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Strong Popular Support Buoy's President Sheinbaum's Effort for Electoral Reform

According to the latest polls, three-quarters of Mexicans support President Sheinbaum (76% approval in a mid-December Enkoll poll and 77% and 78% respectively in early January polls published by *El Universal* and *El Financiero* newspapers), including approval from more than half of supporters of the PRI and Citizens' Movement opposition parties (but from only 31% of PAN supporters). Although there is dissatisfaction with continued corruption, insecurity, and organized crime, fully 75% support her policy to have judges elected and most are satisfied with the economy and, of course, with the government's social programs.

Building on this support, the president announced that legislators will address electoral reform in their next session (1 February-30 April). This is expected to include an end to reelection, the elimination of proportional representation legislators, new rules governing coalition formation, and sharp funding cuts for political parties and elections. Prohibiting reelection should reinforce discipline within the Morena party by making politicians' political futures depend on the party hierarchy rather than their constituents. The other measures are designed to reinforce the political weakness of the opposition. Finally, reduced election funding will further undermine the capacity of the National Electoral Institute (INE) to oversee elections effectively. Interestingly, there was no mention of AMLO's proposal to



either eliminate the INE or make its members elective suggesting that Sheinbaum does not see these more extreme actions as necessary to ensure a favorable electoral climate for the long-term survival of Morena governments.

Internal Morena Party Dispute Threatens Parts of Sheinbaum Agenda

Yet not all is well for President Sheinbaum. The bad blood between her Morena party's leaders in the Senate and the Chamber of Deputies became very public last month forcing the president to mediate between two very important legislative operatives. At the same time, President Sheinbaum was forced to delay an important policy reform due to labor opposition.

The power struggle between Adán Augusto López, a very close associate of AMLO and Morena's Senate leader, and Ricardo Monreal, a long-standing political powerbroker who also owes his position as leader in the Chamber of Deputies to AMLO, broke into the open in December. In apparent retribution for the Deputies giving the Senate a much smaller budget increase than it gave itself, López implicitly charged Monreal with corruption in contracting while he was leader of the Senate (during the AMLO government). The Senate publicly announced the cancellation of two service contracts signed during Monreal's tenure with providers that apparently never provided any services.

To strengthen his position, each leader began lining up supporters, including a Monreal-organized vote of support among Morena deputies. President Sheinbaum publicly called for cooler heads and privately sent her Interior Minister, Rosa Icela Rodríguez, to force the two to make peace. On December 16, they also met privately with Sheinbaum in the National Palace where the president demanded they put the movement and the people above their bickering. Nevertheless, López and Monreal remain focused on expanding their personal power and lining up their supporters and seem unlikely to alter course should these efforts conflict with the president's agenda. Indeed, the dispute played into President Sheinbaum's December legislative setback.

President Sheinbaum's plans to build thousands of worker houses and reform Infonavit, a government institute dedicated to helping workers buy starter homes, hit a speedbump last month, the first legislative setback of the new administration. Strongly backed by Adán Augusto López, the initiative would repurpose Infonavit's resources and eliminate its labor-business-government tripartite decision-making structure in favor of full government



control. After being fast-tracked through the López's Senate, the legislation stopped dead in the Chamber of Deputies.

This was due in part to Monreal happily sticking it to López by blocking his initiative, but it also reflected real opposition from labor, both the Infonavit workers union and others including the powerful mine workers union. Business also expressed concern about the proposed changes. This opposition put the government on the defensive claiming the initiative would confiscate worker savings, which President Sheinbaum denied. Nevertheless, she accepted the Senate decision to table the issue until February and hold public forums in January to discuss the reform. In defense of the proposed changes, the Infonavit director announced the discovery of a corruption network in the institute under President Enrique Peña Nieto (2012-2018), and Morena and Morena-allied Senators charged that opposition to the reform was coming from individuals tied to the corruption network.

This is where politicians left the issue when they recessed for the holidays. We will continue to follow this initiative and how the López/Monreal dispute plays into it. We expect this will shed light on Morena unity going forward, Sheinbaum's ability to manage the division between her legislative leaders, and the consequent challenge the dispute poses for her longer-term legislative agenda.

More Budget Cuts that Will Undermine the Rule of Law

The Chamber of Deputies' final approval of 2025 budgetary spending included deep cuts for the National Electoral Institute and the judicial system (funds that were redirected to education and defense). This continued the long-standing Morena practice of underfunding both Mexican election authorities and the judiciary, undermining their capacity to do their jobs, and thus further weakening the rule of law in Mexico. Indeed, in early January the INE announced that given their new, reduced budget, there will likely be no rapid count for the coming judicial elections, there will be many fewer polling stations than during the presidential election, and there will be less money to train observers. Despite this, Sheinbaum announced that the government does not plan a fiscal reform in 2025 arguing that there are still plenty of opportunities to increase tax collection.

Light and Shadows in the News for CFE

On January 5, President Sheinbaum announced that the Tula electricity generation facility will be converted from fuel oil to gas to reduce pollution. The construction of a natural gas pipeline to feed Tula started in 2017 and is 99% completed, but social opposition and last-mile right-of-way challenges delayed the project. The heavily polluting Tula generation facility had been in the crosshairs of society and NGOs for a long time given the dramatic health issues it caused to the people living in its surrounding communities in the state of Hidalgo, where cancers and respiratory ailments were well above national averages. The announcement strengthens President Sheinbaum's commitment to further climate change mitigation and should be an economic net positive to CFE (Federal Electricity Commission), who will reduce its exposure to the high prices it was paying for the fuel oil to Pemex.

On the other hand, CFE will have to pay \$300 million dollars to Goldman Sachs after a London-based arbitration made its final ruling against the state-owned utility. The legal proceeding began after an unprecedented winter storm struck Texas in February 2021. The storm immobilized gas terminals in that state and threatened electricity generation in northern Mexico, which heavily depends on imports of U.S. natural gas. This triggered a massive blackout that left more than 4.6 million Mexicans without power for several days. Amid this crisis, natural gas prices skyrocketed and exposed the CFE to an increased payment to Goldman Sachs under its gas purchase contract since the CFE failed to acquire coverages.

Sheinbaum Administration Takes a Pragmatic Approach to Trump...

In an early December interview for the publication *Inside Trade*, Deputy Economy Minister Luis Rosendo Gutierrez said Mexico is doing everything it can to protect regional trade. This includes going after contraband, going after drug traffickers, and cooperating on migration. Regarding investments from China, Mexico will adopt the same rules as its partners, including the creation of something akin to the Committee on Foreign Investment in the United States (CFIUS – an interagency committee that oversees the national security implications of FDI). The actions of the Sheinbaum administration before and after this statement strongly support its veracity.

In November, Economy Minister Marcelo Ebrard announced “Operation Cleanup” to go after contraband, especially Chinese goods. Its first large raid took place late in the month in



Mexico City and has been followed by ensuing raids including a December 31 Baja California raid securing more than a million dollars in goods. Potentially more significantly, in late December Ebrard announced the imposition of 35% tariffs on imported textiles, the vast majority of which come from China. President Sheinbaum, meanwhile, continues to insist that the only way to confront Chinese economic and trade policies is for the three USMCA countries to work together since “We don’t compete, we complement one another.” Finally, Mexico agreed to adhere to the mid-December USMCA GMO corn ruling favoring the United States. Mexico will allow the importation of GMO corn from the United States, although to save face President Sheinbaum announced new legislation that will prohibit the planting of GMO corn in Mexico.

On migration the government appears to have softened its initial negative reaction to Trump’s demand that Mexico accept the potential deportation of non-Mexicans from the United States. After insisting that Mexico would not change its migration policy and accept non-Mexicans, in early January President Sheinbaum said she was willing to discuss, if necessary, “collaboration [on deported third country migrants] through different mechanisms,” albeit without offering further details.

Most striking has been Mexican security policy in the wake of the Trump threat to impose a 25% tariff on Mexican exports if Mexico did not cooperate fully with the United States. Rhetorically, President Sheinbaum insists that Mexico is always willing “to contribute to the humanitarian mission” of avoiding drug deaths in the U.S. More important, every week seems to bring news of an arrest of a Mexican drug trafficker or a raid on a large fentanyl lab. Indeed, one such raid in early December earned accolades not only from President Biden, but also from Representative Dan Crenshaw (R-TX), a former navy seal and loud critic of Mexico’s failure to go after the cartels, who said on X that Sheinbaum’s security secretary “Garcia Harfuch is the real deal.” In addition, federal collaboration with the Mexico State government in the late November led to the arrest of 24 officials accused of association with organized crime. Mexico is clearly trying to demonstrate that it can deal with drug-traffickers without the intervention Trump and his allies have threatened.

While Trump Continues to Exert Pressure on Mexico

Despite these efforts, on December 22 Trump posted on Truth Social that he will declare Mexico’s drug cartels terrorist organizations on the first day of his second administration.



This followed Trump's announcement of his new Ambassador to Mexico, Ron Johnson, a former Green Beret with over 20 years of experience in the CIA. He was Trump's Ambassador to El Salvador (2019-2021) where he obtained Salvadorean cooperation on migration and supported government efforts to reign in criminal gangs. Johnson's appointment is a clear statement of the importance migration and drug trafficking will have in the bilateral relationship. But Johnson has also spoken of the importance of nearshoring to Latin America as essential to sustaining U.S. international competitiveness. He is also expected to work closely with both Secretary of State-designate Marco Rubio and Deputy Secretary of State-designate (and Trump's first Ambassador to Mexico), Christopher Landau, in managing the bilateral relationship.

Johnson's wife is also a Cuban American whose mother helped coordinate Operation Pedro Pan (a program to evacuate children from Castro's Cuba in the early 1960s) and is close to Marco Rubio. This association suggests that Johnson is unlikely to look kindly on Mexico's current support for Cuba, including payment for the nearly 200 Cuban doctors currently working in remote rural clinics in 26 Mexican states.

Finally, Trump's provocative statements in a January 7 press conference received wide press coverage in Mexico City. Ultimately, however, this is more noise than an important development. Trump stated that Mexico is governed by drug cartels and mused that the Gulf of Mexico should be renamed the "Gulf of America." Sheinbaum took the bait, arguing that Trump must be misinformed regarding the cartels, thinking that Mexico is still governed by Felipe Calderón and his security minister and convicted cartel ally, Genaro García Luna. She further noted somewhat tongue-in-cheek that in colonial times the territory of the United States was called "Mexican America." More significant, however, is the tangible steps taken by Mexico noted above and the fact that Trump has not attacked Sheinbaum personally like his attacks on soon-to-be former Canadian Prime Minister Justin Trudeau. This does not mean there will not be significant bilateral conflicts in the coming months, but it bodes well for ultimately reaching satisfactory resolutions.



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