

POLICY BRIEF

What Happened to Mexico's Burgos Shale? Developments, Strategies, and Policy Options

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STATEMENT OF ISSUE

The Burgos Basin offers a fascinating space to understand changes in Mexico's oil and natural gas production strategies, associated public policies, and stakeholder perspectives on energy developments in the border region. Opportunities in the trans-border region include Burgos' production potential, its proximity to Texas, access to infrastructure, and the post-Reform regulatory framework and contract models as important regional advantages. Challenges that restrict production activities in the Burgos, especially current politics, lack of infrastructure and production inputs in the Basin, negotiating with communities and landowners, narco-violence and security concerns, a cumbersome regulatory framework, and dealing with Pemex and its legacy landscapes.

There is a popular narrative that the Mexican government's ban on hydraulic fracturing is limiting Mexico's ability to produce oil and natural gas. However, despite large estimates of shale gas reserves in the Burgos, the extremely high costs to produce it compared to analogous production in Texas as well as the low price of imported natural gas from Texas suggest that shale and unconventional resources are not the panacea for Mexico that some industry analysts suggest.

KEY FINDINGS

- The Mexican government's ban on hydraulic fracturing has garnered much attention, yet there are ample opportunities for conventional natural gas production in the Burgos as well as offshore production in the Burgos and elsewhere.
- Mexico has and will continue to rely on natural gas imports from Texas. The glut of Texas natural gas, record low natural gas prices and several new import pipelines makes Texas gas much cheaper than liquefied natural gas from Asia or Latin America. At today's prices, there is little incentive for PEMEX or private firms to over-invest in Burgos shale production.
- Lack of infrastructure, inadequate technology, and limited finances forestalled further development projects in the Basin.
- Given the difference in number of steps required to reach production, the oil and gas industry favors the Eagle Ford (Texas) production model over Burgos (16 steps versus 11).
- Stakeholders and experts estimate about 10-20 more years of high productivity from the Eagle Ford Shale, leading some to suggest that Mexico import less expensive natural gas from Texas during that period.

POLICY RECOMMENDATIONS

- Rather than remaining fixated on unconventional production, businesses, local and state-level governments and economic development groups should look to conventional natural gas resources in the Burgos Basin. Respondents in the study noted that there are regions in the Burgos where conventional production would be profitable.
- Be patient with the current political and economic situation; stakeholders advise private firms with interests in the Burgos that chances are that favorable conditions are on the horizon.
- Maintaining or re-establishing the integrity of the 2014 Energy Reform is a priority for sector wide growth. Removing uncertainty from the blueprint of contract models, production zones and bids could provide a more sustainable long-term future for Mexico's energy sector.
- Reopen bidding rounds and amend the contract model. Some respondents recommend that the government reopen the contract model and taxing format from 2018, start bidding rounds again, and create a fully independent and transparent hydrocarbon production regulatory body.
- If energy security is a concern, the Mexican government could wait to exploit Burgos reserves until the future, rely on Texas natural gas imports to meet national demand in the short-term, and double down on renewable energy infrastructure and investments.

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