

The Mexican infra revolution

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Few things throw a cat among the pigeons more effectively for a national infrastructure programme than a change in political leadership – and that’s precisely what’s happened in Mexico.

This wisdom is built on cruel experience, most recently witnessed in Spain where Mariano Rajoy stood down as prime minister amidst corruption allegations, to be replaced by Pedro Sánchez of the Socialist Party (PSOE).

In Spain, this switch brought to a [grinding halt](#) the greenfield and brownfield transport sector and that’s how it will likely remain for the next two years. On the plus side, Sánchez favours renewable energy, so... every dark cloud has a silver lining – even if the cloud’s a lot smaller.

In last Friday’s editorial – the [World Cup one](#) – Mexico was identified to be approaching a watershed with the general election that weekend and left-wing candidate Andrés Manuel López Obrador (AMLO) widely tipped to take the day.

He is now President-elect having romped home in the polls, and remains thus until inauguration on 1 December (2018).

Much like Spain, change at the top will impact progress on the deals already in procurement – not least as many will be investigated for corruption – and developments will be further impeded as the five-month leadership transition period drags into winter.

Change – it’s a-coming

As the old saying goes, the new broom sweeps cleaner... and AMLO looks set to prove that true, rooting out corruption and investigating projects that have already been awarded.

While promising not to “do a Hugo Chávez”, this (understandably) has people worried... and right at the top of the agenda is the \$13 billion New Mexico City International Airport ([NAICM](#)). Construction started on it in 2015 with completion due 2020.

Throughout his campaign AMLO criticised the airport, claiming contracts were fundamentally corrupt (though declining to go into detail). Further, he said it was too expensive and that Mexico could not afford it. Perhaps more important, he criticised the location on the bed of the dried-out Lake Texcoco which is famed for sinking like a cooling soufflé.

The airport is being delivered by Grupo Aeroportuario de la Ciudad de Mexico (GACM) and – according to the *IJGlobal* database – the airport has in recent years raised \$10 billion:

- \$1 billion term loan – [October 2014](#)
- \$3 billion revolving credit facility – [October 2015](#)
- \$2 billion bond facility – [September 2016](#) by GACM
- \$4 billion bond facility – [September 2017](#) by GACM

However, towards the end of his electioneering – and since winning with a landslide majority – AMLO has been a great deal less vehement in criticism.

According to sources on the ground, three options are on the table:

- let it be, giving GACM the nod to push on to finish construction
- allow construction to finish and then concession it out
- cancel or greatly reduce its scope – the least likely option

Needless to say, the second option has a lot of folk sitting up and paying attention. The airport is run by a government-owned concessionaire – so (on paper) it should be fairly easy to flip on to a new owner.

However, the bonds issued over the years for the construction work require that the concessionaire be controlled and majority-owned by the government... which may hamper its sale, leaving Mexico with a watered-down part-privatisation. If AMLO were to go down the full privatisation line, they would have to amend the notes – which would be challenging.

The Mexican airport sector is interesting to the international community, especially given that World Bank air traffic stats reveal impressive passenger trends in recent years – figures spiralling from 15.7 million in 2009 to 58.5 million in 2017.

This will prompt expansion work to existing facilities – beyond NAICM – through the government’s five-year airports capex programme. The next one runs from 2020-24 and it will reflect growing traffic numbers.

One transport project that crops up in conversations is the “Mexican Silk Road”. This fascinating project originates from the early 20th Century and would deliver a rail corridor connecting the Pacific Ocean with the Caribbean Sea, running across the Isthmus of Tehuantepec. If it ever makes it off the drawing board, Mexico’s goal is to create an alternative to the Panama Canal.

More to Mexico than an airport

The mood in Mexico is bullish on the infrastructure investment front, buoyed by a strong belief that projects with greatest social / economic impact will lead the agenda. But for now, it’s a waiting game.

Appetite remains strong for involvement in the country and – while few new projects will be tendered in the next year-and-a-half – the outlook is positive, especially given that extra 1% of GDP that is promised for infrastructure.

In the meantime, renewables and gas pipelines will keep the market ticking over as the oil and gas sector looks on nervously. AMLO is a fierce opponent of privatisation in the oil industry, but as the campaign progressed he eased up on this front saying he will respect existing contracts and the rule of law.

The new president is unlikely to dismantle energy reforms that were launched by Enrique Peña Nieto in 2013, opening up the industry for international players – developers and investors. This heftily impacted the O&G sector, bringing to an end the Pemex monopoly. In the power sector, it led to electricity auctions which has lowered power prices.

Gas-fired power plants and pipelines – possibly also a new LNG regas facility – will continue to see investments, taking advantage of low gas prices in the US. Mexico is a major buyer of US gas.

One key project to track in the coming months is the 1,400km, \$1.1 billion Baja California transmission line project – [Mexicali-Hermosillo Transmission Line](#) – which is slated for award in September.

There is strong political support for this project to connect the Baja California peninsula to the national grid and is the first auction to develop transmission lines with private capital since the 2013 energy reform.

The Mexican Secretariat of Energy (SENER) has run three long-term power auctions since the 2013 reform and most projects from the first two rounds are progressing nicely.

However, doubts surround the third auction and whether these projects will happen. The consensus is that power prices are too low and projects aren't bankable – even by development banks and local lenders which are heavily exposed to the first two rounds.

In that environment, the fourth long-term power auction that was announced in March by Mexico's Energy Regulatory Commission (CRE) and the National Centre for Energy Control (CENACE) – replacing SENER which ran the previous rounds – is being treated with outright scepticism.

Earlier this year, CRE claimed the results of Round 4 would be announced on 2 November (2018), successful projects signed on 15 February 2019, commercial operations slated for 1 January 2021.

And the market says: "Fat chance."

Everyone loves renewables

Mexico threw its weight behind renewable energy years ago. In fact, a national project won *IJGlobal* LatAm Solar Award 2017 with the 290MW [Solem Solar PV Complex](#) that is being delivered by Cubico Sustainable Investments and Alten Energías Renovables.

It has an established stated ambition to increase electricity generated from clean energy sources (including nuclear). The goal for 2020 has already been met and it now targets 35% by 2024 and 50% by 2050.

One year ago (June 2017) the Mexican Secretariat of Energy (SENER) published the Development Program of the National Electric System (PRODESEN) for 2017-31. Back then, it was envisaged that investment into generation, transmission and distribution would amount to more than \$107 billion over 15 years.

Most of that sum – 81% – is to be invested in power generation projects, mainly in the clean energy space... and of that mix, wind is to account for 23% and solar 13%.

With an established renewable energy sector already in play in Mexico and sound regulation around PPAs, this will continue unabated by this leadership change as the motivation transcends politics.

Renewable energy projects are also seen as an ideal solution to lack of grid connectivity in more remote regions.

Overview

The outlook for Mexico is overall positive with some concerns in the coming months and project lag for those in procurement. The airport will make its architect – Lord Norman Foster – proud once completed though Mexicans have every right to grind their teeth over the cost as it sinks into the sediment of the sinking lake.

As one leading lender on the ground says: "The private sector is going to play a role. We know that they are in favour of renewable energy, however they also have a stance around keeping employment local and giving government-owned companies more of a role.

"One key question I have is that if the government is going to play a more active role investing in renewables – rather than letting private parties do it – who is going to fund that? If it's going to be through CFE, that's going to put pressure on their financials. If they're going to keep the less efficient, costly power plants owned by CFE, that will prevent them from improving their operating margins in the short term."

Meanwhile another senior infra adviser in Mexico says: "There is clear talk of continuing the energy reform, developing all those assets – possibly shifting the view towards energy sovereignty... but definitely keeping private involvement and allowing for international investment."

Now, where's my passport. I hear the Axolotl (Mexican salamander) are delicious though hugely endangered by an airport crashing through their natural environment.

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