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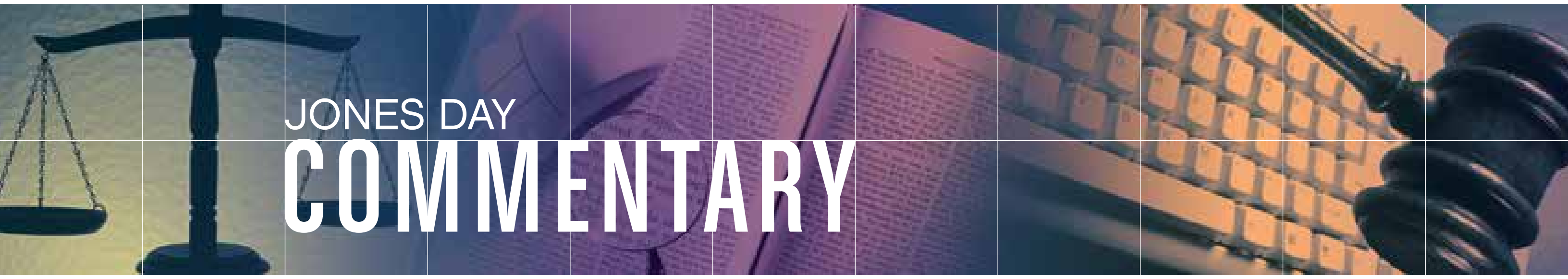

MEXICAN CONGRESS APPROVES BILL TO OPEN OIL AND GAS SECTOR TO PRIVATE INVESTMENT

On December 16, the Mexican Congress and the majority of the states' legislatures approved a bill reforming the legal framework for the Mexican oil and gas sector (the "Energy Bill"), which became effective on December 21 after publication in the Mexican Official Gazette. The Energy Bill represents a major change in the sector and a huge step toward expanding and modernizing the industry. It also creates significant opportunities for private investment in Mexico.

By modifying Articles 25, 27, and 28 of the Mexican Constitution, the Energy Bill allows private participation in Mexico's oil and gas industry. Although the constitutional amendments do not actually privatize *Petróleos Mexicanos* ("Pemex"), they open upstream, midstream, and downstream sectors of the oil and gas industry to private investment.

The Energy Bill features four main reforms to the oil and gas industry: (i) it calls for the creation of specific government companies for the development of new reserve fields; (ii) it allows private entities to enter into profit-sharing agreements and production-sharing contracts for upstream activities; (iii) it permits certain federally permitted private investors to participate in the midstream and downstream industries of Mexico's oil and gas sector; and (iv) it creates the Mexican Petroleum Fund.

In essence, the Energy Bill will have the following effects on the Mexican oil and gas industry:

- Mexico will continue to own all hydrocarbons in the ground.
- Private parties will be allowed to enter into profit-sharing agreements and production-sharing contracts to explore for, develop, and produce hydrocarbons, with compensation based on participation in the sale of hydrocarbons.
- A private investor who signs a profit-sharing agreement or a production-sharing contract for a field will be allowed to book reserves.

- Special purpose governmental vehicles ("SPGVs") will be created and assigned to specific oil and gas fields, and the relevant SPGV will be a party to the applicable profit-sharing agreements and/or production-sharing contract.
- Through permits granted by the Ministry of Energy, private entities will be allowed to participate in the refining, processing, transportation, storage, and distribution of hydrocarbons.
- The current restriction on private-sector investment in the petrochemical industry (production of ethane, propane, butane, pentane, hexane, heptane, and methane, among others) will be eliminated.
- The Mexican Petrolum Fund (*Fondo Mexicano del Petróleo*) will be organized as a trust to manage and distribute the Mexican government's income from the oil and gas sector.
- The National Commission of Hydrocarbons (*Comisión Nacional de Hidrocarburos*) will be responsible for organizing and conducting bid rounds for profit-sharing agreements and production-sharing contracts.
- Pemex will have the right to select the fields that it wishes to explore and develop, through a "round zero," before private investors are allowed to bid for fields. Only fields that are not currently operated by Pemex will be eligible for private investment.

Following ratification of the Energy Bill, the constitutional amendments will be supplemented through secondary laws, which must be approved within 120 days. The Mexican Petrolum Fund will be incorporated once these secondary laws have been approved.

LAWYER CONTACTS

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