



Energy Client Monthly Report

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The Roots of a New Bilateral Relationship

This past month the United States declared six Mexican drug cartels as Foreign Terrorist Organizations (FTOs) and imposed a 25% tariff on all Mexican and Canadian exports to the United States. These actions came despite the concerted efforts of the Mexican government to confront organized crime and cooperate with U.S. intelligence agencies. Although the tariffs were mostly suspended two days later, the suspension only lasts until Trump's promised reciprocal tariffs on all countries will be announced on April 2. All this suggests to Mexico that the Trump administration is no longer a reliable North American partner. Mexico will continue to collaborate with the United States and work to mitigate the impact of Trump administration policies on Mexico. But it is also reconsidering its long-standing strategy of relying on economic integration with the United States as the main driver of economic growth.

The Sheinbaum administration spent the last month redoubling its efforts to meet U.S. demands on migration and security to avoid high tariffs. On migration it reinforced a policy of keeping migrants away from the U.S. border by bussing those who arrived back to southern Mexico, and it willingly accepted both Mexicans and some non-Mexicans deported from the United States. President Trump's border czar, Thomas Homan, noted the results of U.S. and



Mexican efforts. Referring to the February 16 number of U.S. Border Patrol encounters with migrants, Homan stated, “I don’t remember numbers ever being that low” since he joined the Border Patrol in 1984. Indeed, the success has been so great that Trump declared victory over the border “crisis” in his March 4 message to Congress.

Mexico has been even more cooperative in dealing with organized crime. Even before the FTO designation by the Trump administration, Sheinbaum’s new security strategy for Mexico had resulted in dozens of fentanyl labs raided and important traffickers arrested while openly accepting help from U.S. intelligence agencies. Then on February 27, Mexico took the unprecedented action of transferring to the United States 29 high-level drug traffickers serving prison sentences in Mexico. Very symbolically, this included the mastermind of the 1985 torture and murder of a DEA agent who Mexico refused to extradite for 35 years.

Despite such efforts to gain favor with Trump, the U.S. imposed tariffs on March 4, which were justified, according to a White House statement, by insufficient Mexican (and Canadian) cooperation in fighting cartels and stopping drug trafficking. The statement went further arguing that the Mexican cartels “operate unhindered due to an intolerable relationship with the government of Mexico,” a charge President Sheinbaum previously called “slander.” Canada immediately retaliated with its own 25% tariffs on U.S. exports, including a 25% electricity surcharge imposed by the Ontario Premier on electricity supplied to Minnesota, Michigan, and New York. Mexico took a less aggressive approach. Continuing what has been called her “firm but cautious strategy,” Sheinbaum waited until the next morning to reveal Mexico’s response to the tariffs. In her signature dispassionate style, she said she would announce retaliatory measures Sunday, March 9, in Mexico City’s central square, the Zocalo, before a hundred thousand supporters.

On March 6, after a phone call with President Sheinbaum, President Trump announced another month-long reprieve from the 25% tariff, albeit only for goods covered by the USMCA (it excluded some foreign cars that do not meet the minimum 75% North American content to benefit from tariff-free treatment). This development is precisely what Sheinbaum was angling for when she announced that retaliation would be announced with a delay—to give Trump time to find an off-ramp from the U.S. domestic economic costs the tariffs would imply. Trump was able to fulfill his campaign promise of imposing tariffs, show the world that he is serious about imposing tariffs, and crow about it in his March 4 address to Congress. With that accomplished, he was willing to negotiate.



While this is a positive outcome for Mexico, it only provides a month of relief before the country must deal with Trump's promised reciprocal tariffs in response to non-tariff barriers to trade, such as Mexico's value-added tax, as well as tariffs. And there is still the implicit U.S. demand that Mexico arrest narco-politicians, a request that will be very difficult for the Sheinbaum administration to implement. Of course, in Trump world 30 days may as well be 30 years, and the Sheinbaum administration will continue to seek areas of cooperation that will allow Mexico to avoid reciprocal tariffs while evading politically unpalatable demands.

Sheinbaum will also go forward with her March 9 speech before a huge crowd of supporters angry at Trump and mistrustful of the United States, but ready to celebrate another Sheinbaum victory. The speech will almost certainly have a nationalist tone and emphasize Mexico's sovereign red lines. It is also likely to include an expansion of Plan Mexico, something President Sheinbaum has already announced in her morning press conferences, to reduce Mexico's economic dependence on the United States by increasing domestic production while diversifying trade and investment flows.

Implications for Mexico

The FTO designation for six Mexican cartels means that anyone knowingly doing business with them are subject to prosecution by the U.S. Department of Justice (DOJ). This could be highly disruptive in the Mexican economy given the high rates of extortion of legal businesses by criminal groups and the amount of money laundering presumed to take place in the financial system. The actual economic impact, however, will depend on how aggressively the DOJ exploits its new authority. An early sign this could be hard-hitting was the February 5 memo U.S. Attorney General Pamela Bondi sent to department personnel. It required them to prioritize investigations related to "foreign bribery that facilitates the criminal operations of Cartels and TCOs [Transnational Criminal Organizations]."

With Mexico's economy teetering on the edge of recession – growth in the fourth quarter was negative and estimates for 2025 growth are now below one percent – the impact of the tariffs could drive the economy over the cliff. If the tariffs are transitory, the uncertainty resulting from constant tariff threats will undermine business confidence and investment. New estimates for Mexico's 2025 growth are now at 0% due to Trump-generated uncertainty. If they are permanent, they are apt to cause a recession, with current estimates under this scenario at about a 2.5% decline in the economy. It is unlikely, however, to set off the kind



of current account and financial crisis Mexico has suffered in the past for three reasons: only a limited amount of government debt is denominated in dollars, so a peso depreciation won't supersize Mexican debt payments. Mexico has significant foreign exchange reserves. And the Mexican banking system is in a relatively healthy position.

Politically, continued hostile actions from the “Colossus of the North” will translate into strong nationalist support for President Sheinbaum. It will increase her already sky-high approval ratings (80-85%, see below) and reinforce unity within her complex political coalition. Should the United States insist that Mexico jail narco-politicians, however, the political calculus becomes more complex.

Continued Difficulties in Sheinbaum's Political Coalition

As we noted last month, President Sheinbaum's Labor Party allies were threatening to leave her political coalition over the content of her electoral reform legislation. This month it was her Green Party allies threatening to leave. Even after removing the President's proposal to eliminate the proportional representation seats that strongly favor these two small parties, the Greens objected to her anti-nepotism proposal prohibiting family members from following one another in elected office. This would have prevented a Green Party senator from following her husband as governor of San Luis Potosi, currently the party's best hope of retaining the governorship and all its perks. Unable to get the Greens to back down, and unwilling to risk losing the 2/3 majority controlled by the Morena-led alliance, the Morena leader of the Senate modified the legislation. He changed the date it would take effect from 2027, the year of the San Luis Potosi election, to 2030.

President Sheinbaum was not pleased and insisted that her Morena party respect the original implementation date of 2027, a demand the party leader quickly echoed. Two key party power brokers, however, Ricardo Monreal and Felix Salgado—from the families that control the states of Zacatecas and Guerrero, respectively—were displeased. While both finally expressed grudging support, it is unclear if they will adhere to the Sheinbaum's order two years from now. This dispute is another reminder of the difficulty Claudia Sheinbaum faces in maintaining control of a movement filled with dozens of groupings whose main shared interest is their loyalty to her predecessor, Andrés Manuel López Obrador.

In the near term, Sheinbaum will continue to benefit from hostility from the Trump administration generating nationalist unity in her party and in the country. This has helped

boost her approval rating to 80%-85%, depending on the poll. In the medium term, pursuing her agenda while retaining party and alliance unity will be harder.

Senate Approves Secondary Energy Legislation

The Senate approved the package of 8 new energy laws with 85 votes in favor, 39 against, and one abstention, and sent it to the Lower House for discussion and approval. We expect that the laws will be passed without changes, on time for President Sheinbaum to announce them officially on March 18, “Expropriation Day,” when Mexico celebrates President Lázaro Cárdenas’s executive order in 1938 that nationalized the oil industry and, a few months later, created Pemex.

On February 28, the Energy Regulatory Commission issued a decree suspending the reception of procedures, promotions, or written submissions until the secondary energy laws come into effect. CRE, however, will continue to process tasks – more than 2,000, according to industry recent figures – that were being processed until the National Energy Commission (CNE) is established, mainly:

- Addressing requirements issued by the Commission’s Administrative Units;
- Evidence and arguments in sanctioning procedures processed by the Commission;
- Generation Permits for electricity projects to ensure power supply in deficit regions, as well as hydrocarbon sector projects necessary for fuel supply nationwide;
- Reception of information from Inspection and Verification Units regarding regulated activities; and
- Compliance with obligations imposed on regulated entities under the Hydrocarbons Law, the Electricity Industry Law, their regulations, general administrative provisions, and other applicable regulations.

In other energy regulatory news, Dr. Ricardo Mota Palomino has been confirmed by Secretary González to continue leading CENACE, and strong rumors point to Juan Carlos Solís Ávila heading CNE. President Sheinbaum directed Dr. Solís’ doctorate thesis – entitled “Analysis of Energy Consumption and Greenhouse Gas Emissions in Mexico’s Transport Sector and Mitigation Scenarios” – while the current head of Pemex, Victor Rodríguez Padilla, was a



member of the approval committee. Dr. Solís is currently leading the Unit of Industrial Transformation at SENER.

We have received confirmation by key decision makers in the administration that there will be plenty of opportunities to develop and build private projects through the modalities established in the Law of the Electricity Sector, but there will be a key difference in how projects will be processed: priority in the permitting processes will be given to those projects located in areas where the authorities (SENER, with technical assistance from CNE and CENACE) identify the need to add more generation capacity to meet demand or where, for technical reasons, it is necessary to ensure the reliability of the system. It will be very important to build an ongoing dialogue with the key policy makers in those agencies to anticipate the timing and location of the best areas to develop projects, and as always, Monarch will help you build a trusting relationship with them.



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