

Pemex and Petrobras moving aside for private spend in natural gas, say panellists

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Isabella Saval, Jorge Cervantes Trejo, Claudette Christian, Pablo Sorj and Brian Brantely

Latin American jurisdictions are seeing an influx of private investors in the natural gas sector, heard delegates at Latin Lawyer Live 7th Annual Regional Project Finance last Thursday – but Mexico’s regulatory framework makes it better positioned than Brazil to handle this new reality, at least for now.

The region’s two biggest economies provide interesting case studies for how to foster natural gas development, investment and consumption, but they bisect when it comes to regulation. The regulatory framework of Brazil is under construction, whereas Mexico is riper for investment.

While Brazil is waiting for a new gas law – as well as a much-anticipated tax reform that will affect investor interest – the stage has already been set in Mexico for over half a decade. “Mexico’s regulatory framework is already ripe, unlike in Brazil,” said Jorge Cervantes Trejo from [González](#)

[Calvillo, SC](#). “The matter goes beyond the political ideologies of our government; the legal framework, which is what truly counts, is already set and robust.”

Its energy reform – passed six years ago – put in place a legal framework that gives investors confidence that there is legal certainty over energy projects. More recently, the market has changed in other ways too: heavily indebted Pemex is having to take a step back, creating space for others, explains Cervantes. “There is no gas exploration activity in Mexico because Pemex does not have the resources – rather than seeing this as a negative though, it’s actually a great opportunity,” he said. “We have an excellent legal framework; there’s a huge need in Mexico for natural gas; and this is only going to increase over the next 20 years.”

Cervantes was confident Mexico’s leftist government would not stand in the way of the growth of natural gas in the country. “Our government cannot fight the reality of our country’s need to grow and to produce more energy; this is going to require infrastructure, pipelines, compression stations and power generation plants...I see big opportunities for the private sector in Mexico,” he said.

The private sector might have “taken a breather” in President Andrés Manuel López Obrador’s first year, but now the dust has settled it is making a return, albeit cautiously. “Our political discourse has changed; it’s now time we will see the private sector driving things,” said Cervantes.

Meanwhile, Brazil’s Congress is set to approve a new gas law within the next six months that will open the market to private investors. “We should expect to have a very vibrant gas market this time next year in Brazil,” said [Mattos Filho, Veiga Filho, Marrey Jr e Quiroga Advogados’](#) Pablo Sorj.

A major component that is also contributing to the opening of Brazil's gas market is state-owned company Petrobras' aggressive selling of assets. "A huge factor in its divestment programme is Petrobras' inability to develop gas infrastructure in Brazil," explained Isabella Saval, director of natural resources and global structured finance for Latin America at Sumitomo Mitsui Banking Corporation.

In the past, Petrobras was essentially the only player in Brazil's gas arena, which left foreign investors hesitant to get involved. "Private investors were not willing to put money into these kinds of projects because they knew they would be tied to Petrobras and their terms and conditions," added Saval.

But Petrobras' reign is, to a certain extent, coming to an end. Lava Jato corruption scandals and high costs have led Petrobras to scale back its market share. The upshot of this is there is now space and opportunity for private investors to step into the spotlight. The Brazilian regulatory framework must now adapt to its new reality in a way that supports interested investors. "All regulation related to the gas industry was written when it was assumed Petrobras controlled it all; we now need to rewrite this to adapt to the new reality Brazil faces," said Saval.

Saval called on countries to use regulatory frameworks to benefit their downstream sectors too. "You need this, otherwise no one will come and invest in infrastructure – you need to open downstream, which in turn opens up midstream and creates competition and attracts more players," she said. "We already have a lot of interest from international players in midstream projects because these have a steady cashflow, so are already sought after."

The energy matrixes of both Mexico and Brazil are crying out for more natural gas, which in turn creates infrastructure opportunities in midstream, downstream and upstream. When it comes to political noise in both countries, panellists were defiant: "Things are now being driven

by economic rationale; despite political turbulence, the reality of the situation cannot be denied,” summed up Saval.

Latin America is embracing the consumption and development of natural gas and demand for the fuel is expected to rise substantially over the next decade. “It was once considered a heresy, 20 years ago, to even suggest that natural gas could ever compete with – or replace – oil, but now the reality is that natural gas supplies 20% of Latin America’s primary energy,” said moderator Claudette Christian from [Hogan Lovells LLP](#). “This demand is expected to rise and by 2030 the appetite is set to increase by 12% to 15%,” she added.

The region also stands to benefit from the surplus of gas in the US. “We’re flaring around three-quarters of a billion cubic feet of natural gas a day,” said Brian Brantely, senior vice president and general counsel at SeaOne Holdings. “That is not a sustainable situation. The need for energy in Latin America therefore presents a great opportunity for both sides now, since the US has an abundance of commodities and gas, which could really transform so many Latin American countries.”

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