

AMLO's new Mexican infra reality

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Mexican president Andrés Manuel López Obrador (AMLO) was elected in July 2018 and since then two major infrastructure initiatives have been cancelled and another may soon follow suit, making international investors nervous about other projects in procurement.

Despite the cancellations, AMLO claims to be a strong backer of infrastructure development and has promised lower power prices. While many market watchers remain generally optimistic, a lack of clarity on the government's plans is cause for some concern.

One thing is clear, Mexico urgently needs to invest in its infrastructure. Thankfully investors already established in the country still consider it an attractive destination, though the general consensus is that it is not for everyone and many potential new entrants are taking a “wait and see” attitude.

AMLO confirmed the cancellation of the New Mexico City Airport (Nuevo Aeropuerto Internacional de México - [NAIM](#)) project in October 2018 while still President-elect following a public referendum, and then a planned [energy auction](#) was halted in early February. Now another referendum is due to be called for the Huesca thermal power plant.

The long-term impact of these cancellations is not yet known. The [scrapping of the fourth long-term power auction](#) should not hinder developers already seeking private PPAs. AES still plans to construct more than 500MW in the country in 2019, and there are merchant projects getting financed, such as Spanish developer [Eosol's fully-merchant solar plant](#) which is expected to close around April.

“Despite the airport cancellation, the Mayan train, or the announcement of a probably unsustainable construction of a new refinery, several of my clients are still moving forward,” said a New York-based lawyer.

A Mexican banker said that it is “business as usual, and the future is bright in Mexico.”

Alexandro Padrés, a partner at Shearman & Sterling has an optimistic but cautious view: “The messages we keep seeing from the government in infrastructure-related areas are mixed. The lack of clarity is concerning for the international investor coming to the country for the first time. However, we do have clients who already have investments in Mexico and they continue to pursue opportunities for new investments.”

One lingering fear is that the power auction cancellation will actually mean the complete revision of the energy reform enforced by former president Enrique Peña Nieto. AMLO recently stated that contracts between private companies and the state-run electricity utility Federal Electricity Commission (CFE) would be revised in order to keep power prices low.

Whether investors like it or not, this is the new Mexico, with plenty of opportunities and a number of likely challenges to overcome.

AMLO's priorities for infrastructure include:

Mexico City Airport – After a public consultation, the government decided to cancel the construction of the [international airport in Mexico City](#). A group of creditors who claim to hold more than half of the notes issued for the project rejected the [initial proposal](#) (on 5 December), later improved by the administration (on 11 December) and [finally approved](#) by both sides (14 February). Capped at \$1.8 billion of \$6 billion outstanding, the buyback offer includes a par price added to accrued and unpaid interest. The offer was seen in the market as an attempt to boost confidence that the president will protect and honour agreements with investors. Plans to turn [military base Santa Lucia](#) into an international airport are moving ahead. AMLO also wants to build a [third terminal](#) at the existing international airport Benito Juárez (AICM).

Development of Istmo de Tehuantepec – Also known as the Mexican Panama Canal, AMLO wants to build a 300km corridor to connect the Pacific and Atlantic oceans. The project would include the construction of a cargo train, and the modernization and expansion of existing ports, roads and airports, with improvement in telecommunications in the region. Investment is expected to start at Ps40 billion (\$1.982 billion).

Mayan Train – The construction of this railroad is aimed at developing tourism and consequently boosting the regional economy in a remote part of the country. With environmental challenges (since it will cross regions with a lot of vegetation) and opposition from indigenous people, the railroad will see the development of around 830km of track with total costs estimated between \$6 billion and \$8 billion. Bankers question the profitability of the project that would connect major archaeological centres of the Mayan culture in five Mexican southeastern states. The [government will provide 10%](#) of the total cost and private companies will finance the remaining 90%.

Refineries – Part of AMLO's campaign pledge is to reduce fuel prices. Today, the country imports gasoline and diesel from the US. Unhappy with this dependency, AMLO has announced the construction of a new refinery at the Dos Bocas port in Tabasco. This will be the seventh refinery in the country and cost \$8 billion. This project has been highly criticised, as the existing refining system is operating at its lowest level in three decades. Construction contracts could be awarded as soon as March 2019. Refining plans include overhauling the six existing refineries and bringing gasoline production up to 600,000 barrels a day by mid-2020. On 15 February, the government announced a \$5.2 billion stimulus package to state-owned oil company Pemex, without specifying if it will be directed to the construction. The company has become the world's most indebted oil operator in recent years.

Upstream – The president has promised to honour existing contracts awarded at oil regulator CNH's auctions. His aim is to increase national production, but by strengthening state-owned Pemex instead of bringing in private investors. On 11 December, he cancelled two oil and gas auctions scheduled for February. The bid rounds 3.2 and 3.3 would have offered onshore and offshore blocks, including awarding shale resources - a first for Mexico. The government has also postponed seven farmouts from Pemex.

Power – The government wants to increase hydropower and renewable generation. However, AMLO's government (Proyecto de Nación 2018-2024) is aiming to strengthen CFE. Renewable projects account for less than a quarter of Mexico's installed power capacity, while the average in Latin America is approximately 50%. However, this has been met with some scepticism by investors due to the [cancellation of the fourth long-term auction](#) for clean energy.

Rural roads – AMLO has promised to build and improve roads to connect rural communities. Some of these plans do not include toll roads or even cemented roads in some cases. But the project is expected to generate jobs and create economic opportunities to some of the poorest regions in the country.

Fertilizer plants – Mexican fertilizer production is in decline and AMLO wants to not only resume production but also for the country to become self-sufficient. Production has been compromised due to the lack of gas in the country, essential to production. A \$5 billion plant in Topolobampo, Sinaloa, is under construction by Swiss-German EPC contractors Proman AG's Mexican subsidiary Gas y Petroquímica de Occidente. Approximately \$1 billion will be invested in the first stage of the project. Construction had been initiated several years ago but was shut down in 2015 by the environmental protection agency Profepa.

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