

Houston's Baker consultancy rewrites Mexico's official energy narrative

How society advances with new energy technology, starting with the domestication of maize, beans and squash

HOUSTON, TEXAS, USA, August 5, 2024 /EINPresswire.com/ -- In a pair of new reports, the Baker consultancy rewrites Mexico's narratives regarding energy supply from antiquity to the incoming administration of Claudia Sheinbaum. "The arguments in these reports challenge the official energy narratives, which, since 2018, have discouraged private investment," says George Baker, principal investigator of the newsletter Mexico Energy Intelligence (MEI), which has been published in Houston since 1996.



Title of MEI 967.1 Step Changes Energy Supply in Mexico

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Foreign investors in 2014 heard 'energy reform' as an admission of prior policy errors, but there were no such admissions and no intent to isolate the energy sector from presidential disruptions”

George Baker

In [MEI 967.1](#) step-by-step changes in energy supply are plotted (Fig. C). "It was the step change from foraging to agriculture and the domestication of maize, beans, and squash that provided the surplus calories that were needed for the immense work of building the cities and future UNESCO World Heritage Sites of the Classical Era," observes Baker.

Where historians have focused on the Conquest as a stunning display of military leadership and occupation, and as a demographic catastrophe for Indigenous peoples, in

this report the Conquest is seen as a step change in energy supply: just the horse, wheel and cart would have reenergized the Mexican economy. European diseases and depredations, however, canceled benefits for most populations.

A step change centuries later was the industrial revolution with its concomitant premium on oil supply. The economic policies and mining codes of Porfirio Díaz brought about an oil boom that

put Mexico on the map as a supplier to a global market. British warships would depend on Mexican oil during World War I.

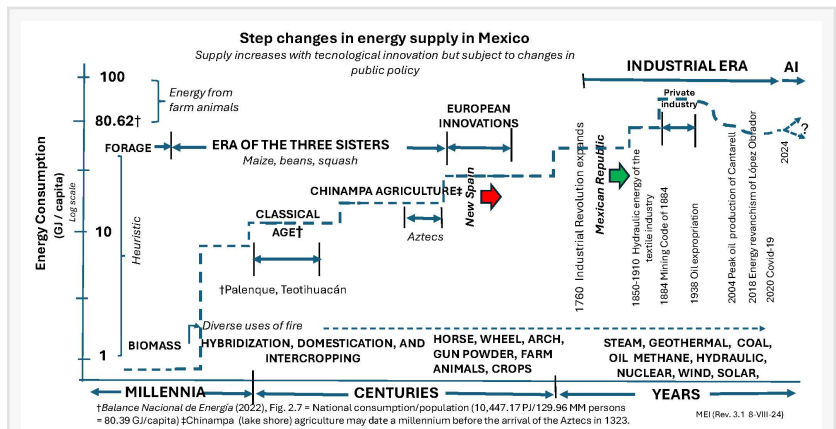
Within 25 years, however, there was a populist backlash against those policies that led to civil war. In 1917, an ad hoc assembly meeting in Querétaro carried out a major rewrite of the constitution. In the text of Article 27, subsurface resources were socialized, severing surface rights from mineral rights. The change that put in doubt an oil or mining company's rights to its reserves, a key metric of its success and commercial outlook.

Twenty years of inconclusive negotiations ensued. In 1938, turning a labor dispute into an issue of national sovereignty, the populist President Lázaro Cárdenas expropriated the oil industry and created a 100% state-owned, integrated oil company to take the place of the international companies.

In the Energy Reform of 2013-18, the government conducted oil and power auctions and opened markets to private investment in ways that increased the outlook for energy supply. This outlook turned negative after 2018, however, under populist President Andrés Manuel López Obrador, who has privileged state companies over private investors.

Going forward, the report proposes that the next administration that is to take office in October should adopt a policy of sub-leasing, or "farm outs," which would allow current and future oil leaseholders to seek third parties to develop portions in legal subdivisions of their blocks, while retaining an overriding interest in future production during the term of their respective contracts. As society benefits from its subsurface resources in proportion to the area under active exploration, this measure would allow exploratory activity to increase even while lease auctions were suspended.

Also proposed is a [second national oil company](#), one which, along the lines of Mexico's first mixed-equity oil company, Petromex, S.A. (1934-38), would have professional management and market capitalization. The new company would have oil companies as partners and would focus on frontier areas of deep water and shale.



MEI 967.1 Fig C Step-by-step changes in energy supply in Mexico



Title of MEI 983 Linguistic Risk in Foreign Investments

In the second report, [MEI 983](#), researchers ask why investors in Mexico during the Energy Reform—as well as the authorities in the energy and finance ministries who marketed the investment opportunities—failed to recognize the weak institutional foundations of the reforms. “Investors and public authorities mistakenly believed that energy regulators, strictly on the basis of their legal and constitutional mandates, could sustain a robust business framework,” asserts Baker.

The report discerns that those prospective investors, faced with a lexicon of unfamiliar terms, misheard and misread government speech and intentions. “Foreign investors in 2014 heard ‘energy reform’ as an admission of prior policy errors, but ‘reformat’ means ‘to edit or amend.’ There were no such admissions and no intent to isolate the energy sector from presidential disruptions,” observes Baker.

The report concludes that the “Property Clause” of Article 27 will not serve as the foundation for any oil regime that would induce the supermajors to give Mexico a second chance. “The Energy Reform was a sophisticated, but unsuccessful, attempt to create a workaround of Article 27,” he concludes.

Finally, the researchers discern that increasing energy supply will not guarantee economic development, social welfare, or environmental stewardship.

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