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# MEXICO ENERGY REFORM: SECONDARY LAWS

## *Key Issues for IOCs*

3rd IEL-ANADE Conference  
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Mexico Energy  
Reforms

# Overview of Presentation

Mexico Energy Reforms

## **INTRODUCTION**

### **I. LICENSES**

### **II. PEMEX ROUND ZERO**

### **III. JVs WITH PEMEX**

### **IV. PEMEX MINIMUM REQUIRED PARTICIPATION**

### **V. NATIONAL CONTENT**

# Introduction: Timeline for Implementation

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Reform formally enacted into law

**December 21, 2013**

Round Zero: Request of Areas by PEMEX

**March 21, 2014**

Passage of secondary (implementing) legislation

**April 20, 2014**

Round Zero: Decision  
by Secretary of Energy

**September 17, 2014**



Passage of legislation focusing on environmental issues

**December 21, 2014**

- A tender process to award new areas (Round One) is expected by 2015; at least one bidding round per year through 2025.

# Introduction: Secondary Laws

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- On April 30, 2014, President Peña Nieto introduced 9 new laws to Congress (as well as amendments to several existing laws):
  - Law of Hydrocarbons
  - Law of Hydrocarbon Revenues
  - Law of the Electric Industry
  - Law of Geothermal Energy
  - Law of the Coordinated Regulating Agencies of the Energy Sector
  - Law that creates the National Agency of Industrial Security and Environmental Protection of the Hydrocarbon Sector
  - Law of Petroleos Mexicanos (PEMEX)
  - Law of the Federal Electricity Commission (CFE) and
  - Law of the Mexican Petroleum Fund for Stabilization and Development

# Introduction: Prevailing Themes in Laws

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## Congress to strike the right balance between:

Over-regulation	vs.	wild west
PEMEX as an extension of the government	vs.	independent, profit-seeking enterprise competing on equal footing in the market
Transparency	vs.	letting PEMEX pick its own partners
Strict and contractual provisions that are beneficial for the country	vs.	attractive contractual scheme

# Licenses



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- Key feature of the reform
- What is a license?
  - Modern concession (royalty-tax)
    - Brazil (Concession); Colombia (E&P Contract); Peru (License Contract); U.S. (Lease)
  - Fiscal terms defined in Hydrocarbon revenues law
- Legal difference between a License and Concession?
  - A concession is still expressly banned by the Constitution
  - Historic perspective of the word “Concession”
  - License is not different from a modern concession (royalty-tax)
  - Constitutional challenges?

# PEMEX ROUND ZERO

## Areas Requested by PEMEX (3/21/14):

- 100% of Mexico's producing areas;
- 83% of Mexico's 2P reserves
- 31% of Mexico's prospective resources.

## Round Zero Assignations to PEMEX (SENER; 9/17/14)

## Areas Not Granted to PEMEX

Fixed-fee Service contracts with third parties

Assignments to state productive entities (SENER consent)

Request Migration to Contracts (SENER consent)

Available for Future Bidding Rounds (SENER/CNH)

JVs

JVs

Bidding Process to Select Contract Partner (CNH to conduct bidding with PEMEX's opinion)

PEMEX in consortium with 3<sup>rd</sup> parties

# JVs with PEMEX

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# Minimum Required PEMEX Participation

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- Minimum required PEMEX participation (or another state productive enterprise)
  - may be established:
    1. PEMEX Assignment coexisting at a different depth, with an offered contract area (in a % investments made).
    2. Transfer of technology to PEMEX (up to a 30% required participation)
    3. Project with specialized financial vehicle of the Nation (up to a 30% required participation)
  - shall be established:
    4. Contract with possibility of a transboundary reservoirs (minimum of 20% required participation)

# National Content

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- 25% minimum national content requirement to be implemented gradually beginning in 2015 and to reach at least 25 percent by 2025
- To be included in E&P contracts
- Applicable to private parties and state productive entities (ie. Pemex)
- Secretary of the Economy to establish rules and methodology
- CNH is the sanctioning authority
- Pursuant to international treaties executed by Mexico

# Conclusions



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- Laws to be negotiated
- Historic perspective
- Reserve potential

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# Thank you

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