

EIC COUNTRY REPORT

MEXICO

Executive summary

The prolific Bay of Campeche can be credited for Mexico's position as a key player in the oil and gas industry. Ranked as the eighth largest oil producer globally, the country has an average production of 1.7MMbbl/d and a proven resource of 7.7 billion barrels of oil. It is the world's 15th largest economy; with a population of approximately 128 million, and total area equivalent to nearly four times all Central American countries combined. Its economy is both the United States' third largest source of imports and second largest export market.

More than half of Mexico's total power generation capacity is derived from natural gas-fired, combined-cycle power plants. Its renewable energy sector is the fourth largest in the Americas - though it is only a fraction (7.2%) of the neighboring United States' renewable energy production. There is abundant, untapped natural resource - particularly for solar and onshore wind generation - and potential for future development of floating offshore wind facilities in Gulf waters. Power transmission and distribution services are limited to the state, which effects cost increases from inefficiencies across the system. As the country's total energy consumption has ballooned by almost 70% over the past two decades, Mexico's national electric system development program has implemented plans for the modernization of its national electricity infrastructure, including proposals in place for tenders to

build five transmission lines with a total required investment of approximately US\$6.6bn.

The country endured a decade of economic instability in the 1980's, and thereafter a 6% plummet in GDP during the global economic crisis of 2008. Six years later, the country opened its oil and gas industry to foreign investors via farm-outs and auctions for development rights of onshore and offshore acreage. Mexico has since maintained relative economic stability - though with significant challenges, such as growing income inequality and corruption. The country's GDP is projected to remain low amidst low oil prices, structural issues, and falling domestic oil production. Mexico's energy reform facilitated the entrance of new exploration and production (E&P) players, as Pemex no longer holds a monopoly over the oil and gas industry. It paved the way for over US\$11bn of international investment and plans for an additional US\$37bn over the coming years. Eni and Talos, BHP Billiton, and Fieldwood Energy are now among key operators in the country.

The success of the indebted state oil and gas company Petróleos Mexicanos (Pemex) is vital to Mexico's economic health. Though oil and gas only accounts for 5%-6% of the country's GDP, the federal government is heavily reliant on Pemex for budget revenues. Mexico has pledged a net oil production increase of 1MMbbl/d by 2024 - and allocated US\$23bn to boost domestic production. However, the current administration has taken measures - such as cancellation

of future auctions and suspension of existing JV partnerships with Pemex - that threaten to hinder the private investment necessary to meet this target.

Private investment has shaped the country's power sector since it opened its market. Private companies now own 43% of the country's 89.2GW total installed capacity; as well as 30.5GW of planned capacity. Despite the cancellation of clean energy tenders in early 2019, Mexico plans to reach 30% renewable energy by 2021 and 35% by 2024. Strategic incentives - such as soft loans, and tax reliefs - are in place to create the environment necessary to meet these targets.

Mexico's modern and complex democratic economy underpinned by a history of bureaucracy, nationalism and corruption still presents challenges when doing business in the country. Nevertheless, Mexico has attracted significant foreign direct investment in the last five years, as investors have sought to take advantage of the convertible currency, low taxation and labor costs, and duty-free access to the US and Canadian markets.

International companies have significant market opportunities to participate in major projects, sub-contracts, and sales with government, the indigenous supply chain, and international players across Mexico's oil and gas, power and renewables sectors.



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