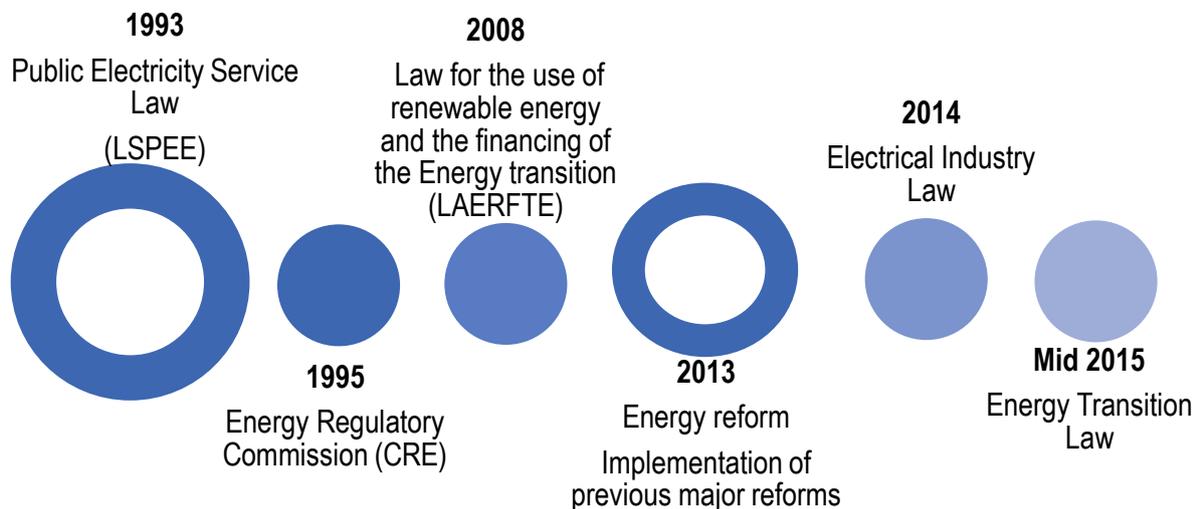
BACKGROUND

In Oct 2021, the current Mexican president Andrés Manuel López Obrador introduced a constitutional amendment that would limit sales of energy supplies by private enterprises and benefit government electrical utility Comision Federal de Electricidad (CFE) and state oil firm Petróleos Mexicanos (Pemex). To curb the damages caused by self-supply contracts of private enterprises, the bill is said to invalidate agreements with 34 private establishments selling power to the national grid. In addition, it will terminate the license of a further 239 private plants as 'illegal' that direct power to the commercial companies. As a result of the proposed reform, agreements on power generation and supply and the clean energy preferential procurement programmes would be annulled. Almost all companies whose license would be invalidated were natural gas or renewable energy sources suppliers. However, this plan would assist state facilities in burning fuel oil against private-owned wind and solar facilities. It would also give the state the right to extract lithium. Practically, private enterprises sell natural gas at a 24 percent low market price than the state-controlled utility. However, a new amendment has been proposed to meet rising demand, as seen in the numbers (by the end of June 2021, gasoline imports were 643,000 b/d, while demand was 779,000 b/d (Mexican Energy Secretariat).



Furthermore, the reform focuses on repairing six existing refineries and constructing a seventh in the Tabasco port of Dos Bocas, which will help the country reduce its dependency on imported petroleum. Despite the **US-Mexico-Canada free trade agreement**, which precludes subsidization to local or government firms, the proposal assures the government electricity utility a minimum sales volume of 54 percent.

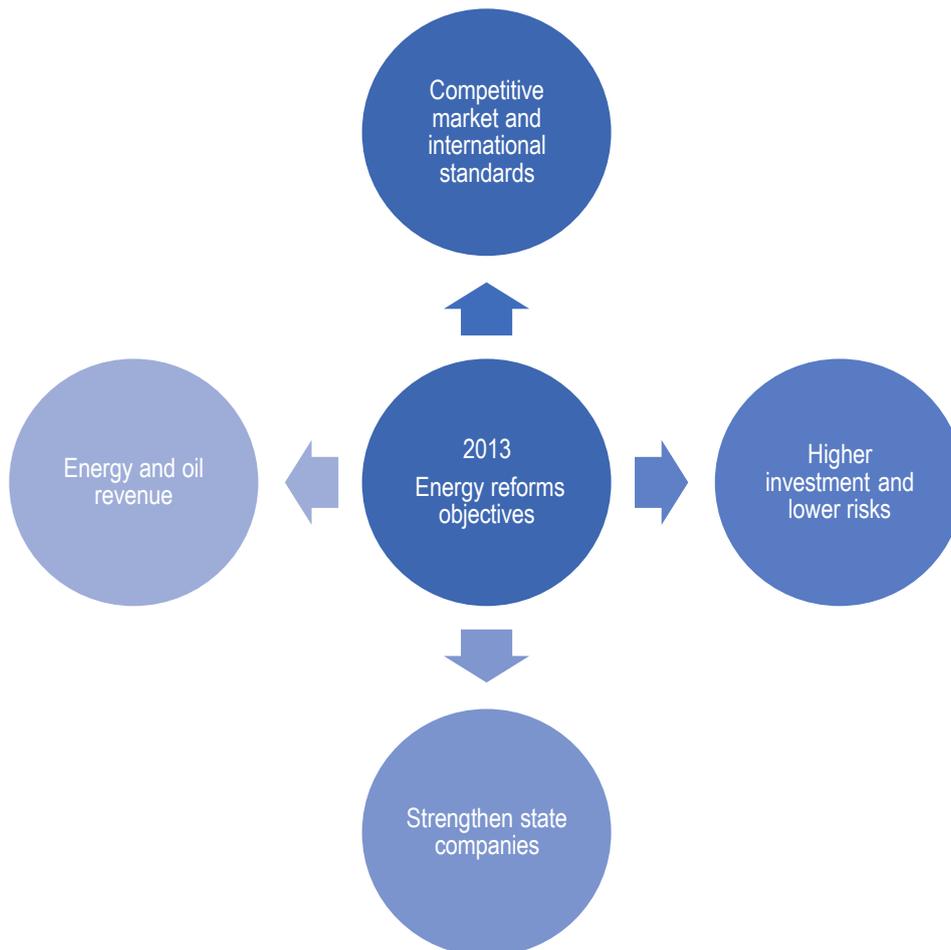
Major Reforms Since 1992



Due to a drop-in oil prices on the global market in **the late 1980s**, Mexico ran into financial troubles. The rise in interest rates compelled a re-negotiation of the external borrowing and the non-inflation-adjusted running expenses of government policies. This scenario resulted in a significant shift in government policy, supporting the free market and limiting governmental involvement. **Public Electricity Service Law (LSPEE), issued in 1993**, permitted the corporate sector to produce and sell electricity to the CFE. As a result, the CFE remained a governmental monopoly focused primarily on the financial industry- power distribution and final sale.



In 2008, the LAERFTE (Law for the Use of Renewable Energy and the Financing of the Energy Transition) was passed. According to this law, renewable energy sources and natural gas are essential components of Mexico's energy growth. However, implementation of all such amendments took place **full-fledged in 2013 and onwards**, as indicated by the 2013 energy reforms objectives in the infographic below:





ASSESSMENT

The energy sector is a significant part of Mexican president López Obrador's agenda which means high investment in the industry. However, there were no transparent systems to deal with the political and environmental implications.

Firstly, corruption has marred the country for a long time. Inequity and abuses in electricity rates characterized the 19th century. According to the 2019 Statista data, corruption was cited as the second most serious concern faced by Mexico.

The energy sector might have faced regulatory loopholes if the bill had passed. The political instability and a million-dollar increase and investment in non-renewable energy would have impacted renewable energy sources and assets.

Secondly, the impact ranging from land use and habitat loss to the expiration of technology and infrastructure would have added to the environmental complications.

Thirdly, the reform was on the verge of deteriorating Mexican diplomatic relationships with the U.S. and Canada. Given the current conflict between Russia and Ukraine, it would have affected the trade agreements between the three countries and harsh sanctions against the Mexican government. As a result, private investors would have lost millions, whom AMLO refers to as a 'betrayal of the homeland.'

Lastly, the elevated oil prices due to the ongoing Russia-Ukraine conflict have ramifications. It is imperative to look at the ups and downs of global affairs. The substantial political influence, unaccountability, and risky contingent liabilities could have stretched public finances leading to financial instability if it had passed.



ABOUT THE AUTHOR

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