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Candidates for president of México to define its position on the future of the energy sector in Mexico.

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In full campaigns, the three leading candidates in the polls for the presidential election have already shared with the electors some of the actions they are planning to undertake in the event of winning July's federal elections for head of the Executive Branch of México.



Ms. Josefina Vazquez Mota (PAN), Enrique Peña Nieto (PRI) and Andrés Manuel López Obrador (PRD) share the common opinion that Pemex –the Mexican national oil company– does not have to depend on decisions of the Ministry of Finance and Public Credit (Secretaría de Hacienda y Crédito Público), but on the real needs of the company, and removing Pemex input from the federal budget in order to provide the entity with autonomy and so, achieve greater profitability.

On the past days, during the forum “Plans and energy policy in an electoral year”, several leaders and entrepreneurs agreed that the current tax liability to which Pemex is subject to have reduced significantly the development of the to the national oil company.

However, each of the candidates have outlined his/her owns general policies, which should become president, would rule in its housing administration.

PRD's Andrés Manuel López Obrador, said that carrying out a privatization policy will generate only one global tycoon and expensive energy for the rest of the country. He urged the need for a better collection and at the same time "get Pemex's out of the federal budget" to give greater autonomy.

To do so –he said–, no further reforms are necessary or the entry of private capital, but to free the current economic subjugation of the public instrumentality.

“Pemex contracts already executed will be honored, but an effort should be made in order for the same to be carried out with the greatest transparency possible: PRD”.

On the other hand, Josefina Vazquez Mota, PAN’s presidential candidate, said through her campaign energy team, that in case of winning July’s election, she will seek for the securitization of Pemex, so that "more Mexicans invest in the company" and thus giving it greater independence.

She also agree that the key point to make Pemex a more efficient company is based on the possibility to "drawn it apart from the budget" and avoid any relation to the administrative decisions of the Ministry of Finance and Public Credit, so that the instrumentality does not depend on administrative decisions of the treasury, but the needs of the company and the establishment of measurement tools, avoiding therefore results based solely on political criteria.

This strategy –she said– would give further impetus to the state-owned company areas where an immediate forward motion is required, as in the case of the petrochemical sector, where Pemex has remained marginalized even though the great potential in deep-waters in the Gulf of Mexico on a basis of technology improvement.

“While the proposal of a securitization will allow Pemex to invest in areas where it needs and injection of capital, it must and also will generate a higher return”.

Aaron Dychter, current team representative of Enrique Peña Nieto, PRI’s candidate, insisted on the need for greater participation of the private industry in the energy sector under a scheme of public-private partnerships.

Without providing fuehrer details on the PRI’s proposal, he also mentioned that a tax reform is necessary in order to be able to support the federal government spending, once the oil company is drawn apart of the federal budget as the major contributor of revenue.

“Most of the reforms already negotiated and agreed in 2008 should be exploited; as well as to strengthen the regulatory bodies such as the Energy Regulatory Commission and the National Hydrocarbons Commission”.

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Andres Manuel Lopez Obrador is the only one of the four candidates that has announced a “Decalogue on energy”, emphasizing that the privatization of Pemex would eventually destroy Mexico and committed himself that if winning the election, there will be deep changes in the way México exploits its energy potential.

“Decalogue on energy” proposed by PRD’s candidate can be summarized as follows:

1. Integrated management of the energy sector, from exploration, drilling, oil and gas production, refining, petrochemical and power industry.
2. Priority to invest on exploration in order to maintain stable oil proven reserves.
3. Stop selling and exporting crude oil gradually and will process all the raw material and crude oil in house, to give added value and generate profits and jobs in the country. That will result in no longer selling crude oil, raw materials and buying petroleum products, as at present.
4. To stop selling crude oil and buy petroleum products, five major refineries will be built in six years in order to stop importing 500 thousand barrels of fuel, which means dispense in this purchase of fuels in the order of 26 billion dollars a year.
5. Boost petrochemical industry, rebuilding petrochemical plants and building a plant to produce fertilizer in the country.
6. Operate at full capacity hydroelectric and other power generation plants of Federal Electricity Commission to reduce the power purchasing prices to foreign companies.
7. Priority will be given to domestic companies in the procurement and contracting of services required by the energy sector.
8. Sufficient resources shall be allocated for research and technological development in the energy sector.
9. A national program to reduce energy transition, the dependence on fossil fuels and nonrenewable resources.
10. Clean up Pemex and CFE of corruption and thus finance much of the investment demand for the oil and electricity industry in the country.

While López Obrador asserts that implementing his “new policy in energy “ proposal will certainly improve the energy sector in a national development level, experts and public opinion have challenged the presidential candidate arguing that his plan, aims to increase investment in the less profitable segment of the oil industry, that is refining, and phasing out the most profitable activity: the export of crude oil, which as of this date is one of the most profitable activities in the oil industry. The extraction cost in Mexico is just over 5 dollars per barrel, while the price in the export market exceeds \$100.

Notable participants of the sector have reproached him for his intention to build five large refineries, because these would cost between 500 billion and a trillion pesos, which would leave few economic resources for something else.

Enrique Peña Nieto has not defined yet specific actions to be undertaken in order to boost the energy sector in México in the event of winning the presidential election. However he has declared in several forums the need to increase the participation of private capital in state oil company Pemex to make it more efficient, and even to go public.

Peña Nieto, bearer of the PRI, mentioned that the steps taken by the Brazilian state oil company Petrobras, would be a role model for Pemex, which has the monopoly on the exploitation of hydrocarbons in the country.

The successful experience of Petrobras –he said– has undoubtedly become a great reference. The Brazilian government is the majority shareholder of Petrobras, but IPO has allowed Petrobras to raise billions of dollars to invest in exploration and production.

Peña Nieto, who leads the polls of likely voters to the elections of July 1, said that once achieved greater efficiency in Pemex, it could be considered in the future to be publicly traded.

Josefina Vazquez Mota, meanwhile has offered entrepreneurs a second oil sector reform, which included the possible securitization of Pemex, and the creation of citizens bonds, in a scheme very similar to Petrobras, the Brazilian oil company.

She added the need to increase supervision over the operation of Pemex, so it becomes more transparently managed and attract a greater share of private investors.

On a letter written by Vazquez Mota published on the national newsletter “Reforma”, the unique woman struggling for the presidential seat has asserted that Pemex has to be more competitive and function as a modern public enterprise. To achieve this –she wrote– it is essential to complement public resources with citizen bonds, and through the securitization of a minority of shares of the company.

To that end, PAN’s candidate urged to strengthen the exploration and production of natural gas, basic input for the motor industry and strategic market, by promoting an accelerated growth of the gas pipeline network, taking advantage of the recently approved law on public-private partnerships, which she said, is the best instrument to raise co-investment in this sector.

Vazquez Mota states that Pemex must become a company capable of planning for the long term, so her commitment is to urgently open our energy market, allowing Pemex strategic alliances with other companies in a competitive environment. Partnerships are key

because of the lack of technology to develop oil in deep-waters and the vast reserves of shale gas.

Finally, in her manifest, she ruled in favor of an accelerated development of renewable energies like wind and solar power from independent producers, which is only possible if the incentives are properly aligned within a framework of legal certainty for investment. Also, she made reference to the petrochemical industry, where she finds a huge potential to add value to our oil sector, but recognizes the regulatory brakes that prevent Mexico to compete in biotechnology and nanotechnology.

We will keep an eye on candidate's energy proposals, as energy sector is one of the most important industries in México. Moreover, analyzing candidates' strategies will allow us to make a better decision for the future of México's internal and foreign policies that would probably prevail for the following six years, a period that considering the current global economic situation, would probably define the direction of the country for the following decades.



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