

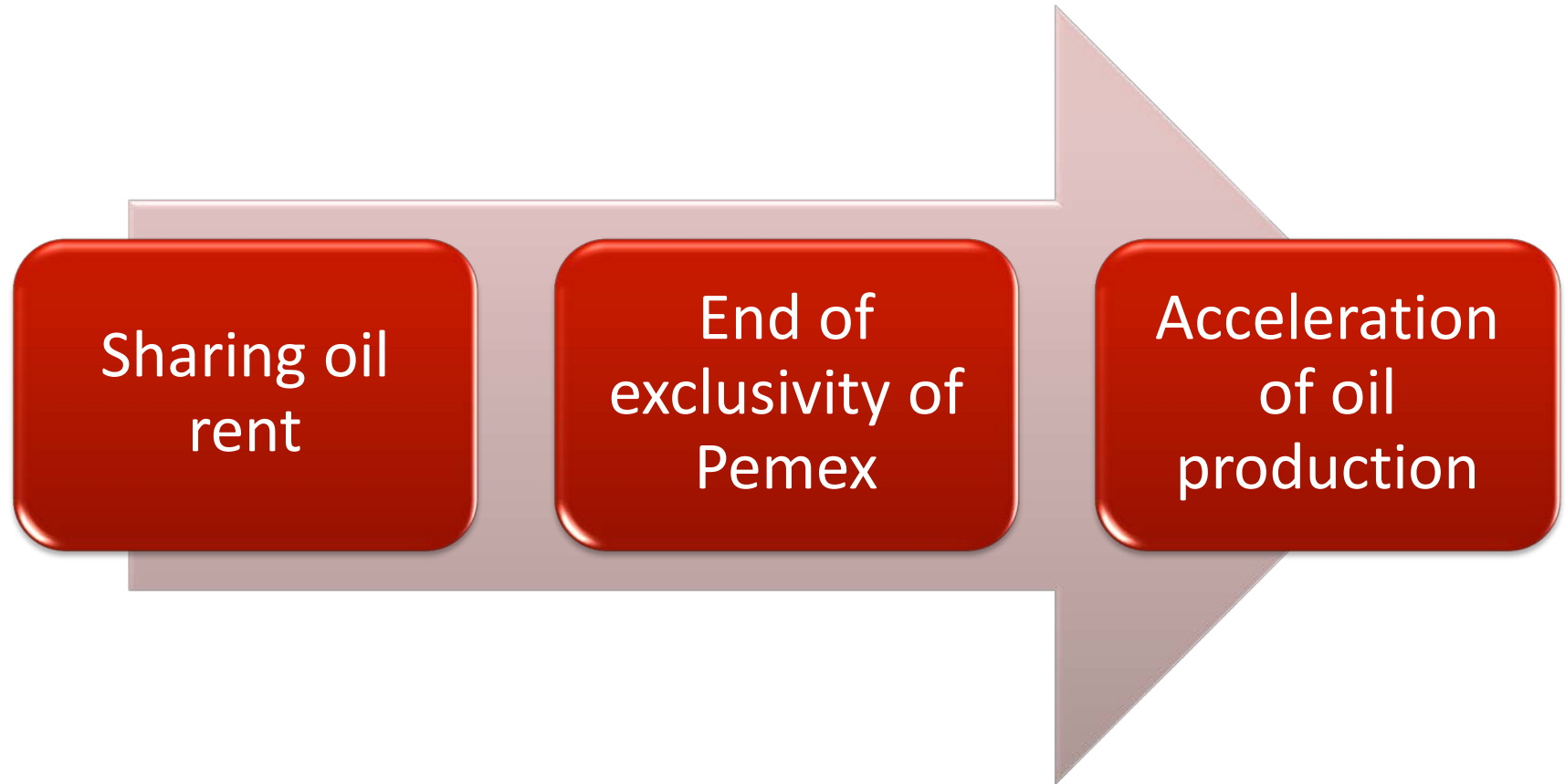


## Secondary legislation of the Energy Reform in Mexico 2013 / 2014

Fluvio Ruíz Alarcón

Washington D.C., June 24th, 2014

# Paradigm shifts in the Mexican oil model



## Secondary Legislation of Mexican Energy Reform

# Secondary Energy Legislation

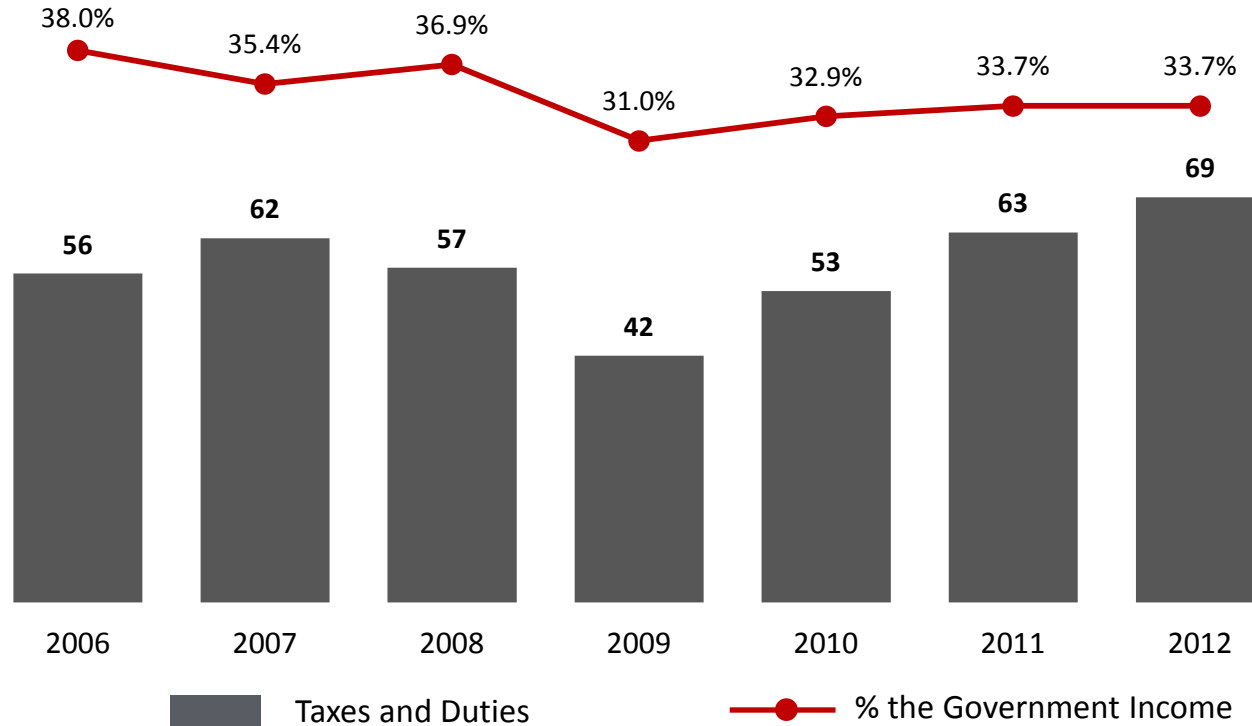
Law	Initiative
1. Hydrocarbons Law	<b>1. Hydrocarbons</b>
2. Foreign Law	
3. Mining Law	
4. Law on Public-Private Association	
5. Electricity Industry Law	<b>2. Electric Industry Law</b>
6. Geothermal Energy Law	<b>3. Geothermal Energy</b>
7. National Water Law	
8. Law of the National Agency of Industrial Safety and Environmental Protection of the Oil Sector	<b>4. Law of the Agency</b>
9. Petróleos Mexicanos Law	<b>5. Productive State Enterprises</b>
10. Comisión Federal de Electricidad Law	
11. Federal Public Entities Law	
12. Law of Acquisitions, Leases and Services of the Public Sector	
13. Law of Public Works and Related Services	
14. Law of Coordinated Regulatory Agencies Responsible Energy Sector	<b>6. Regulators</b>
15. Law of the Federal Public Administration	
16. Law of Revenue on Hydrocarbons	<b>7. Fiscal Regime</b>
17. Law of Duties	
18. Tax Coordination Law	
19. Law of the Mexican Petroleum Fund for the Stabilisation and Development	<b>8. Mexican Oil Fund</b>
20. Law of Federal Budget and Fiscal Responsibility	<b>9. Budget</b>
21. Law of Public Debt	

## **Fiscal regime and budgetary autonomy: key issues for Pemex**

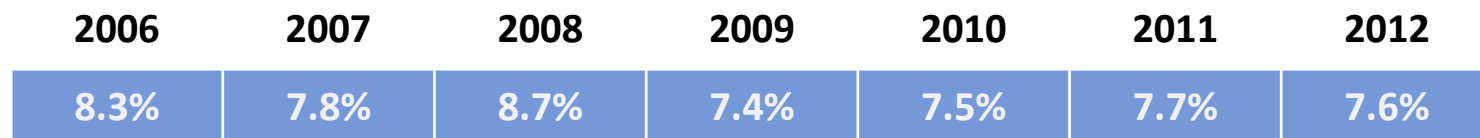
# Key Contributor to Mexican Government

## Taxes and Duties

(US\$billion and %)



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

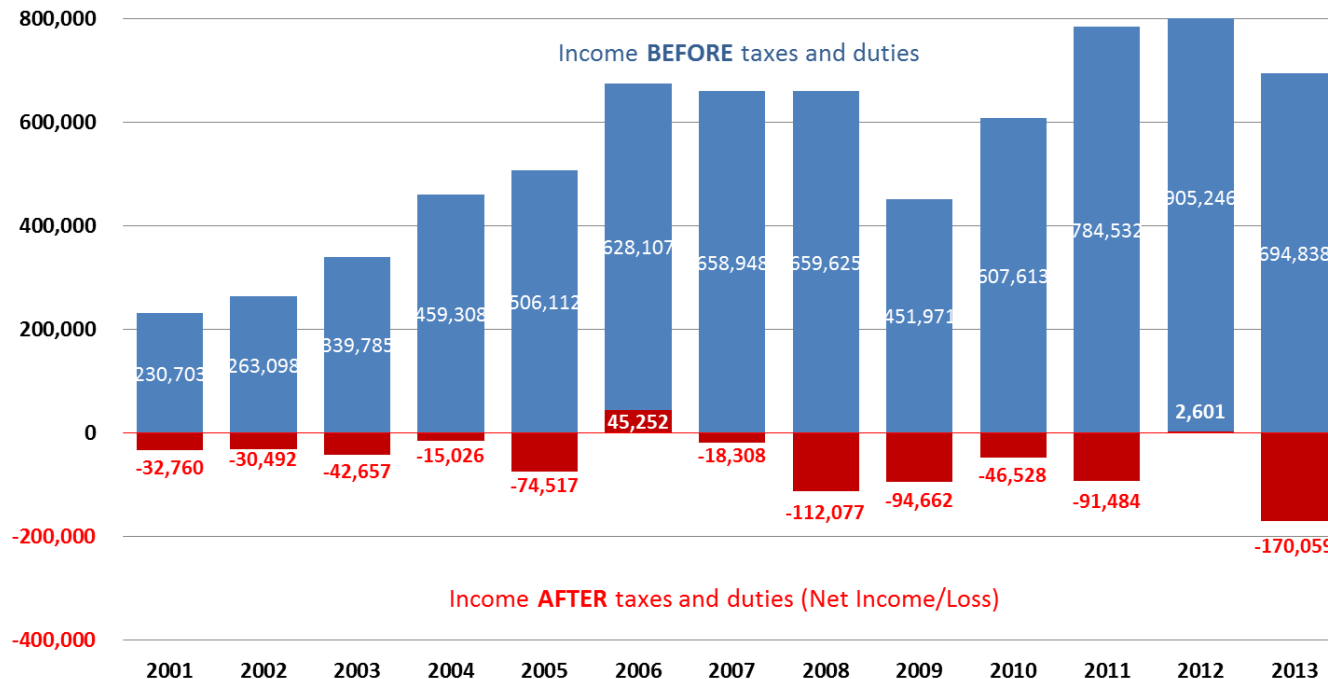


Source: Pemex, <http://www.pemex.com>.

# Taxes and Duties paid by Pemex

## Income before and after taxes and duties in Pemex, 2001-2013 <sup>1/</sup>

Million of mexican pesos



### 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

Source: Statistical Year Book 2012, <http://www.pemex.com>

United States, Securities and Exchanged Commission, Washington D.C. 20549, Form

20-F, <http://www.pemex.com>

Own elaboration based in the source: Carlos Huerta Durán

1/ Include taxes an duties.

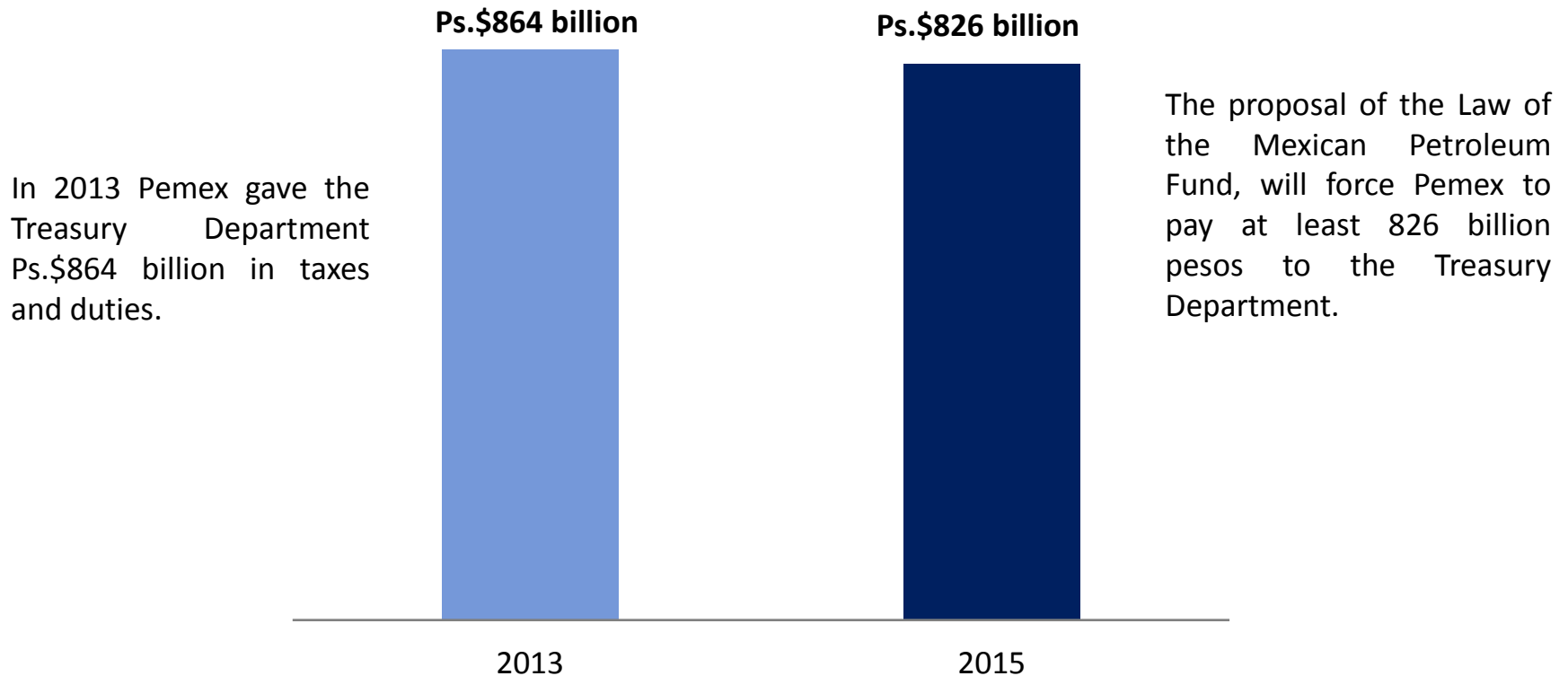
# Income of the Mexican State on extraction and exploration





# Mexican Petroleum Fund for the Stabilisation and Development

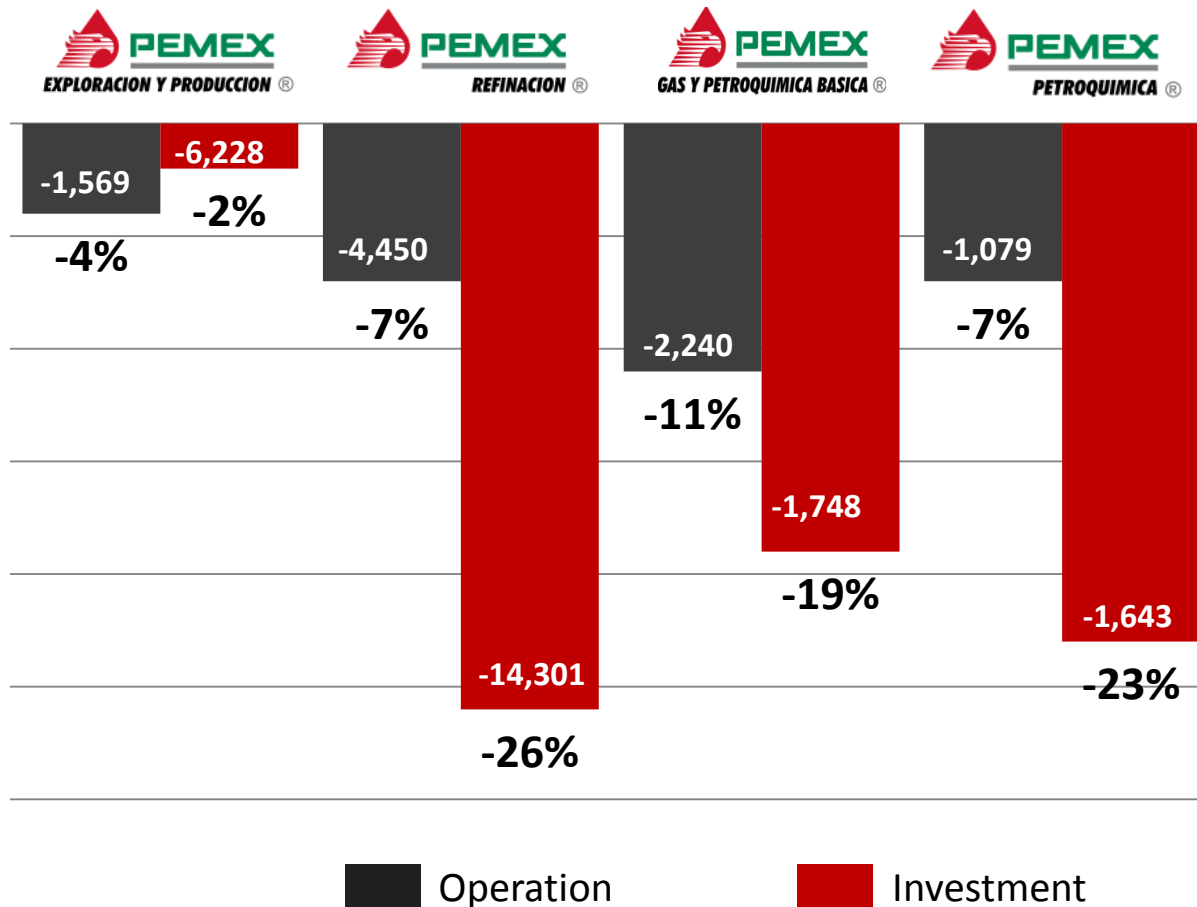
The Law of the Mexican Petroleum Fund for Stability and Development requires a continuous transfer to the Treasury Department of 4.7% of GDP of revenues from oil.



# 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>

Own elaboration based in the source. Carlos Huerta Durán.

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**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

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- ◆ 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.**

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