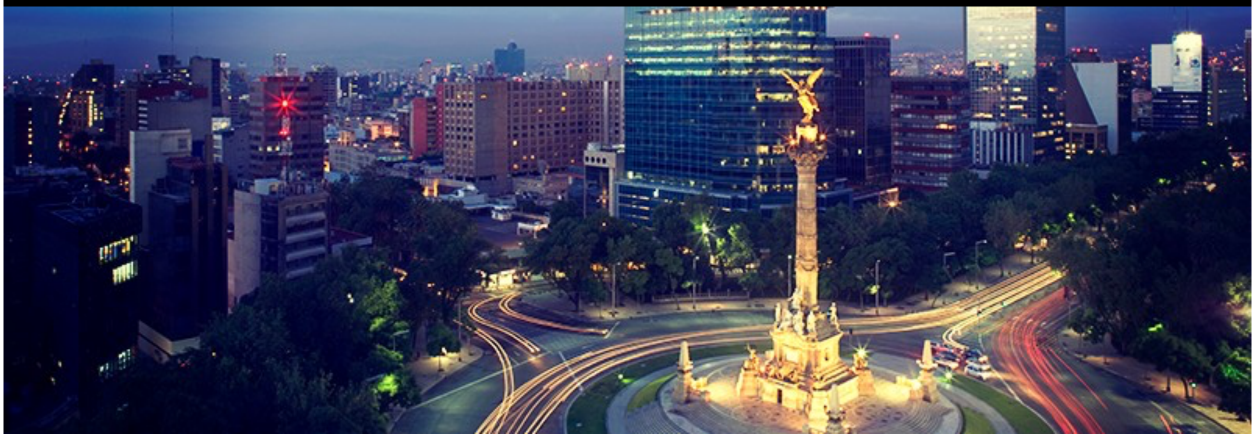
MONARCH
GLOBAL STRATEGIES



Monthly Political Report for Energy Clients

November 2025

Executive Summary

October events were largely overshadowed by the November 1 murder of a charismatic, crime-fighting mayor in the troubled state of Michoacán. His supporters took to the streets to protest a lack of federal and state support for his efforts and called for a national protest in Mexico City on November 15. President Sheinbaum's initial reaction did little to defuse a situation that was quickly politicized by all sides. Her ensuing efforts to address the region's security challenges have not mollified the protesters, whose complaints reflect broader Mexican dissatisfaction with the government's response to crime and violence.

These developments place Sheinbaum in the most delicate political situation of her presidency. They come as farmers protest low guaranteed prices for their corn, as an *amparo* reform designed to meet U.S. security demands and Sheinbaum's need for tax revenues has reinforced business uncertainty, and as the Supreme Court considers reviewing past court decisions.

In bilateral relations, Washington believes things are going well. Mexico is cooperating on the security front in ways not seen in years, and the two sides are close to reaching an agreement on non-tariff barriers that could set the stage for a pivot to the USMCA review. Yet, the United States continues to keep the pressure on Mexico. It maintains its bombing of drug boats, signaling the seriousness of its campaign against drug traffickers whose operations depend on Mexico. Meanwhile, the U.S. Transportation Secretary sanctioned Mexico for violations of the 2015 bilateral air treaty, surprising Mexican authorities since negotiations on the matter were ongoing.

In energy news, SENER hopes that the new legal framework for the sector will boost long-awaited renewable projects and support industrial growth. October's hectic policy publication agenda completes Mexico's regulatory consolidation and lays the groundwork for a more predictable—though more centralized—market structure. The government explicitly welcomes investment that fits national goals but restricts unaligned merchant projects. Success will depend as much on regulatory alignment as on technical or financial viability.

A Mayor's Murder

The November 1 murder of Mayor Carlos Manzo has shaken Mexico. He was a charismatic leader who confronted organized crime in Uruapan, the center of avocado growing in Michoacán state. But his calls for state and federal assistance in his battle against crime and violence went largely unheeded. The federal government sent bodyguards, while the Morena governor did nothing.

Coming just days after the killing of the leader of the local lime growers' association, who had denounced extortion by organized crime, the Manzo murder set off large protests lasting for days in Uruapan and several other cities in Michoacán, including the capital. Protesters not only called for justice, but also demanded that the governor, Alfredo Ramírez Bedolla, step down, and some demanded that President Sheinbaum resign. They also called for a national protest in Mexico City on November 15.

President Sheinbaum's initial reaction did little to defuse the situation. She failed to immediately send her condolences to Manzo's widow, condemn organized crime for this heinous offense, or acknowledge the frustration with the extortion, violence, and crime at the heart of the protests. She instead blamed the violence on former President Felipe Calderón's security strategy and argued the protests were fueled by opposition forces. Although she soon corrected these initial mistakes, she has failed to ask the governor to resign, despite his evident inability or unwillingness to address the security situation in Michoacán – Manzo was the seventh mayor assassinated by organized crime during his administration – and U.S. intelligence that indicates likely ties to organized crime.

The political opposition took advantage of these missteps to further politicize the situation, proclaiming that the murder was due to federal indifference. Ricardo Salinas Pliego even donned a cowboy hat, the symbol of Manzo's political movement, and called the murder a "crime of the state" caused by "an indolent and criminal government" that pursues legitimate protesters rather than going after criminals.

Sheinbaum soon met with the mayor's widow and political successor and announced a "Michoacán Plan for Peace and Justice." This will apply her crime-fighting strategy in Michoacán, which emphasizes intelligence, arrests, and social programs rather than the frontal assault on criminal organizations called for by the deceased mayor. Her interior minister met with the governor and the state's 59 mayors to determine how the program should be tailored to the region's precise needs.

These developments have placed Sheinbaum in a tricky political situation. Recent polls show that behind her headline popularity (which has now fallen to about 70% from 85% in February), Mexicans are dissatisfied with her performance on security and the fight against organized crime. The murder raised questions about the effectiveness of her signature crime-fighting strategy and concerns that the frustration evident in Michoacán could spread to other states where citizens feel insecure, including Mexico City.

In this context, Sheinbaum waded into a crowd, as she often does, outside the National Palace. A man approached her from behind and groped her. Beyond the unacceptable misogynistic action of an intoxicated man, against whom Sheinbaum brought charges, the evident breakdown in her security that allowed this to happen is disconcerting. Given the president's penchant for walking among her constituents, this event points to a previously underappreciated source of political risk in Mexico.

Additional Political Challenges

At the same time, corn farmers are protesting in several states to demand higher guaranteed prices, despite a government offer that the president says is the best she can deliver.

Turning to the opposition, the PAN announced a relaunch of the party, ending its alliance with the PRI while introducing new rules that make it easier for individuals to become party members. The reform did nothing, however, to alter the small group of politicians who control the party, making it unlikely that real change will result—albeit with one important exception. The PAN can now run candidates who are not party members, opening the door to someone like Ricardo Salinas Pliego, should he run for president in 2030.

The battle between Salinas Pliego and Sheinbaum continues. Salinas Pliego understands that he has lost his legal battle over taxes (the Supreme Court is set to rule against him on November 13), leading him to double down on his political strategy. This leaves Sheinbaum with few good options. She has argued for months that he simply must pay his taxes like any other Mexican, making a negotiated resolution impossible. Her parallel argument that the dispute is purely legal, however, belies reality. Sheinbaum is using the tax dispute to disqualify Salinas Pliego as a potential presidential candidate, but in so doing she risks making him a victim of government overreach—a role AMLO parlayed into a successful presidential run.

The depth of government concern about the political context explains Sheinbaum's decision to fast-track a constitutional reform moving up the date of the plebiscite on her presidential tenure (*revocación de mandato*). The administration hopes that moving it to 2027, in conjunction with the midterm elections, will generate a stronger turnout that allows Morena to solidify its legislative dominance. This comes alongside the electoral reform, due to be announced later this month, which is designed to improve Morena's chances of winning future elections.

Raising Tax Revenue

Sheinbaum's challenge of finding the fiscal revenues to fund Mexico's social programs alongside needed investments in infrastructure and human capital persists, especially given her refusal to raise most taxes. This has translated into redoubled efforts to collect taxes, including using AI to identify likely tax cheats and the SAT's recent announcement that it will audit 1,200 large firms—about a quarter of them—representing around 6% of all companies in Mexico.

The *amparo* reform, mentioned briefly in last month's report, will further this tax collection effort by limiting Mexicans' constitutional right to use injunctions:

1) It curbs the number of injunctions that can be filed.

2) Only individuals with a "real, current, individualized legal injury" can benefit from an *amparo*.
3) Rulings on a complaint now apply only to the litigant and cannot be generalized to other actors with similar concerns.

In addition, the *amparo* can no longer be used in response to changes in the terms of government concessions or permits, which could be especially problematic in the mining and energy sectors. The reform is not retroactive to current injunctions but applies to cases that require a new *amparo* to be filed. Overall, this reform threatens to increase regulatory risk and legal uncertainty for firms operating in Mexico.

Further Business Challenges

A specific tax dispute made headlines in October. At issue is the meaning of the term "*retorno virtual*" in the IMMEX program and whether the government can charge IVA on a final product sold in the Mexican market, even though a company already paid IVA on the inputs when they were imported into Mexico. Samsung, the affected company, argues it is being double-taxed, while the government contends that firms have long exploited this IMMEX provision to evade taxes. The dispute is currently before a divided Supreme Court, which postponed its decision until February.

Adding further uncertainty to the Mexican milieu, the Supreme Court president announced that the Court will consider its authority to revisit previous rulings and instructed the Court's most radical member, Lenia Batres, to draft a ruling on the matter.

The government, meanwhile, will introduce legislation in November mandating the 40-hour workweek.

Finally for this month, the Spanish telecoms firm Telefónica announced that it is leaving the Mexican market, pointing to the concentration of ownership and high operating costs that made expansion difficult.

Congress Approves the 2026 Budget

Congress approved the president's 2026 budget with only minor modifications, leaving in place increased taxes on sugary drinks, tobacco, violent video games, and gambling. Its austere spending plan should further reduce Sheinbaum's inherited budget deficit, but it will do little to promote growth in an economy barely avoiding a formal recession.

Bad News and Good News at Pemex

The Mexican state-owned petroleum company continues to be a drag on the economy. Pemex's third-quarter results show production down by 5.6%, exploration down by 33%, and revenues down by 11%. Last year's net profit has turned negative, and the firm's debt to suppliers has increased by 20%. On the plus side, Pemex's international debt fell by 10% and is projected to be down 32% by the end of the year.

In the electricity sector, the energy minister announced a planned 2,400 MW increase in Pemex's generation capacity over the next five years, which should raise state-controlled electricity generation to 59% of the total. At five percentage points above the mandated minimum of 54%, this should open opportunities for private electricity generation.

The Electricity Sector Takes Off Under a New Legal Framework

October 2025 marks a turning point for Mexico's power sector: the transition from reform ambiguity to regulatory clarity. Following the publication of the sector's secondary regulations (which we described in our last report), SENER surprised everyone on October

17 with the early release of the Electricity Sector Development Plan (*Plan de Desarrollo del Sector Eléctrico* or "PLADESE")—the binding roadmap for new capacity, technology mix, and asset retirements through 2039. The PLADESE now serves as the reference for siting, financing, and interconnection feasibility, meaning that projects outside its scope risk delay or denial. For investors and operators, the message is twofold: certainty now exists, but flexibility has narrowed. Three factors will be key differentiators for success through 2026 and beyond: (a) strategic positioning within SENER's planning architecture; (b) early compliance with CNE's procedures; and (c) proactive engagement with grid-planning authority CENACE.

Following the new legal framework, the National Energy Commission (*Comisión Nacional de Energía* or "CNE") published several administrative dispositions in October (with more to follow) to operationalize SENER's planning regime:

- **Application format for self-consumption generation** (0.7 MW–20 MW):
  Establishes standardized documentation for industrial and commercial self-generation.
  Implication: Enables a transparent permitting path for captive power and distributed generation users.

- **General provisions on binding planning criteria**:
  Requires all new projects to justify their contribution to reliability, continuity, energy transition, and regional demand.
  Implication: Strengthens technical oversight; compliance will be critical for both generation and storage projects.

- **General Administrative Provisions (DACGs) for generation and storage permits**:
  Define application procedures, evaluation periods (10 days for admission, 50 days for resolution), and rules for transfers or mergers.

Implication: Brings long-awaited procedural certainty; developers must update filing strategies to meet new technical and financial requirements.

Tariff Uncertainty Continues

Despite marked Mexican progress in addressing the 54 actions the USTR identified as obstacles to fair bilateral trade, the two sides failed to reach an agreement by the U.S.-imposed October 29 deadline. Instead of raising the IEEPA tariff by five percentage points as threatened, President Trump again agreed to postpone a tariff action—this time without establishing a new deadline—in an October 25 phone call with Sheinbaum.

Meanwhile, the U.S. has kept security pressure on Mexico. NBC News reported active U.S. military planning for ground operations in Mexico, albeit with the caveat that deployment is neither imminent nor decided. The U.S. also continued its strikes on drug boats in the Caribbean and Pacific Ocean, including one off the Mexican coast. Although carried out in international waters, this attack drew Mexico's attention as a signal of U.S. determination to hit drug traffickers hard with the knowledge that nearly all the drug routes being targeted ultimately pass through Mexico. Finally, the State Department continued to send a harsh message in the form of a continued stream of visa revocations for Mexican officials.

Despite this, Washington believes Mexico is cooperating on the security front in ways not seen in years and that the two sides are close to reaching an agreement on non-tariff barriers that could set the stage for a pivot to the USMCA review. Given President Trump's belief that cooperation depends on leverage, however, he is unlikely to terminate the IEEPA tariffs—though a reduction seems possible. That outcome, however, depends on a U.S. Supreme Court ruling in the administration's favor on a challenge to the constitutionality of the IEEPA tariffs. The skeptical questions raised by three conservative justices during the November 5 hearing on the issue suggest that a ruling in favor of the White House is far from inevitable.

In other trade news, the United States agreed to a USMCA exemption to its 25% duty on super-duty pickups, 80% of which are produced in Mexico. As with the broader auto-sector tariff, only the non-U.S. content of these vehicles will be taxed. As a result of this and other exemptions, Mexico has managed to keep its real effective tariff rate among the lowest in the world, according to the Yale Budget Lab.

A New Air Transportation Dispute

On October 28, U.S. Transportation Secretary Sean Duffy announced sanctions against Mexico for breaches of the 2015 binational air treaty, including the cancellation of 13 current and planned flights and a demand that cargo flights return to Mexico City International Airport. In 2022, the AMLO administration withdrew several landing slots at the Mexico City airport from U.S. airlines and ordered all cargo flights to operate out of the new Felipe Ángeles International Airport (AIFA). Sheinbaum felt blindsided by the announcement, as negotiations on the matter were ongoing. She initially responded with strong rhetoric, insisting that Mexico is "no one's *piñata*," but soon agreed to restore the landing slots in question. She drew the line, however, at the cargo flights, arguing that they cannot return to an already oversaturated Mexico City airport. Equally important, such a move could undermine the economic viability of one of AMLO's signature infrastructure projects. This new source of bilateral tension is thus apt to linger.

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