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EPRINC INAUGURATES RESEARCH AND OUTREACH PROGRAM IN MEXICO

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EPRINC's Mexico Initiative

Introduction

Over the past 14 years Pemex's crude oil production has been in decline. Pemex's output declined from 3.4 million barrels per day (mmb/d) in 2004 to 1.8 mmb/d in 2018. With a modern and growing industrial economy, Mexico's energy consumption has surged over the last decade. A combination of factors, including a decline in Mexico's oil production, a government led strategy to diversify its energy mix, and an increase in low-cost U.S. shale gas production has led to a surge in natural gas demand in Mexico's electricity sector. Constraints in Mexico's refining sector has led to rising imports of petroleum products.

Mexico's economy and energy sector has benefited from competitively priced imports of gasoline and natural gas, almost entirely from the U.S. Among many Mexican policy makers, there is a growing perception (real and imagined) that high volumes of energy imports are accompanied by a rising energy security risk for Mexico. Often lost in the debate over energy imports is the role North American sourced supplies provide in terms of security of supply and competitive pricing. Most of the political debate over energy security risk stems from a perception that rising dependence on U.S. energy imports represents a supply vulnerability to the Mexican economy. Mexico imports 60% of its gasoline and 80% of its natural gas from the U.S. Regardless of what specific national policies are implemented to address energy security concerns, it is in Mexico's long-term economic interest to implement energy policies that are robust against uncertainty and also can cost-effectively expand production from its domestic oil and gas reserves. Clearly, Mexican energy policy should address the resiliency of its supply chain and there is almost universal agreement that more attention is needed for solving distribution and storage infrastructure constraints. Although Mexico's domestic oil industry gets considerable public attention, the national economy is not dominated by oil and gas production. Mexico has a large and diversified industrial economy and an economic growth is dependent upon both abundant domestic and imported supplies of competitively priced energy.



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Existing energy policy initiatives, including a three-year suspension on oil auctions and a shift from an open market to a state-controlled energy market by advantaging Pemex's participation on resource development from unconventional reserves (shale) is likely to exacerbate rather than improve both economic growth and energy security. The new Mexican administration of President Obrador has stated that private sector participation and foreign direct investment in the energy sector should be revisited and a full assessment should be undertaken on whether the so-called energy reforms undertaken by the previous administration are making a sufficient contribution to meeting Mexico's energy requirements. Evaluating specific policy initiatives that offer the most cost-effective strategy to lift Mexico's oil and gas production will be a central topic of EPRINC's research going forward.

Objective

EPRINC's research program will evaluate a wide range of developments that have relevance in the short, medium, and long term in the oil and gas sector in Mexico and its interaction with the national economy. EPRINC's research and outreach program will be directed to provide background information, assessments of alternative strategies to address energy supply concerns. The primary purpose of the research and outreach program will be to illustrate, educate, and inform the public and policy makers on what strategies are likely to be cost-effective in meeting national priorities and contribute to economic growth.

Methods, Topics, and Distribution of Research Results

EPRINC Mexico will distribute its research widely through publications on its website and through public venues. Publications will be distributed in Spanish and English. Where possible, EPRINC will reach out to government ministries, private sector companies, and other institutions interested in the future of Mexico's oil and gas sector to discuss the conclusions of our research. The Mexico initiative will use publicly available data. Ensuring that the research considers a variety of perspectives from key players in Mexico's energy sector we will reach out to a broad cross section of stakeholder groups. Among the topics of immediate interest to EPRINC are the prospects for expanded oil and gas production from domestic reserves, the operation and regulation of the Mexican petroleum products market and relevant developments in the production, importation, and use of natural gas within the national economy.

Forthcoming Research Projects Include:

1. An analysis of the Mexican gasoline market: supply, distribution infrastructure, and price formation. This will include a section on how to think about supply security and how Mexico fits into the Atlantic Basin refinery supply chain.
2. Policy trends and developments in Mexico's upstream sector; understanding the role of PEMEX and private investment. This will include an assessment of the costs of benefits



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of alternative development strategies, including risk diversification for exploration and development in the upstream sector.

3. Regulatory barriers to natural gas pipeline development, implications for Mexico's power sector and consumer power prices. The paper will include a discussion of the importance of the Mexican market to U.S. producers and alternative approaches for addressing Mexico's energy security concerns.

Other topics of interest include:

- Mexico's energy security risks and opportunities
- Role of oil and gas industry in Mexico's economy
- Outlook for oil and gas production in Mexico
- Policy trends and developments across all segments of Mexico's energy value chain (upstream, midstream, and downstream)
- Energy price mechanisms and structures
- Mexican oil and gas production developments
- PEMEX and CFE's roles and implications for Mexico's energy sector
- Regulatory barriers to natural gas pipeline development and the implication for Mexican power sector and consumer power prices
- Research national legislation and domestic industry regulations governing energy sector developments in Mexico



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