Congressman Treviño is an elected member of the Mexican Federal Congress for the Partido Revolucionario Institucional (PRI), elected to serve from 2012 to 2015. He also serves as the Secretary for the Commissions of Energy and Hacienda, as well as a member of the Commission for Immigration and the Northern Border. Previously he was the Secretario General de Gobierno of the Mexican State of Nuevo León (Lieutenant Governor) from October 2009 to February 2012.

Treviño began his public service career in 1987 as director of planning in Mexico’s Education Department and later worked as a special adviser to the Press Secretary for the President of Mexico. Congressman Treviño holds a B.A. in International Relations from El Colegio de México and a Master’s in Public Policy from Harvard University’s John F. Kennedy School of Government.
Mexico’s Energy Reform

www.reformaenergetica.gob.mx
Despite an increase in investment in exploration and extraction, Mexican oil production has declined from 3.4 million barrels per day in 2004 to 2.5 million in 2012.

Between 1997 and 2012, natural gas imports increased from 3% to 30% as a percentage of national consumption; this trend has deepened since 2008, due to the decrease of the price of natural gas in North America.

The “Natural Gas Consumption” line reflects the addition of Pemex’s gas production and total imports. The “Natural Gas Production” line reflects Pemex’s total natural gas production, including the gas it uses in its industrial processes and the supply to final consumers.

Gasoline imports represented 25% of total consumption in 1997; by 2012, that percentage had increased to 49%.

Source: Pemex, annual average 1997-2012.
In 1997, Mexico imported 41% of the petrochemicals it consumed; in 2012, 66% of demand was met with imported petrochemicals.

Source: Mexican Energy Ministry, with data provided by Pemex-Petrochemicals and the Mexican Central Bank.
For the first time since 1960, the Mexican oil and gas model embedded in article 27 was amended. The reform enacted 53 years ago, closed most of the hydrocarbons sector to private participation.

Today's energy reform is due to President Enrique Peña Nieto's leadership and the Mexican Congress' commitment by voting the reform with over 2/3 of its members present in both houses.

The constitutional amendment was declared complete by the Mexican Congress when 24 State Congresses voted it favorably (16 of 31 were needed). It was promulgated and published by the President on December 20. More States are expected to approve the reform in the near future.
Reform to articles 25, 27 and 28, with 21 transitory articles allow private investment in up, mid and downstream.

- **Oil and Gas Reserves**
  - The Mexican State, through SENER, manages the country’s oil and gas reserves (selection of bidding areas)

- **Exploration and Extraction**
  - Entitlements granted by SENER to Pemex (Round Zero)

- **Refining and Petrochemistry**
  - Permits for refining and gas processing (basic petrochemistry), granted by SENER to Pemex and/or the private sector

- **Transportation, Storage, Distribution and Commercialization**
  - Permits for all transportation, storage, distribution and commercialization activities, granted by the Energy Regulatory Commission (CRE) to Pemex and/or the private sector
Round Zero for Pemex

1. Pemex will submit to the Ministry of Energy, the entitlement applications for the exploration areas and the production fields that it is able to operate through entitlements. (90 days)

2. The Ministry of Energy, with technical assistance from the National Hydrocarbons Commission (CNH), shall review Pemex’s request, and issue the corresponding resolution. (180 days)

3. Pemex will maintain exploration entitlements in those areas where it has made commercial discoveries or exploration investments. (3-5 year period)

4. Pemex will maintain extraction entitlements in fields in production.

5. Pemex may propose to the Ministry of Energy for its approval, the migration of the allocated entitlements into new contracts.

6. The Ministry of Energy shall determine the technical and contractual guidelines of the bidding round, the Ministry of Finance will establish the fiscal terms, and the CNH shall conduct the bidding round to select the contractor.

1. Transitory Article 6
### Exploration and extraction legal frameworks in the top 20 oil producing countries

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Russia</td>
<td>10,427</td>
<td>Concessions and production sharing contracts</td>
</tr>
<tr>
<td>2</td>
<td>Saudi Arabia</td>
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<td>Concessions</td>
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<td>3</td>
<td>United States of America</td>
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<td>4</td>
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<td>Production sharing contracts</td>
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<td>5</td>
<td>Canada</td>
<td>3,127</td>
<td>Concessions</td>
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<td>6</td>
<td>Iran</td>
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<td>7</td>
<td>Iraq</td>
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<td>8</td>
<td>Kuwait</td>
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<td>Service contracts</td>
</tr>
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<td>9</td>
<td>United Arab Emirates</td>
<td>2,653</td>
<td>Concessions</td>
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<tr>
<td>10</td>
<td>Mexico (Before the Reform)</td>
<td>2,548</td>
<td>Service contracts</td>
</tr>
<tr>
<td>10</td>
<td>Mexico (With the Reform)</td>
<td>2,548</td>
<td>Service, profit or production sharing contracts and licenses</td>
</tr>
<tr>
<td>11</td>
<td>Venezuela</td>
<td>2,479</td>
<td>Concessions</td>
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<td>Nigeria</td>
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<td>Concessions and production sharing contracts</td>
</tr>
<tr>
<td>13</td>
<td>Brazil</td>
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<td>Concessions and production sharing contracts</td>
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<tr>
<td>14</td>
<td>Angola</td>
<td>1,756</td>
<td>Concessions, profit and production sharing contracts</td>
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<td>Norway</td>
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<td>17</td>
<td>Libya</td>
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<td>Production sharing contracts</td>
</tr>
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<td>18</td>
<td>Algeria</td>
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<td>Concessions</td>
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<tr>
<td>19</td>
<td>United Kingdom</td>
<td>890</td>
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</tr>
<tr>
<td>20</td>
<td>Qatar</td>
<td>741</td>
<td>Production sharing contracts</td>
</tr>
</tbody>
</table>

Source: World Rating of Oil and Gas Terms; PFC Energy, Van Meurs Corporation and Roger Oil & Gas Consulting. Production: Oil and Gas Journal (crude oil).
Oil and Gas Exploration and Extraction Contractual Framework

1. Block selection, with technical assistance of the CNH.

2. Technical guidelines of the bidding rounds.
   - Technical design of contracts.

3. Fiscal terms of contracts.

4. Conducts the bidding rounds.
   - Decides on the winning bids.

5. Awards and signs the contracts on behalf of the Mexican State.

6. Technical management of contracts.

Mexican Petroleum Fund for Stabilization and Development

- Public trust fund managed by the Mexican Central Bank, with a Technical Committee: the Finance Minister (Chairman), the Energy Minister, the Central Bank Governor, and 4 independent members nominated by the President and ratified by 2/3 of the Senate.

1. Expenditure Budget of the Federation - PEF (Constant at 4.7% of GDP)

2. Long-term savings (Up to 3% of GDP)

3. If the balance exceeds 3% of GDP, at least 40% of the excess balance will be allocated to long-term savings

- Up to 10% Universal pension system
- Up to 10% Science & technology and renewable energy projects
- Up to 30% Oil and gas project investment vehicle and infrastructure development
- Up to 10% Scholarships, connectivity enhancement projects and regional industrial development

3. Constitutional Article 28 and Transitory Article 14
4. Transitory Article 15
Transparency and anti-corruption policies in oil and gas contracts

1. Bidding rounds and their guidelines will be public.

2. Transparency clauses will be included in oil and gas contracts.

3. Full disclosure of all payments associated to oil and gas contracts.

4. External audits to supervise cost recovery and accounting aspects.

The reform mandates the establishment of legal mechanisms to prevent, investigate, identify and punish actions or omissions against the law, as well as acts of corruption in general in the energy sector.

5. Transitory Article 9
6. Transitory Article 21
Mexico’s Energy Reform

www.reformaenergetica.gob.mx
Mexico’s Constitutional Energy Reform: Approval Process

- On December 12, 2013, the Mexican Congress passed the constitutional energy reform. The reform modified three constitutional articles, and established 21 transitory articles.

- To be enacted, the constitutional reform required the approval of the majority of state legislatures (16 out of 31). Up until December 18th, 25 state legislatures had approved the energy reform:

<table>
<thead>
<tr>
<th>Chiapas</th>
<th>Sonora</th>
<th>San Luis Potosí</th>
</tr>
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<tbody>
<tr>
<td>Querétaro</td>
<td>Jalisco</td>
<td>Chihuahua</td>
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<td>Veracruz</td>
<td>Quintana Roo</td>
<td>Aguascalientes</td>
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<tr>
<td>Estado de México</td>
<td>Coahuila</td>
<td>Nuevo León</td>
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<td>Durango</td>
<td>Nayarit</td>
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<td>Hidalgo</td>
<td>Yucatán</td>
<td>Baja California</td>
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<td>Baja California Sur</td>
<td>Tamaulipas</td>
<td>Guanajuato</td>
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<td>Campeche</td>
<td>Puebla</td>
<td>Sinaloa</td>
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<td></td>
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<td>Oaxaca</td>
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</tbody>
</table>
Constitutional Article 27

With regards to oil and solid, liquid or gas hydrocarbons that are in the subsoil, the property of the Nation is inalienable and imprescriptible and title to oil or other hydrocarbons in the subsoil will not be granted. With the intention of obtaining income for the State that will contribute to the long term development of the Nation, the Nation will be responsible for the exploration and production activities through assignments to state-owned productive enterprises or through contracts with private entities, in terms of the respective Reglamentary Law. In order to comply with these assignments or contracts, the state-owned productive enterprises may contract with private entities. In any case, the hydrocarbons in the subsoil are property of the Nation and this is how it should be affirmed in their assignments or contracts.
State-owned productive enterprises that have been given an assignments or have subscribed a contract to develop activities related to the exploration and extraction of oil and all the solid, liquid or gaseous hydrocarbons, as well as private entities that subscribe a contract with the State or any of its State-owned productive enterprises for the same goal, according to what has been established in this Decree, will be allowed to report for accounting and financial purposes the assignments or corresponding contract and its expected benefits, provided that they acknowledge in the relevant assignments or contract with the Nation that the oil and all the solid, liquid or gaseous hydrocarbons that are in the subsoil belong to the Nation.

The provisions of the preceding paragraph shall apply to Petróleos Mexicanos and its subsidiary entities during the transitional period in terms of the third transitory article of this Decree.
## Benefits of the Energy Reform

<table>
<thead>
<tr>
<th>Benefits</th>
<th>2013</th>
<th>2018</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil production (million barrels per day)</td>
<td>2.5</td>
<td>3.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Natural gas production (million cubic feet per day)</td>
<td>5,700</td>
<td>8,000</td>
<td>10,400</td>
</tr>
</tbody>
</table>

- 1% of additional economic growth in 2018 and 2% by 2025.
- 10 billion dollars of foreign direct investment.
- 500,000 additional jobs in 2018 and 2.5 million by 2025.
- Decreases in the prices of electricity and gas.
Mexico hasn’t capitalized its hydrocarbon potential due to the previous restrictions on investment capacity; meanwhile, the U.S. has benefited from the development of shale oil/gas and deepwater resources by multiple companies.

- In 2012, while only 3 shale oil/gas well permits were awarded in Mexico, 9,100 permits of this sort were awarded in the U.S.
- In 2012, shale gas represented 35% of total natural gas production in the US. In Mexico, there is no shale gas production.
- In 2012, there were just 6 exploratory wells drilled in deepwater and ultradeepwater oil fields in Mexico. Simultaneously, 137 deepwater wells were drilled in the U.S.
- In the US, deepwater oil production surpasses 1 million barrels per day. In Mexico, there is no deepwater oil production.

Oil and gas production in the United States

* January - July 2013.
Oil production in Mexico and the U.S.

* Average production January-April, 2013.

Volume of total Mexican oil exports and volume of oil exports to the U.S.

Source: Energy Information System with data from Pemex.
* Average January-October, 2013.
Oil revenues generated by the energy sector in Colombia

If the current trend continues, Mexico will become a net importer of oil, natural gas and oil products over the next few years.

Sources: National Hydrocarbons Commission with information of the Mexican Central Bank.
Strengthening of Pemex

- Pemex will be transformed into a “Productive State-Owned Enterprise”, with budgetary, technical and operational autonomy (2-year transition).\textsuperscript{7}

- There will be a “Round Zero” to ensure Pemex’s exploration and extraction investment portfolio.\textsuperscript{8}

- Associations in exploration and extraction of oil and gas, refining and petrochemistry.

- Pemex will have a new corporate governance structure, in line with international best practices.\textsuperscript{9}

- Pemex’s new Board of Directors will be composed of 5 board members representing the Federal Government (including the Energy Minister who will chair the Board), and 5 independent board members.

- Pemex will have a more flexible and competitive fiscal regime, so it can retain a larger share of its profits for reinvestment.\textsuperscript{10}

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7. Constitutional Article 25  
8. Transitory Article 6  
9. Transitory Article 20  
10. Secondary Legislation