MIRANDA INTELLIGENCE

Mexico Energy Chatter

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Fracking: From Verboten to Viable?

President Claudia Sheinbaum has taken another big step away from AMLO's staunch anti-fracking position, announcing that her government is exploring the use of hydraulic fracturing to tap Mexico's shale assets using more environmentally sustainable methods. In today's volatile geopolitical context, Sheinbaum's prioritization of energy sovereignty over environmental protection seems to have broad support — despite reversing her predecessor's policy.

A year ago, the government's strategic plan for Pemex 2025-2030 already flagged the option of exploiting unconventional gas reservoirs (around 57% of the country's 113 billion barrels of oil-equivalent prospective reserves sit in unconventional plays according to Pemex data) as a way to reduce Mexico's dependence on US natural gas imports, currently about 75% of total consumption.

The administration's April 8 strategy presentation laid out a three-pillar plan to reduce dependency by accelerating renewables, boosting conventional gas extraction in the south, and evaluating unconventional shale development in the north, with a committee of scientists given two months to assess environmental feasibility. Pemex CEO Víctor Rodríguez outlined ambitions to grow national gas output from 2.3 Bcf/d currently to more than 4 Bcf/d by 2030 and potentially 8 Bcf/d by 2035, with unconventional fields contributing an estimated 1.15 Bcf/d by 2030 and 3.2 Bcf/d by 2035.

Putting aside the environmental issues, fundamental questions remain about economic feasibility. Does Mexico have an adequate regulatory framework to attract the necessary financial investment? Does Pemex have the operational capacity and know-how to oversee and sustain production? What will be the role of Pemex and private players?

On the regulatory front, Sheinbaum's proposed contractual model preserves state primacy (royalties paid first, Pemex retaining the largest production share) while carving out a role for private partners under the existing legal framework. The recently approved infrastructure investment law adds a potentially useful contracting layer, particularly its Specific Purpose Vehicle structure and the ability to initiate procurement before budget is fully committed, but it explicitly defers energy sector investments to the existing hydrocarbon law. Current contract terms cap annual cost recovery at 30–40%, too low to attract companies facing the heavy upfront investment costs unconventional drilling demands.

This was among the concerns noted by AMEXHI, the 23-member hydrocarbon industry association, in a statement responding to Sheinbaum's plan. While welcoming the gas strategy as vital to energy sovereignty, the association identified three essential conditions: regulatory certainty, competitive fiscal frameworks, and physical security in operating zones — a pointed reference to organized crime activity in the northern shale basins.

On the operational side, some researchers are skeptical. Shale gas wells decline sharply (output can fall more than 35% in the first year without continued investment), requiring constant new drilling just to hold production steady. Hitting the government's targets would require 2,000 to 3,000 new wells; Pemex drilled only a few dozen in all of 2025. Past unconventional extraction efforts at Chicontepec (where Pemex invested over $4 billion and fell far short of production targets) serve as a cautionary precedent.

The environmental issues remain significant, starting with water resources: 85% of the potential fracking sites are in medium to high water-stressed regions in the northern states of Coahuila, Tamaulipas and Nuevo León. Researchers note that more water-efficient fracking techniques do exist, but they are rarely used because they increase costs in a business with tight breakeven economics. Well integrity data suggests 5% of fracked wells leak immediately, rising to 50% after 15 years. The director of exploration and extraction for Pemex, Octavio Barrera, said at the National Petroleum Convention this week that the company is committed to utilizing sustainable techniques to mitigate ground and water contamination and reduce water usage by utilizing non-potable sources and recycling water.

Meanwhile, Mexico's environmental regulator saw its budget cut by nearly 40% in 2025, raising doubts about its capacity for enforcement. Critics also note that since Pemex lacks its own fracking technology, any serious effort would depend on contractors like Halliburton, SLB, and Baker Hughes — companies that would bear few of the risks and consequences for affected communities.

The government's willingness to explore fracking is welcome, and politically meaningful, but the gap between ambition and execution remains wide; on contractual terms, on Pemex's operational capacity, on environmental oversight, and on the physical security conditions required to deploy capital in the country's northern basins.

Pemex Putting Out Fires

A fire at the storage pit near the coker unit of Pemex's Olmeca refinery in Dos Bocas on April 9 has renewed serious questions about operational safety at Mexico's newest and most expensive refining asset. President Sheinbaum confirmed an investigation is underway and said the likely cause is the high temperature at which petroleum coke exits the coking unit — noting that the fire broke out in the first storage area where freshly processed coke accumulates.

This fire did not occur in a vacuum; it is the latest in a series of operational problems at the facility. The most serious occurred on March 17, when a fire sparked by hydrocarbon-contaminated floodwater killed five people. Industry experts have noted that two fires in such a short period are unusual, and that Pemex may need to reduce operations to determine the root cause. In late January, fire events tied to process line containment failures also triggered emergency shutdowns. Rating agency Fitch, in affirming Mexico's sovereign rating at BBB- with a stable outlook, specifically cited fires and floods at Dos Bocas as evidence of the challenges facing Pemex's downstream operations.

Pemex's own Strategic Plan 2025-2035 explicitly warned that rising coke production across the national refining system could threaten operational continuity, a risk now visibly materializing at Dos Bocas. Before the refinery came online, the national system produced around 40,000 barrels per day of coke; that figure has since risen to 77,500 bpd — a 94% increase in under two years — with Dos Bocas alone accounting for 29,000 bpd in February, more than a third of the total. As early as mid-2024, former energy regulator Francisco Barnés de Castro warned publicly about the lack of infrastructure to handle coke output at the refinery: "What will they do with 8,000 tonnes of coke per day? A 30-tonne truck would have to enter every five minutes to remove it, and there is no port or railway to do so." There is still no such infrastructure in place.

Pemex plans to invest around MXN 3.54 billion during the current administration to build a second coke processing train, which it estimates would raise daily coke removal capacity from 6,224 tonnes in 2025 to 7,771 tonnes by 2035. But that investment is still ahead of it, and the commercial problem compounds the operational one: in February 2026, Pemex exported 80,500 bpd of "other products" — including coke — up 69% year-on-year, yet revenues from those exports totaled only $81.8 million, just 20% of total petroleum export revenues. Coke is a low-value byproduct, and producing more of it at scale does not easily translate into financial returns.

These recent incidents sit within a much broader pattern of infrastructure deterioration across Pemex's entire system. Data reported by El Economista shows that hydrocarbon spills and leaks held steady at between 153 and 223 per year from 2013 to 2017, then jumped abruptly to 912 in 2018 and have remained elevated above 1,000 events annually in most years since. The level in 2024, despite a modest decline from the 2023 peak, remains more than four times the pre-2018 average, suggesting the problem has become structural rather than episodic.

The broader context makes these incidents particularly concerning. The Olmeca refinery was designed specifically to address a decades-long weakness in Mexican refining: none of Pemex's other six refineries, built between 1914 and 1979, were originally designed to process fuel oil, a low-value byproduct that has generated heavy losses for the company's refining division for years. AMLO's new refinery was supposed to fix this problem, but experts say it was built without a master plan — individual contractors constructed separate units that were never properly integrated — and has cost over $19 billion, more than double its original 2018 budget. It still lacks key infrastructure needed to reach its projected 340,000 bpd capacity, though throughput of around 205,200 bpd in February represented genuine year-on-year progress. The accident record and the unresolved coke logistics problem suggest that progress remains fragile.

Pump Prices: Pact or No Pact?

The Sheinbaum administration is continuing to pressure fuel retailers to comply with price caps as international oil prices rise, combining voluntary industry agreements with public enforcement measures and direct warnings from the president herself.

Sheinbaum this week confirmed that without government intervention, regular gasoline would currently cost over MXN 30 per litre and diesel MXN 32–33, citing global crude prices in the range of $100 per barrel due to the Iran conflict. The government is absorbing some of the gap through tax subsidies to try to hold regular gasoline at MXN 24 per litre and diesel at MXN 28.28 per litre — a fiscal effort that, according to the president, is costing the government around MXN 5 billion per week. Sheinbaum warned retailers directly: "Nobody should take advantage of the current international situation. Nobody. We must support families."

The president announced she will convene a meeting this week with petrol station owners, producers, SENER, Pemex, Profeco, and the Treasury to review pricing compliance; not just on fuel, but also on basic food staples like tomatoes and beef, which she acknowledged have also gotten more expensive.

On the enforcement side, Profeco head César Iván Escalante announced the immediate launch of inspection tours across most states, with large banners to be placed at stations that are charging above the agreed price caps, reviving a "name and shame" strategy used the previous year. Consumers will be able to consult a real-time price map and QR code on the Profeco website to identify non-compliant stations.

Onexpo, the national petrol station association, has meanwhile called on its members to voluntarily adhere to the price cap agreement, while reiterating its concern that measures need to be "balanced" — supporting price stability without undermining the viability of fuel supply across the country. The association noted the current week's diesel price had held below the MXN 28.28 cap, suggesting broad but not universal compliance, which is precisely what the Profeco enforcement drive is designed to address.

The episode illustrates a tension running through Mexico's energy policy more broadly: the government is deploying significant fiscal resources to shield consumers from international price shocks, while struggling to ensure that the benefits of those subsidies are actually passed through to the pump rather than captured by retailers.

At the same time, the government appears relatively unconcerned about the extent to which undermining the free formation of prices weakens signals for capital allocation and future investment. Over time, distorting that signal does not simply affect current pricing; it also risks discouraging private sector commitment, reducing incentives to expand capacity, and complicating the investment decisions needed to support long-term supply and growth.

In other energy news…

USTR sets the tone ahead of the USMCA review: The Office of the United States Trade Representative used its 2026 National Trade Estimate to sharpen its critique of Mexico's energy policy, arguing that recent reforms have consolidated a model that privileges Pemex and CFE while constraining private participation. The report highlights shorter permit durations, restrictions on fuel logistics such as transshipment bans, and more than US $2.5 billion in unpaid obligations from Pemex to suppliers, framing these elements as evidence of a structurally uneven playing field.

The timing is as important as the substance. With the USMCA review scheduled for mid-2026, the report effectively outlines Washington's negotiating position in advance and reinforces the likelihood that energy will remain one of the most contentious issues on the bilateral agenda. Mexico continues to defend its approach under the banner of national sovereignty, but the trade-off is becoming clearer: a more state-centered model may provide political control domestically, while simultaneously deepening uncertainty for foreign investors and North American integration.

CFE Calificados expands renewables under a controlled market model: CFE Calificados announced the signing of coverage contracts with Copenhagen Infrastructure Partners and Sunstone to incorporate two photovoltaic projects in Campeche into its portfolio, adding roughly 900 MW of solar capacity and 450 MW of battery storage. The projects, La Alegría Solar and La Esperanza Solar, represent one of the most significant recent additions to renewable capacity in the southeast and align with official planning priorities for the region.

What stands out is not just the scale, but the structure. Rather than signaling a return to a liberalized market, the contracts reflect the consolidation of a hybrid model in which private capital participates under state-defined terms. The projects reinforce the narrative that renewables remain part of Mexico's energy mix, but key details around pricing, timelines and interconnection remain unclear, underscoring a broader pattern in which strategic direction is visible, but execution remains the central uncertainty.

SENER's energy fair prioritizes narrative over policy substance: The Energy and Innovation Fair organized by SENER in Mexico City this week brought together public institutions, industry actors and the general public in a two-day event focused on energy transition, innovation and social inclusion. With more than 30 activities including panels, workshops and exhibitions, the initiative was framed as an open platform to communicate the government's vision and promote dialogue around the sector.

Yet the absence of concrete policy announcements is telling. At a time when regulatory changes continue to shape the market, the event functioned more as a legitimacy exercise than a decision-making forum, aimed at broadening public understanding and support for the government's energy strategy. The challenge remains whether this type of outreach will eventually translate into clearer policy signals and implementation.

Global policy momentum reinforces Mexico's structural exposure: The IEA's *State of Energy Policy 2026* report highlights a surge in government intervention worldwide, with public energy spending more than doubling since 2019 to over US $405 billion in 2025, driven by concerns over security, affordability and resilience. The findings place Mexico within a broader global shift toward more interventionist energy policymaking, where state involvement has become the norm rather than the exception.

At the same time, the report underscores the limits of that alignment. Mexico remains heavily dependent on imported natural gas, particularly from the United States, leaving it exposed to external shocks despite its sovereignty-driven narrative. In a context of global energy market turmoil, the tension between policy ambition and structural dependence is likely to remain a defining feature of Mexico's energy outlook.

Pemex boosts refining output, reinforcing the sovereignty narrative: Pemex reported a sharp increase in fuel production in early 2026, with gasoline output rising 26.7% year on year and diesel production nearly doubling. The gains have been accompanied by a significant reduction in imports, particularly in diesel, and a decline in fuel oil production, which the company presents as evidence of operational improvement and environmental alignment.

While the figures strengthen the government's narrative of energy self-sufficiency, they do not resolve the underlying structural questions. Increased refining reduces external dependence in the short term, but also reinforces a model centered on fossil fuels at a time when global energy systems are evolving. The key issue going forward will be whether these gains can be sustained operationally and financially, without amplifying fiscal or environmental pressures.