Mexico Energy Chatter

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Can Trusts Make Mexico Fracking Attractive?

President Claudia Sheinbaum's government will soon receive a response from the committee of specialists tasked with studying the risks and benefits of hydraulic fracturing (better known as fracking). Among its conclusions, the committee is expected to recommend the creation of a specialised trust to channel private investment into shale gas exploitation, according to reporting in El País.

As we have noted in previous editions of this chatter, the country's largest hydrocarbon reserves are trapped in the shale gas basins of northern Mexico, which are extensions of the basins that have driven the United States' energy boom for more than two decades.

Under the proposal, the trust would receive public, private or mixed contributions, with clear rules set out on auditing, oversight and accountability, while also insulating these projects from Pemex's financial situation. Crucially, the state would retain ownership of the hydrocarbons; the trust would function solely as an instrument of financial administration and governance.

The trust does not resolve the environmental concerns that critics of fracking (including AMLO and Sheinbaum in different moments) have voiced for years. But it could still find support among those who believe the Mexican government, through Pemex as a tool of public policy, should retain state control over hydrocarbon exploitation while securing private capital to drive it forward.

Veteran financial analysts are well acquainted with previous attempts to use trusts to attract capital for Pemex infrastructure projects. From the so-called Pidiregas of the 1990s and 2000s to today's contratos mixtos, the national oil company has used trusts to ring-fence project cash flows and ensure payment to service providers. Their success has been mixed: Pemex has repeatedly failed to meet in a timely fashion its payment obligations to some of these trusts, even under rules designed to prevent exactly that — or simply because there was insufficient incentive for companies to develop projects aggressively, as with the Comprehensive Exploration and Extraction Service Contracts (CSIEE), CIEPs or COPFs.

We don't yet know the details of how exploration and production contracts in the shale basins would work, but we do know that the companies that have succeeded in the United States required lean corporate structures and low cost of capital capable of taking on significant risk and moving quickly — extraction here demands drilling thousands of wells before becoming profitable. Mexican gas prices (IPGN) are effectively indexed to Henry Hub plus pipeline transport, since US pipeline imports supply ~70%+ of Mexican consumption. So any Mexican shale project must be economic at ~$3–4 gas, the world's lowest benchmark, while producers in Europe or Asia get $12–16. US fracking simultaneously created the low-price benchmark and the cheap import alternative that undercuts the return for now on Mexican drilling.

Paradoxically, Mexico's best chance may lie in the eventual fading of the very boom that undercuts it. US shale gas is not about to run out, but its cheapest years are numbered: shale gas output recorded its first annual decline in 2024 since records began, and the EIA's latest long-term outlook sees US dry gas production peaking around 2032 at roughly 119 Bcf/d before plateauing, with the Marcellus and Utica cresting in the mid-2030s and the Haynesville maturing on a similar timeline. Enverus, meanwhile, estimates only about six years of Tier 1 drilling inventory remain across North America at current activity levels, with very low-cost supply becoming scarce beyond 2035 — pushing operators into poorer rock and structurally higher breakevens.

If Henry Hub drifts upward as a result, the economics of Mexican shale improve mechanically, since IPGN prices off that benchmark. And Mexico has the rock to matter: the EIA estimates 545 Tcf of technically recoverable shale gas, the world's sixth-largest endowment, some 343 Tcf of it in the Burgos Basin — the same Eagle Ford geology that made south Texas prolific. On that reading, the trust's real test is not whether it can spark a shale boom at $3 gas today, but whether it can have wells, pipelines and operators ready for the 2030s, when the US low-cost machine begins to sputter and someone must supply the gas it no longer will.

The question remains whether a trust alone can answer all the uncertainties surrounding Mexico's bid for its own "shale boom". Using trusts to secure suppliers' payment has not previously convinced companies to invest massively in Pemex, even in areas where the company has far more experience than in fracking, where its own approach in the 2010s was tentative at best. And certainly to begin with, Mexico-based fracking will suffer a far higher cost of capital than the mature US industry faces, given the unproven track record, regulatory uncertainty and higher country risk.

López Obrador banned fracking by decree and let a constitutional reform that would have permanently outlawed it lapse. Sheinbaum defended that position during her campaign, and Morena built part of its identity on rejecting Peña Nieto's energy opening. The government now needs to explain why a trust involving private capital isn't what it promised to combat. The official narrative points to "sustainable fracking" backed by a scientific committee — an argument many environmentalists and NGOs have already rejected. But all of that might be irrelevant if Mexico fracking cannot attract for now enough private capital to reach critical mass.

A Rapid Fall From High Office

Former Pemex CEO Víctor Rodríguez Padilla was detained by police on 7 July, days after the release of a video showing him assaulting his wife, María Felicia Jiménez, in their home. Per Mexico's Registro Nacional de Detenciones, the arrest was carried out by investigative police in the Narvarte neighbourhood of Mexico City's Benito Juárez borough.

The case had been unfolding for roughly two weeks. Jiménez first posted the video to her personal YouTube account on 26 June — footage showing Rodríguez pulling a green briefcase from her hands, pushing her onto a sofa and striking her while their young son, present in the room, retreated to the staircase; she later deleted the recording. On 2 July, Morelos state prosecutors confirmed they had activated protective measures for Jiménez, including patrols covering both her and her children whenever they are in the state, according to prosecutor Fernando Bluemenkron.

The scandal had already ended Rodríguez's brief return to public life before his arrest. He stepped down as Pemex CEO in May, replaced by Juan Carlos Carpio Fragoso, and had been introduced internally as the incoming director of the National Institute of Electricity and Clean Energy (INEEL) before the abuse allegations surfaced. President Sheinbaum subsequently confirmed the appointment would not go ahead, while SENER clarified his designation had never been formally completed.

The episode brings not only personal scandal but a governance setback for Mexico's energy sector. Rodríguez's exit leaves another senior energy institution facing leadership uncertainty and reinforces the administration's effort to project zero tolerance toward misconduct by senior officials — though the speed of events (allegations surfacing, appointment scrapped and a formal arrest, all within under two weeks) also raises questions about how thoroughly the INEEL appointment was vetted beforehand. Separately, reports that Rodríguez's earlier departure from Pemex may have reflected internal disagreements over the potential return to fracking point to broader policy debates still unresolved within Mexico's energy establishment.

Refining Regression

Pemex's refining recovery stalled abruptly in May, undercutting the momentum it had trumpeted only weeks earlier. The Sistema Nacional de Refinación processed 941,158 barrels a day of crude, down 11.8% from April and the first month below 1m bpd since August — a nine-month low. Petrol output fell to 321,469 bpd, its weakest since January 2025; total refined products dropped 9.1% to 951,166 bpd; and system utilisation slid to 47.5%. Diesel output fell 11.2% year on year, its first decline in five months, while petrol imports climbed to a 17-month high of 418,400 bpd — roughly 54% of domestic sales.

Five of seven refineries processed less crude than in April. Minatitlán fared worst: throughput collapsed 52.5% to 56,646 bpd, its lowest since August 2021, running at barely a fifth of capacity after switching from almost entirely heavy crude to a 50-50 heavy-light blend. Salina Cruz fell 40.2% to 123,900 bpd after an 11 May fire at its Hidros 2 unit injured six people. Dos Bocas slipped just 2.1%, but its petrol output is now down 37.4% from its November peak, amid four accidents between March and June that killed five workers. Madero fell 15.9% and Tula 2.2%. Salamanca was the exception, up 69.1% to 94,216 bpd, though still short of past form.

Sector analyst Ramsés Pech blames the age of Minatitlán and Madero — both over a century old — arguing that deferred maintenance means crude intake must ease to avert a more serious shutdown. Injections of lighter crude, meant to lift fuel yields, have disappointed because hydrodesulphurisation and coking units are not running efficiently.

The slump is a sharp reversal from Pemex's first-quarter report, which showed crude processing up 21.9% year on year to 1.141m bpd — an eleven-year high — with petrol up 29.6%, diesel up 69.9% and fuel imports down 23.3%. The May detail, and the run of safety incidents at the system's oldest plants, suggests those gains were not sustained. Second-quarter results due later this month will show whether the slump is deepening or reversing.

Another Look at Cantarell

Mexico is again considering a revival of Cantarell, the once-dominant Sonda de Campeche mega-field, through its recently signed MOU with Brazil's Petrobras.

Sheinbaum said Pemex and Petrobras are evaluating whether commercially viable reserves exist in a deeper stratum beneath Cantarell — an objective distinct from, though related to, the June MOU covering broader exploration, production, refining and industrial cooperation between the two state oil companies. Rather than pursuing the nitrogen-injection approach previous administrations and private firms have proposed to recover leftover gas (costly, because separating gas from nitrogen is expensive), the new plan would drill through the thick pre-salt layer beneath the field in search of larger, independent reserves — the same geological setting Petrobras has pioneered offshore Brazil, where its pre-salt fields are considered among the most technically complex offshore projects in the world. Sheinbaum specified that Petrobras's role will be confined to the exploration stage: geological and geophysical tools first, to detect possible hydrocarbon accumulations, with wells drilled afterwards only to confirm commercially viable reserves.

Discovered in the late 1960s and brought into commercial development in the mid-1980s, Cantarell peaked in 2004 at 2.136m bpd (nearly two-thirds of national output at the time), following aggressive nitrogen injection widely blamed for accelerating its subsequent collapse. Output had fallen to just 112,000 bpd by Q1 2026, equivalent to 6.7% of current national production and under 6% of the field's own historical peak.

Sheinbaum used the announcement to take a pointed political swipe at her PAN-affiliated predecessors, arguing that Cantarell was overexploited under Vicente Fox and Felipe Calderón, when output exceeded 3m bpd, driven largely to meet US demand; in her view, more moderate extraction would have extended the life of what is, after all, a non-renewable resource. She also criticised the historical decision to inject nitrogen rather than natural gas to maintain field pressure, arguing this later made gas processing more expensive once the gas became contaminated with nitrogen — a claim consistent with the nitrogen-injection critique above, though it places the original policy choice explicitly on those earlier administrations.

Petrobras brings globally recognised expertise in pre-salt and ultra-deepwater development, with its own production reaching 2.4m bpd in 2025. The open question is a genuine geological unknown: whether the deeper structures beneath Cantarell contain independent petroleum systems or are merely extensions of reservoirs already depleted — a determination that will require advanced seismic surveys and, eventually, exploratory and delimiting wells drilled at greater depths before any commercial case can be made. If it pans out, the partnership could reshape Mexico's reserve-replacement strategy for the remainder of the current administration; if not, it adds to a list of Cantarell revival proposals (including the earlier nitrogen-separation gas plans) that have so far gone nowhere.

A Tangled Web of Huachicol

Reporting in both Reforma and El País this week has revealed new details on what is being described as one of the largest known cases of fuel smuggling from the US into Mexico, as investigations continue into the criminal networks behind huachicol fiscal.

According to law enforcement documents reviewed by Reforma, a criminal structure smuggled 144m litres of diesel, petrol and light naphtha through the Matamoros, Tamaulipas customs post between 1 June and 22 July 2025 — equivalent to 2.7m litres a day, the daily throughput of 61 full double-trailer tanker trucks, or enough to fill 42,000 cars' tanks daily. The network filed 291 fraudulent import declarations, mislabelling 1,366 rail tankers of fuel as "calcium chloride solution" to dodge inspection and tax. Once across the border, the fuel moved by rail to Aguascalientes, Querétaro and San Luis Potosí. The FGR named Ferroservicios and Jumandi Group as final recipients — the latter separately linked by the US Treasury to the Cártel Jalisco Nueva Generación (CJNG) —

with customs agency Servicios Aduanales JR allegedly handling the paperwork. Investigators identify that agency's owner, Armando III Riestra Fernández, as the network's head; he has been jailed at Altiplano since January.

Reforma frames the case as evidence that huachicol fiscal doesn't depend on a single criminal group and has been operating across multiple customs offices: this Matamoros network expanded in parallel with the separate ring allegedly led by the Farías brothers, the arrested navy commanders accused of running their own smuggling operation.

The case began to break on 21 July 2025, after an anonymous tip to the FEMDO. A same-day raid on the customs agency seized 17 rail tankers — 15 carrying over 1.6m litres of diesel, two carrying naphtha — leading a federal judge to issue 13 arrest warrants. Seven people have been detained and charged so far, including Riestra Fernández, ANAM verifiers and officials, and Jumandi Group associates; the most recent arrest was customs sub-director Carlos Eugenio Benítez Orta, deported from the US on 12 June 2026. Six suspects remain fugitives.

The latest reporting also points to army involvement. Two of the six fugitives are lieutenant colonels who served as consecutive heads of the Matamoros customs post: Armando Barrera Trujillo (tenure: 1 June 2024–15 July 2025) and Blas Pedro Sarabia García (from 15 July 2025). Reforma notes their command periods coincided with the window in which the illegal fuel flow hit the roads. A third military figure, police lieutenant Jorge García García, former deputy director of customs operations at the same post, is also among those sought. Both lieutenant colonels have sought amparo protection against UIF account freezes: Barrera Trujillo, filing in Mexico City, sought to unfreeze six accounts across four banks and has since pursued appeals while still a fugitive, recovering only the pension portion of one account; Sarabia García, filing in Tamaulipas, secured a partial suspension letting him keep drawing his ANAM salary. Neither amparo has a final ruling.

This case fits a wider pattern of military-linked customs corruption. It surfaces almost exactly ten months after authorities dismantled the much larger network centred on the navy, whose unravelling began when the Challenge Procyon — a vessel that had declared its cargo as lubricant additives at the port of Tampico, also in Tamaulipas — was inspected and found to be carrying fuel instead. That discovery proved the key to unravelling one of the largest criminal corruption scandals of recent years: a network of navy officers, officials and businesspeople who, between June 2023 and March 2025, allegedly coordinated at least 69 smuggling operations across Mexican ports, moving at least 564m litres of fuel illegally (nearly four times the volume implicated in the Matamoros case).

In other energy news...

Fracking Fallout. A report in Milenio this week examines the impact of Pemex fracturing conventional wells around Papantla, Veracruz, as part of the Aceite Terciario del Golfo project in the Chicontepec basin (under way since at least 1996). Documentation obtained by the Mexican Centre for Environmental Law (Cemda) and the local group Corason shows that by 2022, 1,168 of the 2,055 wells drilled in the municipality had been hydraulically fractured — a scale local activists say Pemex has never fully disclosed, despite residents living with the consequences daily.

A 2010 study by the Comisión Nacional de Hidrocarburos itself reportedly flagged the risks of developing the field this way, citing heavy water demand and the proximity of wells to residential areas — risks that, on the ground, have translated into crop contamination from crude spills, methane leaks near homes and schools, and unremediated pipeline damage in some communities.

Agronitrogenados Refuses to Fade Away. The arrest of Gilda Susana Lozoya Austin, sister of former Pemex CEO Emilio Lozoya, has revived one of Mexico's most emblematic corruption scandals. Federal prosecutors accuse her of participating in a money-laundering scheme linked to the 2013 purchase of the Agronitrogenados fertiliser plant, alleging she helped channel approximately US$3.5m in bribe payments through offshore vehicle Tochos Holding before the funds were used to acquire luxury properties in Mexico. A federal judge ruled the arrest lawful but released Gilda Lozoya under conditional measures pending a hearing scheduled for 8 July, after determining prosecutors had failed to demonstrate a flight risk.

The case once again places Agronitrogenados in Mexico's energy and industrial policy debate. The fertiliser complex, acquired by Pemex at a price later criticised as substantially inflated, remains a symbol of the governance failures that weakened Pemex's downstream operations. The renewed judicial activity also comes as the current administration seeks to rebuild Mexico's fertiliser industry through new public and mixed-investment projects — a reminder that efforts to revive the sector continue to unfold in the shadow of one of the country's largest corruption investigations.

Krem-1 Becomes a Long-Term Liability. More than four months after the explosion of Pemex's Krem-1 exploratory well in Veracruz, the fire continues burning despite repeated government commitments to bring the incident under control. Communities surrounding Las Choapas continue reporting contaminated streams, livestock losses, damaged crops and respiratory illnesses, while President Sheinbaum has recently instructed Pemex to publicly update the technical status of the emergency. The state company has pledged compensation for affected residents and promised health and infrastructure support, though it has yet to establish a clear timeline for either extinguishing the well or completing remediation.

The prolonged emergency is evolving from an operational accident into a broader test of Pemex's environmental credibility and crisis-management capacity. Local communities continue demanding greater transparency over environmental monitoring, while the dispute has already reached international institutions through a complaint filed under the environmental cooperation mechanisms established alongside the USMCA. The longer the incident remains unresolved, the greater the reputational and regulatory risks surrounding Pemex's exploration activities, particularly as the company seeks to rebuild investor confidence while expanding upstream operations.