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Mexico: Law and Practice

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MEXICO

Law and Practice

Contributed by:
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Basham, Ringe y Correa

Contents

Basham, Ringe y Correa was founded in 1912 and is one of Latin America's leading full-service law firms, with offices in Mexico City, Monterrey, Querétaro and León. The firm advises national and international clients, including Fortune 500 companies and major financial institutions. Basham's energy practice is supported by a dedicated team of seven specialised lawyers with deep expertise across the oil and gas value chain. The team provides comprehensive legal counsel on upstream, midstream and downstream matters, including regulatory compliance, permitting, asset acquisitions, and the marketing of equipment and services. Since Mexico's 2013 energy reforms, Basham has played a key role in helping clients navigate the country's complex and evolving legal framework. The firm advises oil companies, LNG developers, pipeline operators, fuel distributors and industrial users of petroleum products. With national reach and strong technical capabilities, Basham is a trusted legal partner in Mexico's dynamic energy sector.

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1. General Structure of Hydrocarbon Ownership and Regulation

1.1 System of Hydrocarbon Ownership

Article 27 of the Mexican Constitution provides that all liquid, solid and gaseous hydrocarbons in the subsoil are inalienable and imprescriptible property of the nation. Consequently, the Mexican State retains ownership of oil and gas resources.

There are no federal, state or private ownership interests in hydrocarbons, as such resources belong exclusively to the nation. Exploration and production activities may be carried out through assignments granted by the Ministry of Energy (*Secretaría de Energía*, SENER) exclusively to the state-owned entity, Petróleos Mexicanos (PEMEX), or through exploration and extraction contracts awarded in accordance with the Hydrocarbons Sector Law (*Ley del Sector Hidrocarburos*, LSH).

Assignments may be structured as standalone assignments, operated exclusively by PEMEX, with private participation limited to service agreements, or as joint development assignments, where PEMEX or a private entity may act as operator.

In the case of joint development assignments, PEMEX may enter into joint operating agreements with private entities to obtain technical and financial assistance, subject to terms and conditions approved by SENER. In these cases, PEMEX must retain at least 40% participating interest.

SENER may award exploration and extraction contracts in accordance with the LSH through public tender processes. PEMEX may also partner with private entities to submit joint tenders.

1.2 Regulatory Bodies

Operating under SENER and regulated by the National Energy Commission Law, the CNE is the primary operational regulator for hydrocarbons, responsible for regulating, supervising, authorising and sanctioning, as applicable, energy sector-related activities.

In the hydrocarbons sector, the CNE is responsible for regulating compensation, prices and tariffs, as well as granting, modifying, terminating and supervising permits related to processing, liquefaction, regasification, compression, decompression, transportation, storage, distribution, marketing and retail sale of natural gas, refined petroleum products and petrochemicals.

The CNE is also responsible for monitoring compliance, establishing applicable requirements and enforcing sanctions for non-compliance. In addition, the CNE collects, manages and publishes hydrocarbons-sector information within the scope of its authority.

Please see its website for more details: [Comisión Nacional de Energía | Gobierno | gob.mx]

Additionally, under the LSH and the Organic Law of the Federal Public Administration, SENER remains the highest-level policy-making body. In the hydrocarbon sector, SENER is responsible for establishing, conducting and co-ordinating national energy policy, as well as supervising compliance with such policy.

SENER also plans medium- and long-term energy policy and sets economic and social guidelines for the national energy sector.

Furthermore, SENER grants exploration and extraction assignments to PEMEX under standalone or joint development schemes, approves national development plans and oversees international agreements related to energy.

For further information please visit: www.gob.mx/sener.

At the state and municipal levels, regulatory involvement in the hydrocarbons sector is limited. Local authorities may participate in matters such as environmental permitting, land use authorisations and civil protection requirements. However, state and municipal authorities do not have jurisdiction over subsoil resource rights or contractual arrangements related to hydrocarbons, as this remains within federal jurisdiction.

1.3 National Companies

PEMEX is Mexico's national oil and gas entity (refer to **1.1 System of Hydrocarbon Ownership**).

1.4 Principal Hydrocarbon Law(s) and Regulations

Mexico's hydrocarbon sector is regulated at the federal level by the LSH and its Regulations.

The LSH governs upstream, midstream and downstream activities and establishes the regulatory framework applicable to the sector, including the roles of the SENER and the CNE. The LSH also regulates exploration and extraction assignments.

The Regulations further develop the provisions of the LSH and establish the procedural and operational requirements applicable to activities regulated under the LSH.

At the state and municipal levels, regulatory involvement in the hydrocarbons sector is limited. Local authorities generally participate in matters such as environmental impact, land use authorisations and civil protection requirements, but do not have jurisdiction over hydrocarbon resources or federal-sector regulation.

The LSH does not contain specific pooling or unitisation provisions. However, the joint development assignment framework allows PEMEX and private entities to undertake co-ordinated resource development activities, which may facilitate joint operations involving shared reservoirs or contiguous areas.

2. Private Investment in Hydrocarbons: Upstream

2.1 Forms of Private Investment: Upstream

Under the current legal framework, private parties may participate in upstream activities either directly through exploration and extraction contracts awarded by SENER or indirectly through contractual arrangements with PEMEX.

Direct participation may occur through exploration and extraction contracts awarded by SENER through public tender processes. Available contractual models include service agreements, production-sharing agreements, profit-sharing agreements and licence agreements. These contracts may grant private investors the right to explore for, develop and produce hydrocarbons, although ownership of hydrocarbons in the subsoil remains vested exclusively in the Nation.

Indirect participation may occur through PEMEX assignments. Under self-development assignments, PEMEX retains exclusive exploration and extraction rights but may engage private entities through service agreements, subject to the corresponding regulatory approvals.

Private parties may also participate through joint development assignments. Under this model, PEMEX may associate with private entities to strengthen technical, operational, execution or financial capabilities. Such arrangements require the prior authorisation of

SENER and PEMEX's board of directors, and PEMEX must retain at least a 40% participating interest in the relevant project.

Recent federal policy and PEMEX's 2025–2030 work plan also point to the use of mixed-participation schemes with private parties for certain upstream projects, including the reactivation of closed wells and specific crude oil and natural gas extraction projects. However, the specific tender terms and contractual structures are expected to be defined on a project-by-project basis.

Historic exploration and extraction contracts, including profit-sharing, production-sharing and licence agreements, remain valid and continue to be governed by their original contractual terms and applicable regulatory framework. Under the LSH, private participation in new upstream projects may occur through the mechanisms described above, subject to the applicable approvals and tender requirements.

2.2 Issuing Upstream Licences/Obtaining Hydrocarbon Rights

The LSH provides that exploration and extraction contracts may be awarded by SENER through public tender processes. These tenders are conducted under a competitive framework intended to promote efficient development of hydrocarbon resources and national benefit.

Private investors must satisfy technical, operational and financial requirements established in applicable tender guidelines. These may include demonstrating relevant exploration and production experience and financial solvency. Depending on the tender or the characteristics of the contract area, participants may also be required to provide tender bonds, performance guarantees or similar financial support.

The tender process for exploration and extraction contracts includes the submission of an expression of interest, the review of eligibility and pre-qualification materials, the technical and economic evaluation of proposals, and the award of the contract to the highest-ranked qualified tenderer.

Once a contract is awarded, separate permits and authorisations are generally required before field operations may commence. Depending on the location and potential impact of the project, these may include environmental impact authorisations, land use approvals, social impact assessments and other sector-specific permits.

The current regulatory framework also provides for exploration and extraction rights to be assigned directly to PEMEX. Private-sector participation remains available through collaboration mechanisms in PEMEX-led projects, including service agreements, joint development assignments and other strategic arrangements aimed at contributing technical, operational and financial capabilities.

The most significant recent change in the regulatory approach is the 2025 hydrocarbons reform, including the enactment of the LSH and its Regulations, which reinforced SENER's role in the hydrocarbons sector and reorganised the regulatory framework. Under this framework, private participation in upstream activities remains legally available, but is expected to be more closely linked to PEMEX-led projects and subject to greater State oversight.

2.3 Typical Fiscal Terms: Upstream

As of 2026, the applicable tax remains the Petroleum Duty for Wellbeing (*Derecho Petrolero para el Bienestar*). The fiscal terms that apply to Mexican upstream activities are as follows:

- A 30% production levy applies to crude oil production, calculated based on the gross value of the hydrocarbons produced.
- An 11.63% tax applies to non-associated natural gas, calculated based on the gross production value.

General corporate income tax applies to upstream operators, who also need to fulfil certain development obligations such as minimum work programmes and infrastructure commitments. Specifically for sensitive or high-impact regions, operators may also be required to comply with social investments, such as community programmes and environmental safeguards.

Hydrocarbon extraction rights are granted subject to the operator's compliance with the relevant fiscal duties and operational obligations. Once the applicable levies have been paid, ownership of the extracted hydrocarbons is transferred to the operator.

Key Fiscal Terms

The main fiscal terms include the following.

Signature bonus and exploration phase fee

A one-time bonus is paid when executing the contract, and a periodic contractual fee is paid throughout the exploration phase.

Royalty on hydrocarbons

A variable rate applies to the contractual value depending on each hydrocarbon, detailed below.

Crude oil

- A fixed rate of 7.5% applies if the contractual price is under USD48 per barrel.
- When the contractual price is equal to or over USD48 per barrel: rate = (0.125 x price) + 1.5 (%).

Natural gas

- The rate for associated gas = (contractual price ÷ 100).
- The rate for non-associated gas is:
  - (a) if the price is ≤ USD5/MMBTU: 0%;
  - (b) if the price is > USD5 and < USD5.5/MMBTU: rate = [(price – 5) × 60.5] ÷ price (%); and
  - (c) if the price is ≥ USD5.5/MMBTU: rate = (price ÷ 100).

Condensates

- Rate of 5% applies if the contractual price is under USD60 per barrel.
- When the price is equal to or over USD60 per barrel: rate = (0.125 × price) – 2.5 (%).

Profit share or additional payments

An additional percentage of the contractual value of hydrocarbon licence contracts is paid to the State. However, these rates depend on each agreement and public tender guidelines.

2.4 Income or Profits Tax Regime: Upstream

Upstream operators other than assignees are subject to Mexico's general federal tax regime, meaning no separate hydrocarbon-specific income tax needs to be paid. These operators may be contractors under licence, profit-sharing or service contract holders.

Key Taxes

The main taxes include the following.

The Petroleum Duty for Wellbeing

This is a progressive levy for assignees (PEMEX), which does not allow deductions and applies to the gross value of extracted hydrocarbons. By the 25th of the month following the applicable period, assignees are required to submit estimated payments for their annual duty. Where credit balances arise, they must be adjusted for inflation and applied against subsequent payments of the same duty.

Corporate income tax (ISR)

The standard rate is 30%, which is imposed on net income at a federal level. Regarding upstream operators, some specific costs may be deducted, such as qualified exploration and development expenditures depending on depreciation and amortisation rules.

Value-added tax (VAT)

VAT applies to specific transactions relating to services, imports and equipment leasing.

Withholding taxes

Dividends, interest, royalties and service fees paid to foreign entities may be subject to these taxes, depending on applicable tax treaties and the tax residency of the counterparty.

Surface rights payments

Upstream operators must pay annual fees regarding the usage or occupation of public or private land, depending on the area awarded.

In 2026, no state-level income taxes or severance taxes apply specifically to upstream oil and gas activities. Nonetheless, state and municipal governments may apply administrative fees, permit-related charges and other service contributions related to land usage, environmental impact mitigation and infrastructure.

2.5 Federal or State Companies

Since the 2025 hydrocarbons reform, PEMEX has held a preferential statutory position in connection with upstream oil and gas activities. Under the LSH, SENER may grant exploration and extraction assignments to PEMEX under two principal structures.

First, under an assignment for self-development, PEMEX is granted the right to carry out exploration and extraction activities directly, using its own technical, operational and financial resources.

Second, under an assignment for joint development, PEMEX is granted the relevant exploration and extraction rights but may involve private parties to complement its technical, operational, financial or execution capacity. In these structures, PEMEX must maintain at least a 40% participating interest and a cost recovery of up to 30% of revenue value. The relationship with private participants is documented through mixed contracts, which regulate the relevant commercial and operational terms, including governance, decision-making, risk allocation and other project-specific arrangements.

2.6 Local Content Requirements: Upstream

Mexican upstream oil and gas operations continue to be regulated at the federal level under the LSH. Local governments do not impose specific or binding requirements.

At the federal level, private investors that engage in upstream activities need to prioritise Mexican goods, services, labour and technology usage throughout project development and production stages.

Exact percentage margins depend on the type and scale of projects. Nonetheless, the main goal is to build a stronger domestic supply chain, foster knowledge transfer and develop the workforce. State and municipal authorities may participate in supervising community engagement or promoting training activities, although they do not create their own local content rules or hiring requirements beyond what is already mandated by federal law.

The Ministry of Economy, in co-ordination with the CNE, supervises local content compliance.

2.7 Development and Production Requirements

Under the LSH, introduced in 2025, assignees need to submit a detailed development plan for SENER's approval before production begins following a commercial discovery. This plan must establish the proposed technical, operational, financial and environmental methods for field development. Once SENER confirms the proposed plan complies with national energy policy goals and meets technical standards, approval is granted.

Furthermore, assignees need to conduct and submit a social impact assessment to SENER, identifying any possible social effect on nearby communities regarding the project, and proposing mitigation actions in such case. SENER must review and authorise this assessment within an established timeframe.

Additionally, assignees must obtain SENER's drilling permits before exploring wells, including deep and ultra-deepwater wells, and type wells used as design models. Permit approval depends on regulatory timelines; however, if no response is obtained from SENER in the established period, the request is taken as approved. SENER may also classify non-viable wells for potential reuse in geothermal or lithium recovery projects, depending on applicable abandonment and development regulations.

The regulatory framework is concentrated at a federal level; however, assignees need to comply with any local applicable regulation regarding land use and environmental safeguards. If SENER denies permits, assignees may appeal the decision following Mexican administrative law procedures.

2.8 Other Key Terms: Upstream

The key terms applicable to upstream rights in Mexico are determined by the relevant assignment title or exploration and extraction contract, together with the LSH, its Regulations and the applicable technical and operational terms.

These instruments generally address the relevant area, exploration and extraction periods, work and investment commitments, term and extension conditions, insurance or guarantee requirements, minimum national content, reduction, return or relinquishment of the area, revocation or termination events, liability and surviving obligations.

The LSH does not establish a general domestic supply obligation requiring upstream title holders to reserve a fixed percentage of production for the Mexican market. However, the disposition of hydrocarbons, economic entitlements to production or proceeds, and any commercialisation or delivery obligations will depend on the type of assignment or exploration and extraction contract and the specific terms of the relevant title or contract.

Assignees and contractors are subject to operational, environmental, industrial safety, reporting and compliance obligations, including liability for damages arising from leaks, spills or other events related to their activities.

Withdrawal, revocation, termination and abandonment are governed by the applicable title, contract and regulatory framework, and may include operational continuity, well plugging, dismantling and removal of equipment, site restoration and remediation.

2.9 Transfers of Interest: Upstream Licences and Assets

Transfers of interests only apply to exploration and extraction contracts, subject to SENER's approval. Both the original contractor and the transferee must hold the same financial, technical and operational credentials. The CNE may be asked to advise on regulatory compliance.

The formal application initiating the transfer process must include transaction terms, evidence of the transferee's credentials, and, if applicable, updated guarantees or bonds.

Transfers of operatorship are subject to a rigorous review and require separate approval. Unless liabilities are expressly reassigned, existing ones remain with the transferor. Although administrative fees may be generated, special federal taxes do not apply and no government right of first refusal exists.

2.10 Restrictions on Production Rates

As Mexico is not a member of OPEC, no international framework imposing mandatory production quotas applies. Nevertheless, the CNE may establish production restrictions to support resource conservation, prevent reservoir damage, and promote market stability. Such measures are assessed on a case-by-case basis, typically taking into account field-specific technical evaluations and national supply and demand considerations.

Operators must comply with the production limits established in approved development plans while adhering to sustainable, long-term industry best practices. Regulation of production activities is managed exclusively at the federal level.

3. Private Investment in Hydrocarbons: Midstream/Downstream

3.1 Forms of Private Investment: Midstream/Downstream

Private investment is permitted in midstream and downstream activities involving petroleum, natural gas, petroleum products and petrochemicals in Mexico, subject to the applicable permits under the LSH and its Regulations.

Midstream and downstream investments are structured through permit-based projects, including transportation, storage, terminal operations, processing, compression, liquefaction, regasification, formulation, refining, commercialisation, distribution and retail sales, depending on the product and activity involved.

Permits are granted by SENER or the CNE depending on the relevant product and activity. SENER grants permits for petroleum treatment, refining, import, export, transportation, storage and commercialisation, as well as import and export permits for natural gas, petroleum products and petrochemicals.

The CNE grants permits for other midstream and downstream activities involving natural gas, petroleum products and petrochemicals, including, as applicable, processing, liquefaction, regasification, compression, decompression, formulation, transportation, storage, distribution, commercialisation, retail sales, self-consumption dispatch and the management of integrated systems.

Permit holders are subject to ongoing regulatory, safety, environmental, reporting, quality, measurement and compliance obligations. Open access and non-unduly discriminatory access obligations apply to pipeline transportation, pipeline distribution and storage activities, where applicable.

In addition, certain downstream and petrochemical projects may be structured through PEMEX-led mixed-participation schemes or other contractual arrangements with private parties. Recent announced projects include the reactivation and modernisation of petrochemical complexes, fertiliser-related infrastructure and refining or petrochemical initiatives, subject to the applicable permits, approvals and project-specific terms.

Also, recent investment-promotion measures under the so-called *Plan México* and the LFIIEDB may be relevant for certain strategic infrastructure projects, including energy-related projects such as oil production, natural gas and energy transition projects. These measures contemplate mixed-investment schemes, long-term contracts, co-investment structures, special purpose vehicles and trusts. However, they do not replace the permit-based regime under the LSH or exempt investors from obtaining the applicable sector, environmental, land use, social impact and other required approvals. Participants may share risks, costs, investments and returns under flexible structuring arrangements.

While the State retains ownership, control, and responsibility for defining the social objectives of strategic projects, private investment facilitates their development.

3.2 Downstream Operations Run by a National Monopoly: Rights and Terms of Access

There is no statutory national monopoly over downstream hydrocarbons operations in Mexico. Private investment is permitted, subject to the applicable permits under the LSH and its Regulations, although PEMEX continues to have a significant market presence.

Access to downstream infrastructure is governed by the open access regime applicable to permit holders providing pipeline transportation, pipeline distribution and storage services to third parties. Access must be granted on an open and non-unduly discriminatory basis, subject to available capacity, the applicable terms and conditions of service and payment of the authorised tariff.

State-owned public companies and their subsidiaries are not subject to the same open access and economic regulation regime. However, where capacity is available, they may provide transportation, pipeline distribution or storage services under their permits.

The CNE approves maximum tariffs or consideration for regulated activities, based on criteria intended to protect users, ensure reliable and safe access, avoid monopolistic practices, allow efficient cost recovery and provide reasonable returns.

3.3 Issuing Midstream/Downstream Licences

As of 2026, midstream and downstream permits in Mexico are granted by the CNE or SENER, depending on the activity and product involved, under the LSH and its Regulations. This reflects the current allocation of authority following the 2025 regulatory overhaul, under which the CNE assumed several functions previously held by the former CRE, while SENER retained authority over certain petroleum activities and import/export permits.

Private investors must submit permit applications demonstrating compliance with the applicable legal, technical, financial, safety, environmental and social requirements. Depending on the project, applications may include project descriptions, technical and operational information, infrastructure designs, risk mitigation measures, business plans and evidence of compliance with environmental and social impact requirements.

As a general rule, midstream and downstream permits are granted on an individual basis following regulatory review by the competent authority, and no public tender is required.

Additionally, recent investment-facilitation measures may also be relevant for qualifying strategic energy infrastructure projects. In particular, the recently enacted Immediate Investment Authorisation Decree allows eligible projects, including projects in strategic sectors or investments equal to or greater than MXN2 billion, to request an authorisation to begin implementation while applicable federal permits and authorisations continue to be processed through the National Digital Investment Window. This mechanism does not replace the hydrocarbons-permitting regime under the LSH, but may allow parallel processing and faster administrative co-ordination for eligible projects.

3.4 Fiscal Terms and Commercial Arrangements: Midstream/Downstream

Commercial arrangements for midstream and downstream operations in Mexico, including transportation, storage, refining and fuel marketing, are generally structured through service agreements, supply agreements, storage or terminal use agreements, capacity arrangements, joint ventures or other long-term commercial arrangements, depending on the permitted activity and infrastructure involved.

These agreements may include firm or interruptible service terms, volume or capacity commitments, and take-or-pay or similar payment obligations, where applicable.

Tariffs, consideration and terms of service for regulated activities are subject to approval or oversight by the competent authority, which may be SENER or the CNE depending on the product and activity involved. Open access and non-unduly discriminatory access obligations apply to pipeline transportation, pipeline distribution and storage services, subject to available capacity, applicable service terms and payment of the authorised tariff.

3.5 Income or Profits Tax Regime: Midstream/Downstream

Midstream and downstream activities in Mexico are subject to the general federal tax regime. This includes corporate income tax at a 30% rate, value-added tax (VAT) on applicable transactions and, in the case of fuel sales, the special tax on production and services (IEPS).

For income tax purposes, the Hydrocarbons Income Law provides a special deduction regime for contractors carrying out midstream activities under exploration and extraction contracts. Under this regime, contractors apply accelerated deduction rates instead of the depreciation rates generally provided under the Mexican Income Tax Law.

These rates are 100% for investments in exploration, secondary or enhanced recovery and non-capitalisable maintenance; 25% annually for investments in field development and exploitation; and 10% for indispensable storage and transportation infrastructure required for contract performance, including pipelines, terminals, transport equipment or storage tanks used to deliver contractual production to the relevant delivery or measurement points.

No general sector-specific tax exemptions are available for midstream or downstream operations. However, tax incentives are available for certain projects located in designated development areas or aligned with national energy and sustainability objectives, subject to compliance with the applicable requirements.

All entities must comply with the tax reporting and payment obligations established by the Mexican Tax Authority.

In addition, under the LFIIEDB, private and mixed-investment entities developing midstream or downstream infrastructure through special purpose vehicles can access specialised tax incentives, subject to the applicable criteria established by the Ministry of Economy and the Mexican Tax Authority. These incentives include fixed-asset deductions and deductions for investments in workforce training, technological innovation and local industrial development within designated strategic hubs.

3.6 Special Rights for National Companies

PEMEX continues to hold a strategic and preferential role in Mexico's midstream and downstream hydrocarbons sector, particularly in projects linked to national energy policy and strategic infrastructure. However, the LSH does not establish a general exclusivity in favour of PEMEX for all midstream or downstream permits, and private investment remains permitted subject to the applicable regulatory approvals.

As a state-owned entity, PEMEX and its subsidiaries may hold permits, develop infrastructure, participate in strategic projects and enter into commercial or joint arrangements with private parties, as permitted under the applicable legal framework.

In practice, PEMEX's preferential role may be particularly relevant in projects aligned with its 2025–2030 work plan, including petrochemical complex reactivation, refining-related initiatives, natural gas storage and other strategic hydrocarbons infrastructure projects that may be developed with private-sector participation.

3.7 Local Content Requirements: Midstream/Downstream

Private investors in midstream and downstream operations are subject to local content-related obligations under the LSH, to the extent such obligations are included in the relevant permits.

SENER and the CNE, with the opinion of the Ministry of Economy, must include conditions in permits requiring preference for Mexican goods and services under equal circumstances, including equal price, quality and timely delivery. This preference also covers the training and hiring of Mexican personnel at technical and management levels.

Permit holders must also provide information to the Ministry of Economy on the national content used in their activities, in accordance with the applicable methodology and reporting rules.

3.8 Other Key Terms: Midstream/Downstream

As of 2026, midstream and downstream permits in Mexico establish obligations regarding service continuity, quality, measurement, reporting, safety, environmental compliance, and regulatory supervision, depending on the permitted activity and infrastructure involved.

Pipeline transportation, pipeline distribution and storage services are subject to open access and non-unduly discriminatory access obligations, subject to available capacity, applicable service terms and payment of the authorised tariff. Permit holders must also comply with the reporting, measurement, quality and traceability obligations established in the LSH, its Regulations and the applicable permit.

The LSH does not establish a general domestic supply obligation requiring permit holders to prioritise domestic demand in all cases. However, supply continuity, public interest and energy policy considerations may be relevant in certain regulatory decisions.

Import and export activities require the applicable permits from SENER. The exercise of export rights remains subject to compliance with the relevant permit, customs, foreign trade, safety and product-quality requirements.

Permit holders are responsible for compliance with operational, safety, environmental and administrative obligations. Non-compliance may result in sanctions, fines, suspension, revocation or other measures under the LSH and applicable regulations.

Withdrawal, termination, closure or abandonment obligations are governed by the relevant permit, the LSH, its Regulations and applicable environmental and safety rules.

Where the project is structured under the LFIIEDB, long-term contracts must address termination, asset transfer or final disposition, as applicable to the relevant project.

3.9 Condemnation/Eminent Domain Rights

Article 27 of the Mexican Constitution establishes that ownership of land and water within national territory is originally vested in the nation. Consequently, private investors do not hold direct condemnation or eminent domain rights.

Projects may be declared to serve a public utility purpose where circumstances beyond the permit holder's control affect the project, or where the State determines that the project is in the public interest. In such cases, the State may expropriate or temporarily occupy the land of the permit holder.

For these procedures to be carried out, both the LSH and the Expropriation Law require compliance with due legal process, including prior notification, fair economic compensation for landowners, and protection of third-party rights. Temporary occupation may not exceed 36 months, with early termination possible where the circumstances giving rise to it have been resolved.

The LSH permits the establishment of legal easements for hydrocarbon activities. In such cases, assigned operators, contractors, or pipeline permit holders may access land to transit, construct, maintain, and operate infrastructure where this is necessary for the performance or supervision of authorised activities. The duration of such easements may not exceed the term established under the relevant legal instrument. Easements may be established through judicial or administrative proceedings and are governed exclusively by federal law, with any required judicial determinations falling under federal court jurisdiction.

Nevertheless, infrastructure projects may also obtain surface rights through private agreements entered into with landowners.

3.10 Laws and Regulations Governing Transportation

Transportation activities are regulated at the federal level under the LSH, with the competent authority depending on the relevant product and activity. SENER grants permits for petroleum transportation, while the CNE grants permits for transportation of natural gas, petroleum products and petrochemicals, as applicable.

Transportation systems must provide open access without discrimination. Currently, the framework makes no distinction between intra-state and interstate pipeline systems. Consequently, all hydrocarbon transportation regulated by the LSH is subject to federal jurisdiction.

The CNE also establishes technical, environmental and safety standards to be followed by all operators.

3.11 Third-Party Access to Infrastructure

Mexico’s regulatory framework continues to require open access without discrimination to third parties regarding midstream and downstream infrastructure. Licence holders are required to provide available capacity on equitable terms, with the CNE retaining regulatory authority over prices and service conditions. To promote operational transparency, the unbundling of services may be required. Furthermore, participation across multiple market segments is strictly governed to prevent a monopoly and to reduce conflicts of interest.

Public and private infrastructure must comply with applicable open access requirements to ensure that third parties may access pipelines, terminals and storage facilities, where legally required.

Access for third parties must be based on transparency and clear prices that reflect actual costs. Additionally, operators must publicly share their remaining capacity and report important operational and contract details to the regulator.

“Unbundling” is not explicitly required by the legal framework. Nonetheless, diverse permits are needed to transport, store, distribute and market, which results in a degree of service separation.

Even though operators may take part in different stages of the value chain, cross-segment activity is supervised to prevent anti-competitive activities. Additionally, the CNE may intervene in cases of abuse of dominance, and establish sanctions if the market is threatened.

3.12 Restrictions on Product Sales: Local Market

The LSH continues to regulate the sale of hydrocarbon products in the Mexican domestic market, with oversight carried out by the CNE.

Licences must only be granted to distributors who fulfil the necessary quality, safety and reporting requirements. Vertical integration is not prohibited; however, operators are liable to regulatory oversight aimed at preventing anti-competitive activities.

Additional requirements may be established by local authorities, focusing on environmental compliance, land use and public safety.

If operators comply with the aforementioned requirements, foreign or private retail, wholesale or distribution ownership is not limited. There are no requirements to use intermediaries.

3.13 Laws and Regulations: Imports and Exports

The importing and exporting of crude oil, natural gas and petroleum products continue to be regulated by the LSH and supervised by the National Customs Agency of Mexico (ANAM) and the SAT. These entities may oversee, review, and penalise these activities based on the Customs Law, the Federal Fiscal Code, and relevant international trade rules.

SENER, the National Agency for Industrial Safety and Environmental Protection of the Hydrocarbons Sector (ASEA) and the Ministry of Economy may also take part, based on the product or nature of the activity:

- SENER grants exportation and importation permits regarding crude oil, natural gas and petroleum products, while supervising permit, LSH and administrative guidelines compliance.
- The ASEA supervises transportation, storage, distribution and hydrocarbon handling regarding industrial safety and environmental management, while observing compliance with the sector's technical regulations and its organic law.
- The Ministry of Economy focuses on foreign trade regulations and, when applicable, on establishing restrictions.

Additionally, as of May 2026, the recently created National Digital Investment Window serves as the exclusive platform for all cross-border interactions with the SAT and ANAM. The new legal framework introduces a Single Foreign Trade File to centralise corporate documentation and eliminate duplicate filings across federal entities. This system enforces strict interoperability and real-time tracking, overhauling customs compliance for midstream and downstream operators.

It is important to note that entities need to be granted export or import permits and follow quality, reporting, customs and tax requirements.

Additional permits are required for cross-border infrastructure such as pipelines – eg, environmental impact assessments and bilateral permission.

Regarding liquefied natural gas (LNG), the same guidelines apply for its export. As of June 2026, no export taxes exist, although policy amendments could establish fees based on energy security.

3.14 Transfers of Interest: Midstream/Downstream Licences and Assets

The transfer of midstream and downstream licences and assets between private parties requires the prior approval of SENER or the CNE. The purpose of this requirement is to ensure that the proposed transferee meets the technical, financial, and legal requirements originally imposed on the initial permit holder. Approval of a transfer is subject to an assessment of service continuity, compliance with safety requirements, and fulfilment of the relevant reporting obligations.

As part of the process, parties need to submit details of the transaction, operational updates and compliance documentation.

Frequent challenges involve renewing current permits, maintaining continuous service, and adhering to national energy strategies. Depending on the situation, either the CNE or SENER will evaluate each case to ensure ongoing compliance and protect the reliability of the infrastructure.

4. Foreign Investment

4.1 Foreign Investment Rules Applicable to Domestic Investments in Hydrocarbons

The Mexican hydrocarbon sector continues to allow foreign investment, following the Foreign Investment Law and diverse international agreements, including the United States-Mexico-Canada Agreement (USMCA). No restriction applies to specific hydrocarbons, and foreign investors continue to have access to international arbitration methods.

The Portfolio for Shared Prosperity, promoted by the Mexican federal government, is a programme seeking to simplify administrative processes and foster local and foreign investment in the energy sector (among others). Consequently, infrastructure development is encouraged while simplifying hydrocarbon permit processes.

Foreign investors may also benefit from recent investment-facilitation measures under the so-called *Plan México*, including the National Digital Investment Window and the Immediate Investment Authorisation mechanism for qualifying projects. These measures are intended to reduce administrative timelines and improve co-ordination with federal authorities. However, they do not remove the requirement to obtain foreign investment, hydrocarbons, environmental, land use, social impact, customs, tax or other approvals that may be required under applicable law.

Since 2025, PEMEX leads exploration and production operations while private and international entities retain the ability to participate via formalised joint ventures or service contracts with PEMEX, facilitating investment and technical expertise in accordance with national energy goals.

Regulatory oversight of permits has become increasingly transparent, while the State continues to emphasise the public interest in the management of energy resources, balanced by established regulatory frameworks intended to provide operational predictability.

As of June 2026, Mexico continues to follow international treaties such as the USMCA and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Consequently, foreign investors can seek legal protection and international arbitration if they believe they were unfairly treated or subjected to expropriation. Said provisions guarantee additional assurance for long-term investment.

4.2 Sanctions

Mexico continues neither to maintain nor to enforce local sanctions that would restrict investments in foreign oil and gas jurisdictions or prohibit transactions with international counterparties in the sector. Foreign policy, administered by the Ministry of Foreign Affairs (*Secretaría de Relaciones Exteriores*), continues to adhere to non-interventionist principles and therefore imposes no statutory restrictions on Mexican entities or individuals seeking to pursue offshore oil and gas investments.

5. Environmental, Health and Safety (EHS)

5.1 Environmental Laws and Environmental Regulator(s)

Mexico's main environmental laws include the following:

- The General Law on Ecological Equilibrium and Protection of the Environment is the foundational environmental law. It requires impact studies prior to any major project.
- The General Law for the Prevention and Integral Management of Wastes governs hazardous waste generation and handling, including drilling fluids and contaminated soils.
- The Law on National Waters regulates water use and discharge permits across all operations.
- The General Law on Climate Change sets GHG reduction targets and establishes the carbon market framework.
- The Federal Law on Environmental Responsibility governs liability arising from environmental damage.
- The Law of the National Agency for Industrial Safety and Environmental Protection of the Hydrocarbons Sector (ASEA) establishes sector-specific safety and environmental framework for the hydrocarbons industry.

For general environmental matters, local governments introduce complementary regulations. However, key federal authorities maintain exclusive jurisdiction in their respective areas:

- The Ministry of Environment and Natural Resources (SEMARNAT) sets overarching environmental policy.
- The Federal Attorney for Environmental Protection (PROFEPA) enforces compliance.

- ASEA oversees industrial safety and environmental protection within the hydrocarbons sector.
- The National Commission of Water (CONAGUA) manages water resources.

5.2 Environmental Obligations for a Major Hydrocarbon Project

Before beginning a major hydrocarbon project in Mexico, an environmental impact assessment must be submitted to the ASEA, describing potential environmental effects of the project and proposing mitigation measures. Once the assessment is submitted, the ASEA publishes a notice and opens a public consultation. Clarifications may be requested within 45 days, pausing the timeline. A decision must be issued within 82 calendar days.

Additional pre-operational requirements include registration of a management system (SASISOPA) with the ASEA, water use and discharge permits from CONAGUA if the project involves water abstraction or discharge and an operating licence for fixed sources issued by SEMARNAT.

Further environmental permits may be required once operations commence, depending on the project's specific characteristics.

5.3 Offshore Environmental, Health and Safety (EHS) Requirements

Offshore oil well drilling projects must meet specific requirements outlined in Mexican Official Rule NOM-149-SEMARNAT-2006, which establishes the environmental protection specifications applicable during the drilling, maintenance and abandonment of oil wells in marine areas.

In addition to the operation permits in Mexico's hydrocarbons sector, offshore projects may be required to obtain the following permits:

- concession title for the use of federal zones adjacent to national water bodies issued by CONAGUA; and
- concession title for the use of federal property and maritime zones issued by SEMARNAT.

5.4 Decommissioning Requirements

Decommissioning of hydrocarbon sector facilities in Mexico is governed by the General Administrative Provisions on closure, dismantling and/or abandonment of hydrocarbon facilities.

As a first step, the regulated party must update the risk analysis for the hydrocarbon sector and the mechanisms of its SASISOPA. The party must then prepare a Closure, Dismantling and Abandonment Programme, including start and end dates for all activities and the persons responsible for carrying them out, which must be submitted to the ASEA at least 30 working days before execution.

During execution, the regulated party must comply with the environmental mitigation and compensation measures established in the project's environmental impact authorisation and must maintain a valid civil liability and environmental damage insurance policy.

The process includes three stages:

- closure: permanent suspension of operations; actions are taken to secure the facility in preparation for dismantling;
- dismantling: removal, disassembly, reuse or disposal of equipment and materials; and
- abandonment: actions are carried out to leave the project site in permanently safe conditions.

After completing the closure, dismantling and abandonment activities, the regulated party must submit a final report to the ASEA verifying compliance with the approved plan. Additionally, all supporting documentation must be retained for ten years from the date the ASEA issues its official abandonment resolution.

5.5 Climate Change Laws

Climate change laws and provisions in Mexico include the following:

- The General Law on Climate Change constitutes the core legal framework for Mexico's climate change policy and establishes the National Emissions Registry.
- The Emissions Trading System (ETS) is Mexico's principal market-based climate policy instrument.

Currently in the pilot phase, the ETS is intended to progressively reduce emissions from the energy and industrial sectors.

- Mexico's Special Tax on Production and Services incorporates a carbon tax applicable to the sale and importation of fossil fuels, calculated according to their carbon content.
- The General Administrative Provisions on the Prevention and Control of Methane Emissions require regulated entities to develop and implement methane management programmes.
- Mexico's NDC 3.0 establishes more ambitious GHG reduction commitments, including in the oil and gas sectors.

At the local level, state and municipal governments exercise concurrent jurisdiction under the General Law on Climate Change framework. Many states have enacted green taxes to internalise environmental costs. These taxes are levied on emissions into soil, water and air, as well as on the extraction of stone materials, reinforcing the "polluter pays" principle and encouraging environmentally responsible practices within the hydrocarbons industry.

5.6 Local Government Limits on Development

Local governments cannot restrict oil and gas development on energy policy grounds, as the hydrocarbons sector falls primarily within federal jurisdiction. However, pursuant to Article 73, Section XXIX-G of the Mexican Constitution, states retain authority over matters of concurrent jurisdiction, including environmental protection. As a result, local laws may impose additional environmental and operational obligations that must be considered when structuring a hydrocarbon project.

6. Impacts of Energy Transition

6.1 Energy Transition Laws and Regulations

Laws Focused on Energy Transition

The Energy Planning and Transition Law regulates binding energy planning and promotes sustainable energy and energy transition.

Said law includes the Electricity Sector Development Plan (PLADESE), the Hydrocarbons Sector Development Plan (PLADESHI) and the Sustainable Energy Transition and Utilisation Plan (PLATEASE):

- PLATEASE will focus on energy transition and sustainable energy use over the next 15 years, with annual updates.
- PLADESE will serve to modernise the electricity sector.
- PLADESHI establishes modernisation and development strategies in the hydrocarbons sector.

Programmes Impacting Traditional Energy Development

The National Electric System Strengthening and Expansion Plan 2025–2030 seeks to increase generation capacity, reinforce transmission and distribution infrastructure and support the transition to clean energy sources. Under the plan, new high-efficiency natural gas plants are expected to be developed, alongside the conversion of fuel oil plants to natural gas, creating new opportunities for private sector participation in state-led projects.

The *Plan México* fosters Mexico's economic development through energy, infrastructure and mining sector strategies. Private investment is promoted in renewable energy and self-supply projects, focusing on energy-intensive entities. The plan also aims to reduce fuel imports while increasing domestic oil and gas production. As a result, PEMEX-led hydrocarbon and infrastructure modernisation projects are expected to provide opportunities for investment.

Additionally, the 2026-2030 Infrastructure Investment Plan for Development with Wellbeing establishes a comprehensive strategy to invest nearly MXN5.6 trillion in different sectors, with 54% allocated for energy. Natural gas is proposed as a transitional fuel, while new energy sources such as green hydrogen, lithium, geothermal, offshore wind and carbon capture initiatives continue to be developed. State stewardship is preserved while relying on mixed-investment schemes.

Plan México and the related investment measures also seek to accelerate energy infrastructure projects, including renewable generation, storage and mixed-investment projects. The government has announced targets to increase renewable generation and expand storage capacity, while preserving state stewardship and allowing private participation through regulated and, in some cases, mixed-investment structures.

These measures are relevant to traditional oil and gas development because they reinforce the policy trend toward gas as a transitional fuel, modernisation of PEMEX infrastructure and gradual integration of lower-carbon technologies.

6.2 Energy Transition and Oil and Gas Development

As of June 2026, oil and gas infrastructure is being repurposed to foster energy transition. Both pipelines and upstream assets are being evaluated for renewable natural gas (RNG) use, as well as green hydrogen projects. Efforts are also being made to reduce methane emissions, although enforcement remains inconsistent owing to PEMEX's continuing difficulties in meeting established reduction targets.

Carbon capture and storage projects (CCUS) are in place, such as enhanced oil recovery through CO_2 injection. Mexico has updated its climate strategy and proposed programmes to invest in low-carbon technology in the energy sector, even though no national cap-and-trade system is currently active.

Additionally, Mexico continues to foster renewable generation through clean energy certificates (CELs). Long-term instruments, such as the PLATEASE, are used to guide sustainable energy investment and support clean technology usage.

6.3 Other Energy Transition Considerations

Mexico is establishing policies to harmonise hydrocarbon operations and climate goals through hybrid-infrastructure usage. Consequently, investment has shifted towards low-emission technology and clean fuels.

The *Plan México* seeks to streamline regulatory processes to foster domestic and foreign investment in energy transition projects and hydrocarbon infrastructure.

Over the next five to ten years, this trend is expected to continue, with further regulatory adjustments and potential incentives to support decarbonisation, enhance energy efficiency, and facilitate the integration of oil and gas assets into Mexico's broader clean energy strategy.

7. Additional Information

7.1 Unconventional Interests: Upstream

As of June 2026, Mexico continues to consider expanding fracking operations in the Burgos Basin to reduce dependence on US natural gas imports. At present, no specific legal framework for unconventional resources has been established, although consultations with private stakeholders continue to take place.

Any such developments would be subject to a 30% fee for oil production and an 11.63% fee for non-associated natural gas production applicable to assignees, such as PEMEX.

Although discussions surrounding fracking remain controversial, Mexico's current approach indicates a potential shift towards the development of domestic unconventional reserves.

Currently, hydraulic fracturing is not prohibited; however, no dedicated regulatory regime has been implemented. Fracking activities are governed by general upstream regulations and remain subject to applicable environmental and social permitting requirements.

7.2 Liquefied Natural Gas (LNG)

LNG projects continue to be regulated under the LSH. Although no specific regulatory frameworks or incentives apply exclusively to LNG activities, projects located within Strategic Development Hubs for Welfare (including energy projects) may benefit from tax incentives, such as the immediate deduction of fixed assets and additional deductions for training and innovation expenses.

SENER is responsible for issuing export permits, assessing technical and environmental considerations, although approval timelines vary depending on the characteristics of each project.

The main LNG projects include Saguaro Energía (Mexico Pacific), Altamira (New Fortress Energy), and Vista Pacífico (Sempra). Access to pipeline infrastructure and environmental opposition in sensitive areas remain key challenges for project development.

7.3 Unique or Interesting Aspects of the Hydrocarbon Industry

Mexico continues to seek private investment in energy projects, streamline administrative procedures, launch international public tenders for energy infrastructure, and develop the Portfolio for Shared Prosperity as a tool to promote new investment opportunities and facilitate project implementation.

Mexico also supports international arbitration through adherence to the 1958 New York Convention, ensuring the recognition and enforcement of arbitral awards. The CNE is additionally seeking to streamline regulatory oversight and decision-making processes within the hydrocarbons sector by establishing a more co-ordinated and centralised regulatory approach.

The LSH introduces “formulation” as a newly permitted activity. This activity focuses on the blending of petroleum products with additives and biofuels to develop new products.

Another relevant market feature is the increasing use of broader investment-promotion mechanisms, including *Plan México*, the Immediate Investment Authorisation Decree, and the LFIIEDB, to support large-scale or strategic hydrocarbons infrastructure projects. These instruments do not constitute hydrocarbons-specific licences; however, they may affect project structuring, timelines, financing arrangements, and co-ordination with federal authorities.

7.4 Material Changes in Law or Regulation

The most significant change to Mexico’s oil and gas legal framework occurred in 2025 with the enactment of the LSH, which restructured the regulation of upstream, midstream, and downstream hydrocarbons activities and reorganised the institutional framework, including the establishment of the CNE as the primary regulator under SENER.

Since then, several implementing measures have been issued. Most notably, the Regulations to the LSH were enacted in October 2025, establishing the procedural, permitting, and operational requirements applicable to hydrocarbons activities. In 2026, the federal government also introduced and announced investment-promotion measures under *Plan México*, including the Immediate Investment Authorisation Decree, the National Digital Investment Window, and the LFIIEDB. These mechanisms may be relevant to qualifying hydrocarbons, natural gas, refining, petrochemical, and related infrastructure projects; however, they do not replace the substantive hydrocarbons framework established under the LSH.

Accordingly, while the central reform remains the 2025 LSH, the subsequent period has been characterised by the implementation and operationalisation of this framework through regulations, decrees, and investment-promotion mechanisms, as well as by the announcement of PEMEX-led mixed-participation opportunities in upstream, natural gas, refining, and petrochemical activities.