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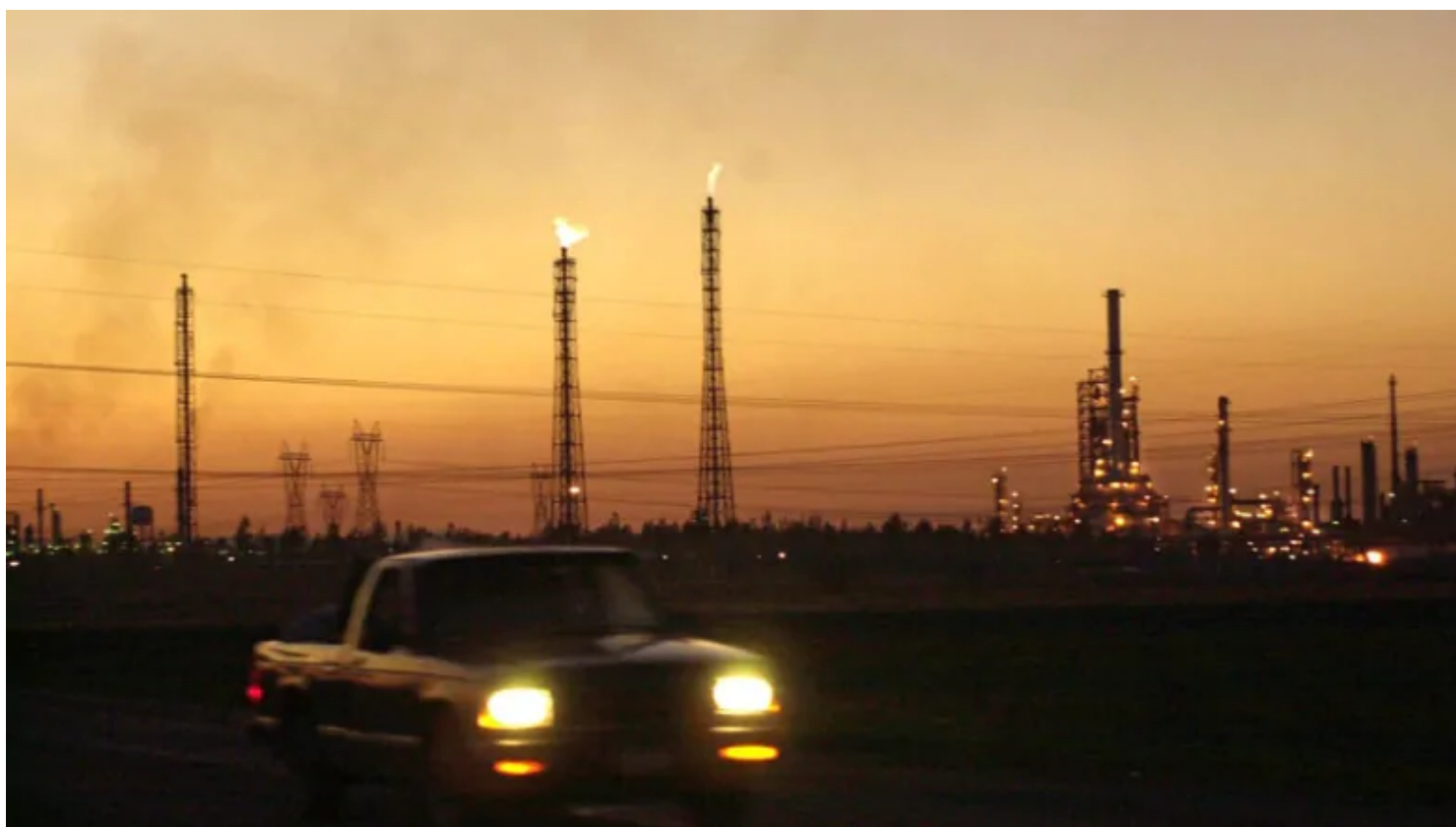
Business

Pemex reforms could open doors to Mexican oil fields



Historic changes proposed to state-owned oil and gas company

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A truck drives past a refinery in Salamanca, Mexico, 280 km northwest of Mexico City. President Enrique Peña Nieto has put forward a daring proposal to revamp energy policy and modernize the state-owned Pemex. (Marco Ugarte/Associated Press)

Oil and gas producers from Canada and around the world could gain access to crude oil in Mexico, a market that's been closed for 75 years, if a new proposal by the Mexican president wins approval.

President Enrique Peña Nieto presented a bill to Congress today that would restructure Pemex and end the state oil company's monopoly.

- **Mexico's former ruling party wins presidential election**

But the change requires a change to the Mexican constitution and restructuring of a company plagued by pension liabilities, corruption, outdated technology and falling production.

Mexico's oil fields that are the easiest to access are drying up and Pemex lacks the equipment and technology to explore for new reserves in deep water or to extract shale gas. Production has plunged about 25 per cent over the last decade, and output has been dropping for the last eight years.

Instead of investing in new equipment, the state-owned company is struggling to pay its annual tax burden. Mexico faces the prospect becoming a net energy importer in a few years unless new production is brought online.

Still Peña Nieto stopped short of allowing direct foreign investment in Mexican oil fields, a politically risky proposal in Mexico, where the oil industry was nationalized in 1938.

Instead, private companies would be able to bid for profit-sharing contracts in Pemex's businesses, including refining, petrochemical production and transportation. There were few details released of how these private companies would work alongside Pemex.

"The private sector will be able to contribute and this will lead to lower prices," said Gerardo Gutierrez Candiani, head of the private Business Coordinating Council. "It's a historic plan that will allow us to get to where investment is going where it should be. That will definitely be reflected in Mexicans' pocketbooks."

Exxon, Chevron, Royal Dutch Shell and Repsol are among major producers that have expressed interest in Mexican oil fields.

Fundamental shift

Eric Farnsworth, vice president at Council of the Americas in Washington, D.C., calls the measures a seismic shift in Mexican attitudes.

"This is a fundamental shift in terms of Mexican political opinion toward the hydrocarbon sector and it would allow for the first time international and companies from Canada, the U.S. and elsewhere to invest directly in Mexico's oil and gas sector and also in the power generation sector," he said in an interview with CBC's *Lang O'Leary Exchange*.

Farnsworth says Mexicans may finally have realized that Pemex is in such bad shape from lack of modernization that something has to be done. He says the firm has been starved of investment capital to feed the state piggybank and Mexico will have to set the right conditions to attract international capital.

"Mexico is looking at a competitive situation — they are going to have to attract resources that, frankly, would go to other places. That's the key for them — they are going to have to open up wide enough and address [risk] enough that at the end of the day companies will say 'This may be a risky alternative, but the upside is great enough we can take that risk,'" Farnsworth said.

Canadian companies will size up the market if the changes pass the legislative process, he added.

"Companies will have to make their own determinations based on the final regulations and laws ... but having said that, Mexico can be a very attractive market for investment. Canadian companies are going to take a look at Mexico the same way that other countries are going to and compare Mexico against Canadian opportunities, against U.S. opportunities, against Brazilian opportunities."

A gamble for Pena Nieto

The proposal is a big gamble for Pena Nieto, who needs the support of both his own Institutional Revolutionary Party and the conservative National Action Party to push the plan through Congress. The measure then would have to be approved in 17 of the country's 32 state legislatures.

The plan faces significant opposition from at least two Mexican political parties and it will be a struggle to win over the Mexican people.

Mexicans are proud of their nationalized oil industry and many still oppose any involvement by private companies, especially foreigners.

Pena Nieto repeatedly has assured Mexicans that his plan will not privatize the industry, but would allow private firms to share in a percentage of the oil they find.

Mexico has the biggest proven oil reserves in Latin America after Venezuela and Brazil, with 13.87-billion barrels, and shale gas resources that may be as high as 13 trillion cubic metres, according to data compiled by Pemex.

With files from the Associated Press

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