Mexico's Huge Oil Reserves Now Open to Private Exploration

Four years ago Enrique Peña Nieto promised while running for president of Mexico that, if he were elected, he would open the country's energy industry to the private sector. At the time his promise was almost laughable. While he did win the election, his party controlled less than 40 percent of the Congress, below the 50 percent needed to gain any kind of traction for his promise, and far below the two-thirds majority needed to attack the root cause: a constitution that prevented any outside competition to either of its state-owned oil (Pemex) or electricity (CFE) monopolies. He also faced enormous political pressure from leftist labor unions, environmentalists, and beneficiaries of the various welfare-state programs that revenues from Pemex were funding.

But within two years he had accomplished the impossible: Articles 28 and 29 in his country's constitution were modified, allowing private producers in to explore, extract, refine, transport, store, and distribute crude oil and natural gas. This included allowing private companies to bid to generate electricity in competition with CFE.

Pemex was formed in 1938 with the remnants of foreign oil companies that were nationalized by Mexico's then-President Lázaro Cárdenas. And the memories of that takeover still lingered.

But when he announced the new freedom to open bidding for oil and gas leases in the Gulf of Mexico, Nieto said:

> Reforms are the foundation for building a better country. They are [the] platform for beginning a new stage of development….
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> One of the key elements of the reform is to enable competition in the market. Competition should bring better prices to industry, which, in turn, can be more competitive, increasing exports, generating new employment and reducing prices in the local market.

He described the lifting of the heavy hand of the state from his country's energy industry as "knocking down the walls": "If we really want to achieve change in these [industries], then this has to be a structural change … we have to be the government that knocks down the walls that are in the way of achieving a more equitable and just society."

Within weeks of Nieto's announcement in August 2014, the U.S. Energy Information Administration (EIA) adjusted Mexico's oil and gas projections upward by 25 percent and then, as foreign interest in developing Mexico's vast untapped reserves began to surface, it readjusted them once again, this time by 75 percent.

It took time for the improvement in production to take place, not only because of the new rules that the government was tasked to write to incorporate the new freedoms, but because of the enormous decline in crude oil and natural gas prices set off by OPEC's decision in November 2014 to flood the market.

But now, with the recovery in oil prices, interest in the nearly 1,000 oil and gas leases of Nieto's country has skyrocketed. In August Exxon Mobil joined with Chevron and Hess to bid for rights to drill in Mexico's deep waters. They will be competing with 20 other companies which have set their sights on the same leases, with the winner to be announced on December 5.

This has excited investors, with *Business Insider* calling it a "huge opportunity." On Saturday James Stafford, writing for Oilprice.com, declared: "Welcome to the early stages of an oil and gas game that will be bigger … than anything in history. Mexico's reform legislation … provides an unprecedented opportunity for oil companies looking to tap into Mexico's huge oil potential."

International Frontier Resources Corporation (IFRC), a Canadian oil development company, estimated those untapped Mexican reserves "could total as much as 115 billion barrels … [thanks to] the denationalization of 914 oil and gas leases."

According to the CIA's 2015 *World Factbook*, Mexico had less than 10 billion barrels of proven reserves as of December. If IFRC is correct, Mexico's new proven reserves would jump to 125 billion barrels, placing it ahead not only of the United States (with 36 billion) but also the UAE (98 billion), Russia (103 billion), and Kuwait (104 billion).

As Stafford concluded: "Right now, there is nothing bigger than Mexico when it comes to oil and gas sales. We're talking about North America, large oil reserves, good infrastructure and discoveries that are already in development."

Once the heavy hand of the state is lifted from the economy, it's positively astonishing what the free market can accomplish. Not only investors, but also lovers of freedom, are watching events unfold south of the border with great anticipation.

An Ivy League graduate and former investment advisor, Bob is a regular contributor to The New American *magazine and blogs frequently at LightFromTheRight.com, primarily on economics and politics. He can be reached at badelmann@thenewamerican.com.*