

# Trillion-dollar border bonanza in store thanks to Mexico oil reform -- economists

Nathanial Gronewold, E&E, 10-29-14

HOUSTON -- The opening of Mexico's oil and gas industry will bring more than \$1 trillion to Texas and northern Mexico's economy and could even significantly reduce illegal border crossings by Mexican job seekers, a new economic report predicts.

New reforms to the Mexican Constitution will permit foreign direct investment in all facets of that country's energy sector for the first time in decades. Lawmakers in Mexico are expected to spend the next year crafting a series of secondary laws detailing how profit sharing and private investment will be allowed, while officials at the state-owned oil and gas monopoly Petróleos Mexicanos (Pemex) set a course for the future of that company.

Oil and gas firms are mainly in a waiting mode, and there's some lingering skepticism over just how much private capital stands to gain from Mexico's historically closed energy industry. But a team of economists at BBVA Compass, a banking and finance company active in the Sun Belt, believe the new reforms will have a far broader impact than most currently appreciate.

Over the next decade, they predict \$1.2 trillion worth of economic impact will be felt in the region as companies flood into Mexico's offshore Gulf of Mexico territory and its portion of the Eagle Ford Shale, the bank's analysts say. Investment will likely move toward offshore oil and gas first, they predict, with the first leases for offshore acreage arriving as early as 2015.

Most of the economic benefit will occur along the Texas-Mexico border, they say in their report. It's predicted that a surge of investment into oil and gas will grow the ranks of the middle class living in northern Mexico, benefiting U.S. exporters and narrowing the economic gap between Texas' Rio Grande border communities and its richer municipalities like Houston and Dallas-Fort Worth.

"We are going to see opportunities at every stage of the energy industry," said BBVA Compass economist Marcial Nava. The constitutional changes will prove "good for the U.S., this is very important to mention," he added.

The \$1.2 trillion economic boost predicted to happen thanks to the constitutional reform will expand the quantity and quality of employment opportunities in northern Mexico. This "could potentially reduce illegal immigration," the bank's analysts say in a presentation discussing their economic forecast.

Nava believes the reforms -- which also include changes to Mexico's power market -- will increase Mexico's already strong economic growth rates by 1 to 1.5 percent of the nation's gross domestic product. Foreign direct investment volumes of \$20 billion to \$30 billion annually are projected. The bank also cites a government estimate of about 2.5 million jobs created in Mexico by 2025 to back up its prediction of a curbing of illegal immigration caused by the new legislation.

Though Mexico is eager to begin exploiting its gas-rich portion of the Eagle Ford Shale, BBVA Compass economists see investment moving early to the offshore oil and gas sector. By mid-2015, Mexican officials should be finished crafting their secondary laws, "then we will start seeing the first bids for licenses on deepwater acreage," Nava said.

He predicts the first new drilling activity in the Gulf of Mexico resulting from the reform package could be seen as early as 2016. The vast majority of Gulf industry activity is currently found on the U.S. side, while Mexico hosts only 5 percent of total deepwater rigs.

Shale oil and gas exploitation would follow shortly after, paralleled by a surge of pipeline construction, primarily for moving natural gas to industrial users and power generators. Natural gas production in Mexico could double by 2025 due to new investment, the bank's analysts believe.

Nava also predicts Pemex will quickly seek out new joint ventures with mainly U.S.-based oil and gas companies "to boost recovery rates in already mature fields."

### **'Cultural victory'**

Last week Gustavo Madero Muñoz, leader of the Mexican opposition National Action Party (PAN), gave a speech at an event in Houston sponsored by the international law firm Mayer Brown. During his remarks, Madero explained to business leaders why his party was so cooperative with the ruling Institutional Revolutionary Party (PRI) to pass the energy reform package in record time. Mexico surprised many observers by swiftly drafting and enacting the constitutional changes shortly after PRI leaders recommended them.

Madero said that his party took a calculated risk in allowing the reforms to take place and that it was worth it. The economic boost he and others expect from opening up Pemex and Mexican utilities would prove a "cultural victory" for PAN. He said his party was determined to make the secondary laws now being considered "ironclad."

"This is a change of the players, of the rules of the game, and a complete change of terrain, and it will be a new era in the industry, in the energy sector," Madero said through an interpreter. "These will allow Mexico to have greater levels of investment, reduce the cost of the energy industry and have better industrial development in order to bring more companies in, better job opportunities, better economic growth and better profits for the petroleum sector.

"We surprised ourselves considerably," he said.