FOSSIL FUEL SUPPORT COUNTRY NOTE

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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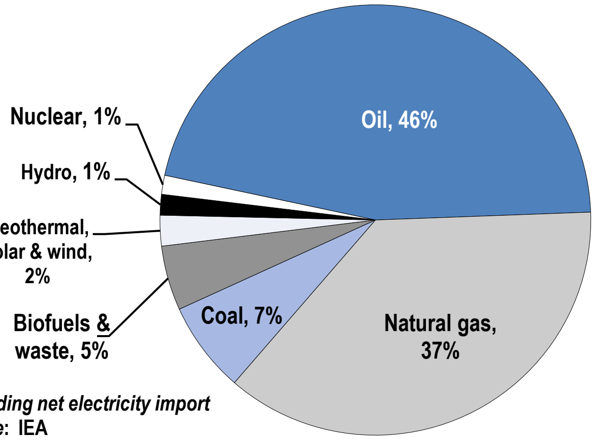
Mexico

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries and eight large partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa).

Energy resources and market structure

Mexico has substantial resources of oil and natural gas. In 2016, it is the world's twelfth-leading net exporter of oil, though production has fallen sharply over the last decade as a result of declining output at the country's main producing field, Cantarell. Natural gas production started a general trend of decline in 2011, driving up imports. After experiencing a sharp decline, national coal production picked up anew in 2010, only to go down again after a peak in 2011. It stood at 6.623 kilotonnes of oil equivalent (ktoe) in 2017. More than a quarter of the country's total production of energy is exported, mostly to the United States, although the proportion of imports have been increasing in recent years.

Total Primary Energy Supply* in 2017



**excluding net electricity import*
Source: IEA

In December 2013, Mexico's Federal Government enacted constitutional reforms to restructure the country's entire energy sector. Prior to these reforms, Pemex (*Petroleos Mexicanos*), the national oil and gas company, enjoyed a monopoly on hydrocarbon production, natural gas processing, oil refining, and the marketing of oil products. Under the new regime, Pemex will now have to compete with other firms on new hydrocarbon projects. It is still, however, the largest company in Mexico, and one of the largest oil companies in the world. Furthermore, while other firms are already present in the market, Pemex retains a dominant position in natural-gas distribution and retailing. It operates all of the country's high-pressure gas pipelines and all 12 gas-processing plants, as well as most of the country's gas-distribution network. Nevertheless, the recently created CENAGAS—*Centro Nacional de Control del Gas Natural* (National Centre for the Control of Natural Gas) — oversees the management and operation of the National Transportation and Storage System for Natural Gas. CENAGAS also operates as gas transmission operator using its own pipelines.

The structure of the coal-mining industry in Mexico has undergone tremendous change over the past 50 years. The 1961 mining code, which placed control of capital in the coal-mining industry exclusively in Mexican hands, was followed in 1992 by the Mexican Mining Law allowing full control of coal-mining assets by both domestic and overseas mining companies. Major players in the industry today comprise a mix of Mexican and foreign companies, along with subsidiaries of diversified mining conglomerates.

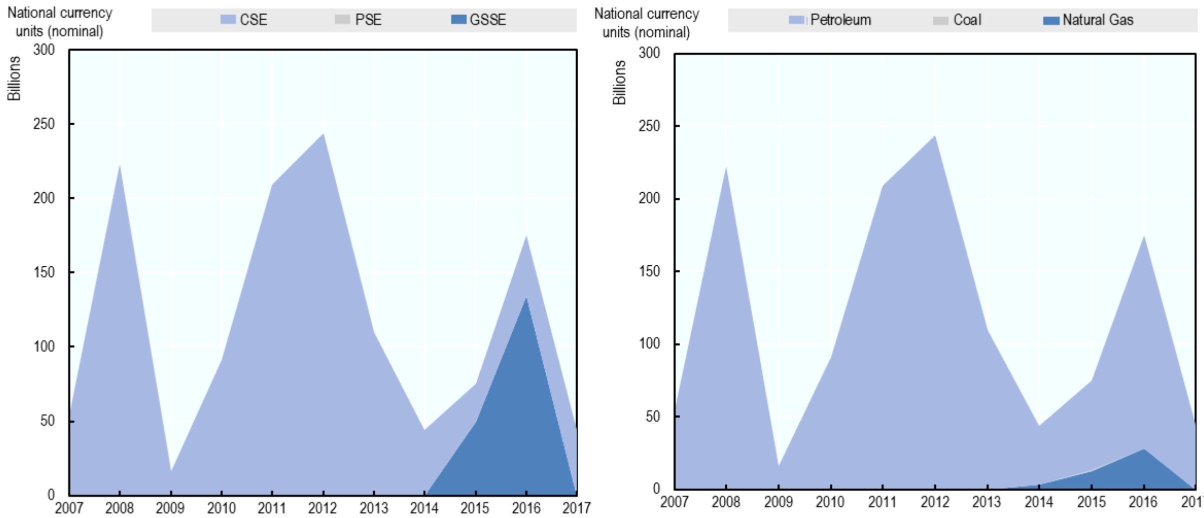
As of 2013, the state-owned *Comisión Federal de Electricidad* (CFE) was the dominant player in power generation, controlling about two-thirds of installed generating capacity. CFE also holds a monopoly on electricity transmission and distribution. However, changes brought by the 2013 energy reform have allowed for private parties to fully participate in the generation, transmission, and distribution of electricity.

Energy prices and taxes

Fuel prices in Mexico are determined by markets. In particular, prices for gasoline and diesel are set by the market since December 2017 and without a maximum price limitation. LPG has had full market prices since January 2017. At the same time, the Federal Government sets excise taxes on the sale of gasoline and diesel (*Impuesto Especial sobre Producción y Servicios por Enajenación de Gasolinas y Diesel* or IEPS).

All electricity tariffs were approved by the *Secretaría de Hacienda y Crédito Público* (SHCP) until the Energy Reform switched this responsibility to the Energy Regulatory Commission (CRE) for all cases, except household consumption and agricultural use. As a result of a policy of subsidies for these two sectors, average electricity tariffs for agricultural users and households have been held well below average costs. However in 2016, there were also cross-subsidies from the top 1% household consumers, which face a rate above costs for all their consumption units.

Total support by for fossil fuels in Mexico by support indicator (left) and fuel type (right)



Note: CSE=Consumer Support Estimate; PSE=Producer Support Estimate; GSSE=General Services Support Estimate

There are also fuel-tax stimulus (fiscal expenditure) available for the agriculture and fisheries sectors, and excise tax accreditation vs income tax for commercial vessels, passenger and cargo transportation, and for diesel used by industry for purposes other than fuelling vehicles.

In 2012, as part of its General Climate Change Law, Mexico implemented a carbon tax as a fiscal instrument to reduce its carbon emissions and to put a price on the negative environmental externalities of fossil fuels**.** It was legislated as a component of the IEPS in 2013 and came into full force in 2014. Similar to other jurisdictions with a carbon tax, the tax is applied to fossil fuels based on their carbon emission content with a standard rate of MXN 43.77/tonne of carbon dioxide equivalent (tCO_2e). However, there are certain exemptions to the application of this tax. Among these are natural gas, which receives a carbon tax price of zero as well as fuels used in production processes other than for combustion, and all aviation kerosene and aviation fuels. A reduced tax applies to coal and coal products.

Recent developments and trends in support

In late 2014, Mexico eliminated the direct support it provided for the consumption of gasoline and diesel fuel through the IEPS, the country's floating excise tax. Previously, variable rates of IEPS were set by the government on the basis of international prices for the country's two brands of gasoline, "Magna" and "Premium" (low-octane and high-octane gasoline, respectively), and diesel fuel. When international reference prices for these fuels were above (below) the national set prices, IEPS rates would turn negative (positive), thereby generating a tax expenditure (tax revenue). The Federal Government has over recent years steadily increased retail prices on a monthly basis in order to reduce the support conferred to consumers. Together with the lower international oil and fuel prices, these efforts have contributed to reduce total consumer support in Mexico, from MXN 222 billion (USD 17.1 billion) in 2012 to MXN 17 billion (USD 1.3 billion) in 2014. Due to changes to both fiscal and tax regulatory frameworks, since late 2014 the rates of IEPS have been positive, generating revenues of around 1.3% of GDP in 2017.

Examples of measures	
Tax Credit for Purchased Diesel for Machinery (2003-)	This tax credit targets the end use of diesel fuel in general machinery, with the exception of vehicles. Eligible uses include most commercial activities (with the notable exception of mining) and certain marine vehicles. As with similar measures in Mexico, this provision only applies when the rate of IEPS is positive.
Fuel Tax Credit for Agriculture and Fisheries (2003-)	This measure provides the agriculture, forestry, and fisheries sectors with the possibility of crediting fuel-tax towards income tax, whenever used in general machinery, with the exception of vehicles, regardless of the prevailing IEPS rates.