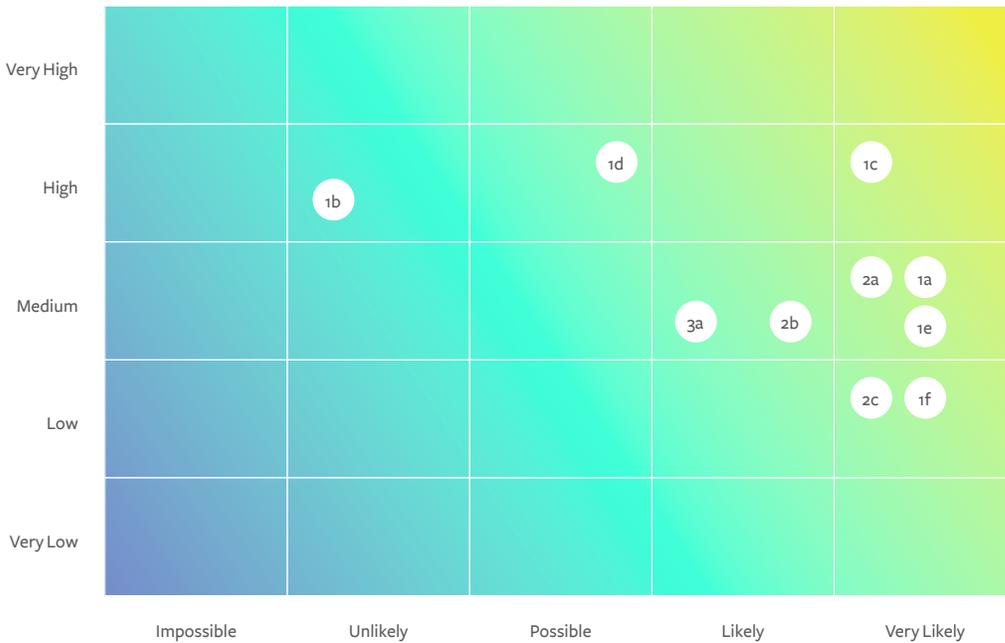


# Compliance risks with upcoming administration



Five years after the energy reform, regulatory compliance remains the main concern of industry and government and the main reason is regulations are burdensome and still new for everyone. Upstream operators have been facing a considerable burden of compliance costs with fair results as Mexican administrative law is complex and unique. Mexican president-elect, Andrés Manuel López Obrador has announced a careful review of the awarded oil and gas contracts. Furthermore, the new administration will most likely imply new challenges that will increase the industry's risk profile of compliance.

There are four risk groups that require different management strategies: Government Type I, where the source is a government misunderstanding of compliance and Government Type II, those where there is a hardening of policy enforcement. Operator risks: those derived from cultural and economic barriers to achieve the necessary compliance standard. Legal risks: those derived from asymmetry between regulation and operation.



Government risks (Type I):  
 1b) Averse contract modification.  
 1e) Turnover costs.

Government risks (Type II):  
 1a) Contract audits  
 1c) ASEA's capture  
 1d) CNH-CRE's capture  
 1f) Increase of compliance cost (e.g. National Content and SIA).

Operator risks:  
 2a) Misunderstanding of compliance  
 2b) Deviation from regulations caused by public-servant's recommendations or someone else's experience  
 2c) Misalignment of Operator's and Industry (group) goals of advocacy.

Legal risks:  
 3a) Any derived from a risk assessment of the contract and regulations, like the Clause 4.1 (Obligation to request authorization of implementation of SASISOPA in the first 180 days of the contract).

In Covar, we assist our clients to minimize these risks. We are a multidisciplinary group of top economists, lawyers and engineers. Our competitive advantage relies on our team's very own insight and understanding of the energy reform in which each of COVAR's members has the dual perspective, as an active key player in the design and implementation of the reform, and, as actual operators of these regulations, from each of the different Mexican regulators.

## ANALYSTS



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Comprehensive energy regulatory consultancy given by former key officials that participated in the design and implementation of the energy reform.

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