Secondary legislation of the Energy Reform in Mexico 2013 / 2014

Fluvio Ruíz Alarcón
Washington D.C., June 24th, 2014
Paradigm shifts in the Mexican oil model

- Sharing oil rent
- End of exclusivity of Pemex
- Acceleration of oil production
Secondary Legislation of Mexican Energy Reform
# Secondary Energy Legislation

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<th>Law</th>
<th>Initiative</th>
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<td>1. Hydrocarbons Law</td>
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<td>2. Foreign Law</td>
<td>2. Electric Industry Law</td>
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<td>5. Electricity Industry Law</td>
<td>5. Productive State Enterprises</td>
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<td>8. Law of the National Agency of Industrial Safety and Environmental Protection of the Oil Sector</td>
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<td>10. Comisión Federal de Electricidad Law</td>
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<td>13. Law of Public Works and Related Services</td>
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<td>17. Law of Duties</td>
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<td>18. Tax Coordination Law</td>
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<td>19. Law of the Mexican Petroleum Fund for the Stabilisation and Development</td>
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<td>20. Law of Federal Budget and Fiscal Responsibility</td>
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<td>21. Law of Public Debt</td>
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Fiscal regime and budgetary autonomy: key issues for Pemex
Key Contributor to Mexican Government

Taxes and Duties
(US$ billion and %)

Taxes and Duties
(% the Government Income)

Revenues from the oil and gas industry as % of the GDP

Source: Pemex, http://www.pemex.com,
Taxes and Duties paid by Pemex

Income before and after taxes and duties in Pemex, 2001-2013

Million of mexican pesos

<table>
<thead>
<tr>
<th>Year</th>
<th>Income BEFORE taxes and duties</th>
<th>Income AFTER taxes and duties (Net Income/Loss)</th>
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<tbody>
<tr>
<td>2001</td>
<td>-32,760</td>
<td>-230,703</td>
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<tr>
<td>2002</td>
<td>-30,492</td>
<td>263,098</td>
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<tr>
<td>2003</td>
<td>-42,657</td>
<td>339,785</td>
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<tr>
<td>2004</td>
<td>-15,026</td>
<td>359,308</td>
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<tr>
<td>2005</td>
<td>-74,517</td>
<td>606,112</td>
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<tr>
<td>2006</td>
<td>45,252</td>
<td>628,107</td>
</tr>
<tr>
<td>2007</td>
<td>-18,308</td>
<td>658,946</td>
</tr>
<tr>
<td>2008</td>
<td>-112,077</td>
<td>659,625</td>
</tr>
<tr>
<td>2009</td>
<td>-94,662</td>
<td>151,971</td>
</tr>
<tr>
<td>2010</td>
<td>-46,528</td>
<td>607,613</td>
</tr>
<tr>
<td>2011</td>
<td>-91,484</td>
<td>784,532</td>
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<tr>
<td>2012</td>
<td>2,601</td>
<td>805,246</td>
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<td>2013</td>
<td>-170,059</td>
<td>694,838</td>
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Own elaboration based in the source: Carlos Huerta Durán

Fiscal Regime Pemex Highlight 2013

- Ps. $1,608.2 billion in total sales revenues
- Ps. $694.8 billion Income before taxes and duties
- Ps. $864.9 billion in taxes and duties paid by Pemex
- Ps. $-170.1 billion Net Income/loss

1/ Include taxes and duties.
Income of the Mexican State on extraction and exploration

Assignment
- Only applies to Pemex
- Current Fiscal Regime in Pemex
- Pemex can migrate their assignments to contracts

Contracts
- To pay considerations
- It pays to production

Licenses
- To pay considerations
- Contractors provides a percentage of the production to trader of the State

Production sharing
- To pay considerations
- Contractors provides all production to trader of the State
- The contractor gets a percentage of the agreed profit

Profit sharing
- Contractors provides all production to trader of the State
- The contractor gets a cash payment

Mexican Petroleum Fund
- All contracts generate income tax and not going to the Mexican Petroleum Fund

Trader of the State

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The Law of the Mexican Petroleum Fund for Stability and Development requires a continuous transfer to the Treasury Department of 4.7% of GDP of revenues from oil.

In 2013 Pemex gave the Treasury Department Ps.$864 billion in taxes and duties.

Ps.$864 billion

Ps.$826 billion

The proposal of the Law of the Mexican Petroleum Fund, will force Pemex to pay at least 826 billion pesos to the Treasury Department.
The budgetary control by the Treasury Department

Budget cuts in Pemex (subsidiaries), 2014 (% and million pesos)

- On July 15th, 2013 the Board of Directors of Pemex approved a budget for 2014 of 561 billion pesos.

- The Treasury Department cut the budget to Pemex by 33 billion pesos, before sending the budget project to Mexican Congress.

Source: [http://www.pemex.com](http://www.pemex.com)
Own elaboration based in the source. Carlos Huerta Durán.
Some points to focus on the current debate
Elements of the secondary legislation proposal (1/2)

- Time to consolidate the new institutional design
- “Round Zero”
- Distribution of oil rent
- Fiscal regime of both Pemex and IOC’s
- Public Finances: high dependence on oil
- Budgetary and gestion autonomy
- Corporate government
- Research and technology development
- Social impact in community territories
- Energy transition
- Regulatory agencies
- Mexican Petroleum Fund
- Transparency and accountability
Elements of the secondary legislation proposal (2/2)

- Regulatory and fiscal asymmetry:
  - Revocable assignments without due process
  - Excessive weight of the Treasury Department in determining the budget
  - Inflexible financial balance
  - The cost-cap for Pemex remains the same since 2005
  - Duty to develop unprofitable projects
  - Inability of Pemex to choose its strategic partners
Conclusions

- The Mexican state must clearly define which oil sector model he wants to put in place.

- Only in this way, the Mexican Government will be able to specify the institutional features and the role of Petróleos Mexicanos.

- It would be a mistake to promote inconsistency in the oil model and weaken the national operator.

- Pemex needs to become a real integrated energy enterprise, with less tax burden, with managing and budgetary autonomy.

- If Pemex is weakened and tied, the model will be unstable.
Thank you

Fluvio Ruíz Alarcón, June 2014.