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'Mexico will have to raise its game': How Sheinbaum's reforms are spooking energy investors

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Carlos Lobo

Since Mexican President Claudia Sheinbaum took office in October 2024, the country's economy has slowed sharply, nearshoring momentum has faded, and wide-ranging regulatory and judicial reforms have unnerved foreign investors across a range of industries.

In the energy sector in particular, Sheinbaum's much heralded reforms have so far failed to unlock major private sector investments in electricity or oil and gas.

To discuss why Mexico has fallen out of favor with foreign investors, BNamericas spoke to Carlos Lobo, a partner at law firm Arnold & Porter in New York and a member of its corporate and finance group and Latin America practice.

BNamericas: How much interest are you seeing from your clients in investing in projects in Mexico?

Lobo: Mexico was on an upward trend until the second half of last year. Then we saw the announcement of the judicial reform, which was a cold shower that led some investors to reconsider their projects in the country. The rule of law is a key factor for foreign investors, and people now want to wait and see what the reform will mean in practice in terms of investing in Mexico. The fact that the judicial system has become so political is unsettling, especially to investors in regulated areas like energy, where there may be disputes with the government. There is now a real question mark over the independence of the judicial branch.

Furthermore, a lot of the interest we saw in Mexico in recent years was to some extent driven by nearshoring. After the supply chain disruptions of the pandemic, people wanted to invest in Mexico to access the US market and sometimes use the country as a hub for Latin America as well. The ongoing tariff dispute with the US has affected the appetite of some investors.

On the bright side, President Sheinbaum has been more business-friendly and pragmatic than her predecessor. Mexico is still a competitive destination with a large and growing population and a strong labor force, right next to the largest market in the world.

BNamericas: Do you think that the recent energy reforms will make Mexico more interesting to investors in the sector?

Lobo: Although what the government is proposing for the energy sector is not an ideal model, it is an improvement compared with what was there before. Under López Obrador, the message that was generally perceived was that there was a total lack of interest in partnering with the private sector or providing the right incentives for people to invest.

I think Sheinbaum has sent out positive signals to investors. She sees that Mexico urgently needs investment in energy supply. Her government believes in state control of the energy sector but is open to partnering with private investors.

I think the framework they have put in place is reasonable. People would prefer a model where they could run a business on their own, but the initial reaction of investors has been positive. They feel that the new administration is more welcoming.

Having said that, the new framework has not been tried and tested. The regulations have not been published. We still have to see how the new model will be implemented. If some investors take the chance and things work out well for them, that could encourage others to follow and create traction for more investment.

BNamericas: With the downturn in renewable energy in the US, do you think Mexico could provide an interesting alternative?

Lobo: Renewable energy in the US is losing some of its appeal because of the measures taken by the Trump administration. It will be natural for people to look elsewhere. Mexico has been underrepresented in the overall renewable energy sector because the previous government was so hostile to private investors. However, Mexico will face strong competition for investment from more established markets like Brazil and Chile.

It's the same story in the oil and gas sector. Argentina and Brazil are attracting a lot more investment than Mexico. Argentina put in place legislation that gives comfort to investors that they will be able to send their money abroad, and Brazil has had a well-tested and successful model in

place for years. There is a lot of competition across the region for capital in the energy sector, so Mexico will have to raise its game.

BNamericas: How comfortable will foreign investors be about partnering with Mexico's state-owned electricity company [CFE](#) and national oil company [Pemex](#)?

Lobo: It is one of the major challenges of the new model. What is the ability of Pemex and CFE to finance large projects? Will they contribute their part? It's the question that everyone is asking, and no one knows the answer.

It's not just about the details in the regulations and in the agreements between private companies and state enterprises. It's also about the capacity to invest. If you're partnering with Pemex to develop a multibillion-dollar oil field, and Pemex owns the majority interest, will Pemex be able to contribute capital?

Investors are also worried about how any disputes will be solved. For example, will Pemex accept international arbitration as a dispute resolution mechanism? That is another key question that has not been answered yet.

BNamericas: Under Sheinbaum, do you think Mexico is still a competitive jurisdiction for investors in energy and other sectors?

Lobo: Mexico's proximity to the US made it the most attractive market in Latin America for industrial investors. This year, some of that excitement has been lost because of the tariffs. I think the Sheinbaum administration has a big challenge in putting Mexico on the map again. It is still interesting, but it is competing with many other destinations.

Security is becoming another major challenge, especially in the border area. The rising power of the cartels is a major deterrent to businesses. People are really worried about ensuring the safety of their employees.

In the energy sector, in recent years Mexico has not been exploiting all of its resources. If the government is able to give investors the confidence they need to move forward, there will be a lot of scope for new investment. The government still has some homework to do, but the potential is certainly there.

(The original version of this content was written in English)

About Petróleos Mexicanos S.A. de C.V.

Mexico's state oil company Petróleos Mexicanos S.A. (Pemex) is engaged in the exploration, production, transportation, refining, storage and sale of hydrocarbons and derivatives. Its products include petrochemicals, natural

gas, liquid gas, sulphur, gasoline, kerosene and diesel. Pemex operates through four subsidiaries that cover the segments E&P (Pemex Exploración y Producción), refining, processing, import, export, and trade (Pemex Transformación Industrial), logistics (Pemex Logística), and fertilizers (Pemex Fertilizantes). The company was founded in 1938 and is based in Mexico City, Mexico.

About Comisión Federal de Electricidad

Comisión Federal de Electricidad (CFE) engages in the generation, transmission, and distribution of electric power. It can also engage in the transport, storage, and trading of fuel. The company generates power through hydroelectric power plants, nuclear plants, geothermal, wind and solar power, as well as combined-cycle thermal power, coal-fired, steam, and diesel power plants.

CFE's generation capacity is over 57GW, and its assets include more than 110,000km of transmission lines between 69kV and 400kV, and distribution lines exceeding 800,000km.

CFE was created in 1937 and is headquartered in Mexico City.

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