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July was a good month for President Sheinbaum. She secured a 90-day reprieve from President Trump's new tariff threat coupled with positive signals about the status of bilateral security cooperation. Although a new bilateral irritant over air transportation emerged last month, the two countries also signed a formal accord—the first of Trump's second presidency—to reduce pollution in the Tijuana River.

A series of scandals, meanwhile, weakened political competitors within Morena, thereby strengthening Sheinbaum's authority. This should help her begin the long and complex process of reducing AMLO's influence over Morena, the legislature, and the executive branch. Beyond her own party, Sheinbaum also took steps to weaken key opposition figures.

Security policy continues to be a mixed bag, but developments in the energy sector were largely positive. The announcement that Iberdrola would sell its remaining Mexican energy assets could have been a negative signal for investors, but the willingness of Cox Energy to snap up Iberdrola's electricity production facilities obviated this. Another Pemex bailout was also reassuring, as the sale of financial instruments created for this purpose raised more money at lower interest rates than expected. And this time, Pemex financing will be accompanied by a restructuring of the firm to increase its profitability.

Tariff Man is Back

President Trump's mid-July flurry of letters announcing new reciprocal tariff rates included one addressed to President Sheinbaum. Although Mexico is not subject to a reciprocal tariff, the letter threatened to increase tariffs on Mexican exports from 25% to 30% due to what Trump described as insufficient cooperation on fentanyl trafficking. President Sheinbaum labeled the decision "unjust" since negotiations on that very issue were already underway.

Equally troubling for Mexico were ensuing U.S. trade agreements with Japan and the European Union. Both accords evidenced the Trump administration's zero-sum view of trade—the U.S. must benefit more than its trading partners—a view that will apply to Mexico as well. In this vein, U.S. Commerce Secretary Howard Lutnick's July 20 comment about the auto trade stands out. He noted that President Trump "doesn't want to produce cars in Canada or Mexico when they can be built in Michigan or Ohio."

The Japan and EU agreements also established a 15% tariff on auto exports to the U.S. market, a more favorable rate than Mexico's current 25%. Although Mexico's rate applies only to the non-U.S. content in vehicles, this carve-out has provided limited benefit to the industry. According to the President of the Mexican Automobile Association, only 2 to 3 of the 50 to 60 models produced in Mexico have enough U.S. content to apply for this carve-out. Moreover, the reimbursement application process is so cumbersome that few producers have had their tariff payments reimbursed.

This was the backdrop for Sheinbaum's July 31 phone call with Trump—their seventh. In that call, Trump agreed to a 90-day reprieve to give negotiators more time to reach a comprehensive accord covering fentanyl, migration, and trade. He did not grant a similar extension to any other country. In addition, the tone of President Trump's Truth Social post announcing the reprieve was quite positive, stating that "...more and more we are getting to know and understand one another." All this suggests that Sheinbaum's "cool head" approach to dealing with Trump continues to be effective.

Nevertheless, the extension still favors the United States more than Mexico. During the 90-day period, the 25% tariffs on autos, auto parts, and all non-USMCA compliant exports—as well as the 50% tariffs on steel, aluminum, and semi-finished copper products—will remain in effect. At the same time, according to Trump's post, Mexico must immediately eliminate all non-tariff barriers (NTBs) to U.S. trade and investment. What this means, however, is unclear, setting the stage for potential future conflict on this matter. Mexico cannot possibly remove all the NTBs noted in the U.S. Trade Representative's March Trade Barriers Report because of political and administrative obstacles, let alone do so immediately. The USTR's list includes investment barriers in energy and mining, Mexico's ban on glyphosate, barriers to genetically engineered corn and cotton, deficient and inconsistent customs and trade facilitation, a backlog in medical device and pharmaceutical approvals, and Mexico's perennially weak intellectual property rights protections.

More Bilateral Cooperation, Punctuated by Continued Conflict

Mexico's tariff extension also requires continued security cooperation, but the language makes clear the depth and effectiveness of collaboration achieved thus far with the Sheinbaum administration. This reflects real success on both migration and fentanyl trafficking, with the U.S. Customs and Border Protection reporting the lowest number of migrant encounters ever recorded and a halving of fentanyl interdictions. Indeed, on July 31, President Sheinbaum said a bilateral security agreement is ready to be signed.

Yet, harsh U.S. rhetoric on drug policy cooperation continues unabated. Trump said the cartels have "very strong control over Mexico" and that "Mexican authorities are petrified to show up at their office, to go to work because cartels have a tremendous grip [on the country and its politicians]." Rumors persist in Mexico about a list, allegedly hand-delivered to President Sheinbaum, naming Mexican generals and politicians whom the U.S. has concluded are complicit with organized crime.

Beyond security, the two administrations signed their first formal agreement, which seeks to reduce the amount of pollution in the Tijuana River and its impact on U.S. beaches. U.S. Ambassador Ronald Johnson had his first meetings with President Sheinbaum since the presentation of his credentials in May, accompanying two bipartisan groups of U.S. House Representatives to the National Palace. Additionally, the Trump administration agreed to Mexico's request for a 90-day postponement of the money laundering sanctions imposed last month on three Mexican financial institutions, allowing for an orderly wind-down of their operations.

Simultaneously, a new conflict emerged over the AMLO administration's decision to deny landing slots at the Mexico City airport for U.S. cargo and passenger airlines. U.S. Transportation Secretary Sean Duffy called this a "blatant disregard for the 2015 U.S.-Mexico

Air Transport agreement" and demanded that large Mexican passenger and cargo flights into the U.S. obtain prior approval and register their flight plans. He also proposed eliminating the antitrust immunity granted to the Delta-Aeroméxico code sharing system.

Scandals in Morena Strengthen Sheinbaum

At the Morena congress in mid-July, three party members stood out—two for their absence and one for his dour mood. Adán Agusto López, Morena's Senate leader, former presidential candidate, and close confidant of AMLO, had good reason to be solemn. The man he personally selected to be his security secretary when he was governor of Tabasco (2019-2021), Hernán Bermúdez, and who stayed on after López became AMLO's federal Interior Minister, now stands accused of leading a criminal organization from his government post. Although there is no evidence that López was aware of his underling's activities, it is hard to imagine that he had no idea given that the two had been close associates for three decades. On the other hand, if it is true that López is innocent, that is a strong indictment against the quality of his political leadership.

Thus far, two arrests have been made in the case, and Interpol is actively searching for Bermúdez, who fled the country in January. Meanwhile, Sheinbaum is tepidly backing López. She insists he should be considered innocent until there is evidence to the contrary, but she has not proclaimed his innocence and has called for the investigation to proceed. In other words, Sheinbaum appears unwilling to break with AMLO and rid herself of López without clear evidence against him. In the meantime, however, the balance of power between López and Sheinbaum has shifted tangibly in the president's favor.

Two other Morena leaders did not even bother to attend the party Congress:

1) Ricardo Monreal, leader of Morena in the Chamber of Deputies, a key party powerbroker and former presidential candidate whose loyalty to Sheinbaum is weak at best; and
2) Andrés Manuel "Andy" López Beltrán, the number two in the party and AMLO's son who also has a political agenda independent of Sheinbaum.

Traveling for personal reasons, the two were photographed entering a luxury hotel in Madrid and dining at a very expensive restaurant in Tokyo, respectively. Sheinbaum took advantage of this opportunity to not-so-subtly criticize their behavior, reminding all party members of their responsibility to conduct themselves with "humility" in a party dedicated to "Republican Austerity." In this context, López Beltrán's mishandling of the June state elections in Durango and Veracruz further weakens his position relative to the president, as does Monreal's announcement that he will not serve in another elective or appointive position, albeit to a lesser degree.

In a parallel development, Sheinbaum replaced long-time politician and AMLO ally Pablo Gómez as head of the government's Financial Investigations Unit (UIF) with a close confidant of Security Secretary Omar García Harfuch. Having failed to replace Gómez when she took office, Sheinbaum's hand was strengthened by two U.S. actions: the anti-money laundering sanctions on three financial institutions, which exposed Gómez's failings—he had not even opened an investigation into their operations—and parallel reports of U.S. pressure to replace him. The UIF will now collaborate more closely with García Harfuch's security strategy and likely with the United States. Equally important, Sheinbaum now controls a tool to gather politically useful intelligence that should strengthen her authority within Morena and beyond.

Weakening the Opposition

Simultaneously, the political arena beyond Morena is being reshaped. The PRI's occasional legislative cooperation with Morena throughout the AMLO presidency has ended. Sheinbaum is allowing the Chamber of Deputies to move forward with the "*desafuero*" of PRI party president Alejandro "Alito" Moreno. Should he lose this congressional immunity from prosecution, he will face charges of corruption and abuse of power dating back to his tenure as governor of Campeche. In response, Alito accused specific Morena politicians of complicity with organized crime and traveled to the United States, where he said he would provide evidence against them to the FBI and CIA.

This dispute coincides with the electoral reform Sheinbaum will introduce in September, aimed at strengthening Morena's position and eliminating the need for any future legislative alliances with the PRI. It also occurs as the PRI/PAN electoral alliance is being abandoned by both parties. This combination of developments should further Morena's efforts to position itself at the center of an effective one-party state.

Finally, the Sheinbaum administration sustained its massive tax claims against Mexican magnate Carlos Salinas Pliego, in retribution for his increasingly vocal criticism of the Fourth

Transformation. Salinas' actions give the distinct impression that he is considering an independent campaign for the presidency in 2030, and Sheinbaum's actions suggest concern about this possibility.

Security: Good News, Bad News

Government and independent sources confirm a 15% drop in the murder rate under Sheinbaum's security policies. Unfortunately, extortion has increased as criminals look for new sources of revenue as fentanyl trafficking declines and migrant smuggling disappears. Clear evidence of this problem surfaced with the murder of a Veracruz taxi driver who refused to pay protection money to the Jalisco cartel. In response, the federal government announced a new comprehensive program to fight extortion, which had its first success in Mexico State, where close cooperation between state and federal police took down a large extortion ring.

Pemex: First a Bailout, Then a Restructure

The Mexican government provided Pemex with another bailout. Lacking the fiscal resources to replicate AMLO's policy of direct transfers to the company and facing a rising debt-to-GDP ratio, however, the Sheinbaum administration had to get creative. It established a financial vehicle, Eagle Funding, to raise capital for Pemex through a complex scheme that keeps the debt off the Mexican government's books. Nevertheless, the government is the ultimate guarantor of the debt, enabling Pemex to raise US$12 billion at interest rates much lower than it could have obtained on its own. This will allow Pemex to cover debts maturing this year but is insufficient to pay all its suppliers and does nothing to prevent the need for additional bailouts in the future. Nevertheless, Fitch upgraded Pemex's credit rating to "BB" on the news.

Seeking a long-term solution to Pemex's financial woes, President Sheinbaum announced a restructuring plan on August 5, accompanied by Energy Minister Luz Elena González, Finance Minister Edgar Amador, and Banobras CEO Jorge Mendoza. The plan includes comprehensive financial support for Pemex aimed at restoring its financial health and a strategy to boost production. On the financial side, in addition to the US$12 billion just noted, the plan creates a government-backed investment vehicle through Banobras, Mexico's infrastructure development bank, worth US$13 billion to settle debts with suppliers and finance key projects. This should allow Pemex to close 2025 with a net financial debt of

US$88.8 billion and gradually bring it down to US$77.3 billion by 2030. The strategy also includes a simplified fiscal regime with a flat 30% tax rate, better cost discipline, and a restructuring of Pemex subsidiaries to improve operational efficiency and investor confidence.

The objective is to reduce Pemex debt and make the firm financially self-sufficient by 2027. The plan also aims to increase production to 1.8 million barrels per day through projects like Zama and Trion and joint ventures with private investment. Finance Minister Edgar Amador emphasized the goal of restoring Pemex's investment-grade credit rating while ensuring its long-term sustainability and profitability through a mix of public and private capital.

Beauty Is in the Eye of the Beholder: Iberdrola Sells Mexico Assets to Cox Energy

In the renewables sector, Cox Energy snapped up Iberdrola's remaining Mexican assets for US$4.2 billion. Iberdrola is exiting Mexico after years of persistent pressure under AMLO and a lack of electricity policy clarity under Sheinbaum. With this purchase, however, Cox—another Spanish firm—sent a very different message. It expanded its Mexican production capacity sixfold, betting that Mexico's urgent need for increased electricity production will force the government to improve the operating environment.

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