



## Energy Client Monthly Report

April 2025



As President Claudia Sheinbaum worked to limit the damage inflicted on Mexico by a tariff-happy U.S. president, her finance minister resigned, and three new issues emerged that threatened to undercut Sheinbaum's popularity and presidential legitimacy. Simultaneously and despite Mexico's reprieve on "Liberation Day," stagnation is currently the country's best economic scenario, despite continued efforts to attract nearshoring investment and parallel import substitution efforts. As if that were not enough, the United States is pressuring Mexico to repay a water debt that its drought-stricken north cannot supply, and high springtime temperatures have already caused the first major blackout of 2025 with more expected as the demand for cooling ramps up.

### **Navigating Tricky Domestic Political Shoals**

Following the Trump administration's agreement in early March not to apply a 25% across-the-board tariff on Mexican exports that are USMCA-compliant, Finance Minister Rogelio Ramírez de la O resigned. Ramírez de la O wanted to leave the government at the end of the AMLO administration but reluctantly agreed to stay on to calm markets during the transition and to write an austere 2025 budget. In a moment of bilateral quiescence, he jumped at the opportunity to resign. He was replaced by his deputy, Edgar Amador, widely regarded as one of the best economists of the Fourth Transformation, to which markets responded positively.



Sheinbaum announced that Ramírez de la O would stay on as her international economic adviser, but it is merely an honorific position created to minimize uncertainty during the transition at Hacienda.

Sheinbaum celebrated her March 6 tariff victory with a speech three days later before an estimated 350,000 supporters in Mexico City's main square to remind the country of the effectiveness of her "cool-headed" approach to Trump. The event also demonstrated to the U.S. government the enthusiasm behind her 80%-85% approval. This sky-high support has persisted, in large measure due to Trump-inspired nationalism, despite three domestic developments that should have dented her popularity and political legitimacy.

First, in early March, a group representing mothers of the disappeared discovered a training and murder camp run by the Jalisco Cartel an hour outside of Guadalajara. Witness testimony reveals that young people were lured to the camp with promises of work, and once there they were forced to become cartel employees. Those who refused or could not complete the training were killed and their bodies eliminated. Ultimately, President Sheinbaum expressed solidarity with victims' families, arranged for leaders of the mothers of the disappeared to meet with the Interior Minister, and announced six initiatives to revive government efforts to focus on the high and rising numbers of Mexicans who disappear each year and to prosecute those responsible for the camp and for the failure to respond to it sooner. That said, her initial response was clumsy. She originally argued that negative media coverage of the event was a conspiracy to tar her reputation and that of her predecessor, Andrés Manuel López Obrador, driven by shadowy forces aligned with former President Felipe Calderón and "foreign interests" hoping to use the incident to justify intervention. She downplayed the problem, blamed the incident on failures in state and local government despite a prior National Guard visit to the site in September last year, and has refused to meet personally with the leadership of the mothers of the disappeared.

This misstep was followed by a corruption scandal at Birmex, the government entity that purchases and distributes medicines in the state health care sector. Created by Andrés Manuel López Obrador to eliminate corruption and improve efficiency in the sector, Birmex has overseen repeated shortages of essential medicines and faced repeated corruption accusations. In late March, the government's anti-corruption agency opened an investigation into favoritism in Birmex's contracting and the misappropriation of 13 billion pesos (US\$650 million). While this investigation could not have started without Sheinbaum's

backing, it is a reminder of the persistence of government corruption despite the Fourth Transformation's promise to eliminate it. In addition, Mexico's tradition of impunity for official corruption has raised questions about the sincerity of the president's anti-corruption efforts.

Finally, the Chamber of Deputies voted to preserve congressional immunity for Morena politician and former soccer star, Cuauhtémoc Blanco, who is charged with rape (as well as corruption and ties with organized crime). Sheinbaum's statements about the case suggest she opposed this decision, yet deputies closely allied with her supported it, indicating that political circumstances within the Fourth Transformation alliance forced her to take this position. Regardless of the reason, it was not a good look for her to support a disreputable politician.

## **Managing Tariff Damage**

The Mexican government argued that repeated trips to Washington, D.C., by Sheinbaum's economic and security teams—and repeated calls to high-ranking State Department officials during March—paid off. In response to Trump's March 26 imposition of a 25% tariff on all imported autos and major auto parts (currently including engines, powertrains, drive shafts, and electrical equipment), Mexico was granted two exemptions:

1. Finished autos exported from Mexico would not be taxed on their 40% U.S. content.
2. Auto parts would remain duty-free until the U.S. Commerce Department determines how to measure their U.S. content (Mexico hopes/expects that this will take a long time to achieve).

Additionally, both Mexico and Canada were exempted from the global reciprocal tariffs announced on April 2. The announcement also included the tantalizing possibility that the current 25% tariff on non-USMCA compliant exports to the United States (under the security and migration tariff regime) could become 12% once President Trump reaches the conclusion that Mexico is "fully cooperating" on security and migration issues.

The actual impact of Sheinbaum's strategy of keeping a cool head and negotiating with the Trump administration, however, is less clear. Mexico's tariff exemptions were also granted to Canada despite a Canadian response to Trump's tariffs that relies on aggressive rhetoric and retaliation, the anti-cool head approach. In addition, it is very likely that President



Trump, who is clearly done with the post-World War II free trade order, will have additional demands to advance re-shoring instead of nearshoring to Mexico when the USMCA is renegotiated. This is apt to include autos, a sector Trump has targeted for re-shoring, and energy where Mexico is defying USMCA rules according to a White House statement. Simultaneously, while there have been numerous comments by U.S. government officials pointing to a high-level of Mexican cooperation on the security and migration fronts, this is always coupled with comments indicating that Mexico needs to do more on security.

The United States has also picked a new fight with Mexico, this time over water. Due to a severe drought, Mexico has failed to make water deliveries to the Rio Grande River as required by the 1944 bilateral water treaty. In response, the United States refused a Mexican request for additional water from the Colorado River, the first time this has happened since the signing of the treaty. Sheinbaum has promised to repay the water debt, but only gradually due to the drought in the river's water shed in the Chihuahua mountains. It is unclear if this will be sufficient to satisfy the Trump team.

## **Recalibrating Economic Policy**

All indicators, from business and consumer confidence to actual investment and demand, point to a stagnating Mexican economy, a conclusion reflected in reduced growth estimates (private sector economists estimate growth for this year will be 0% at best and the Finance Ministry halved its estimate to an optimistic 1.5%). In part this reflects domestic factors evidenced by the start of the slowdown in the last months of 2024, but it also reflects the consequences of Trump's tariff policies in Mexico. Despite Mexico's "special treatment", the economic uncertainty created by Trump's efforts to upend the global trading system have undermined business confidence. The Mexican government is trying to brand Mexico as the nearshoring option for global investors, especially in the auto sector, as the only remaining low-tariff access point for exports to the U.S. market following "Liberation Day." The success of this strategy, however, seems questionable given global investor uncertainty and Trump's devotion to tariffs to drive re-shoring. Not only does he want to maintain his coercive power over Mexico to guarantee its cooperation with his security and migration policies, but he also wants to see less manufacturing investment in Mexico and more in the United States.



In recognition of these uncertainties surrounding her original policy to promote growth through nearshoring, Sheinbaum announced 18 actions on April 3 to accelerate her “Plan México” scheme, aimed at:

1. Substituting imported goods with domestic production, specifically in corn, beans, rice, milk, petroleum fuels, and fertilizers.
2. Increasing domestic demand for nationally made products including pharmaceuticals, medical devices, textiles, footwear, clothing, steel, aluminum, and automobiles.

On the energy front, Plan México proposes key actions that include increasing national energy self-sufficiency by boosting gasoline, diesel, and jet fuel production by 30%. The plan also aims to reduce Mexico’s reliance on imported natural gas by raising domestic production from 3.8 to 5 billion cubic feet per day using sustainable recovery methods. The government will accelerate investments in the Federal Electricity Commission (CFE), targeting an additional 3,585 megawatts—25% of which will come from renewable sources—on the way to a 2030 goal to add 22,674 MW. It will also launch 59 investment projects to expand the National Transmission and Distribution Network with 86 new substations and upgrades to 63 existing ones. Policies will encourage renewable generation permits while assuring that 54% of energy generation remains public, as mandated by current law. Sheinbaum announced that rural electrification for remote and underserved communities has also begun, along with agreements to stabilize gasoline prices through streamlined regulation.

As a final note, the four states making up the Yucatán Peninsula experienced a four-hour blackout in late March. The government argued it was caused by low-quality natural gas provided by Pemex, but given Mexico’s insufficient electricity supply, similar disruptions are expected in the hot months of spring and summer—independent of gas quality—due to increased demand.



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