Although there are challenges associated with Mexico's energy sector reforms - as detailed in part one of this blog - there are also opportunities to be found, particularly in infrastructure investment. The Opportunity Despite the challenges, there are still optimistic downstream market prospects in Mexico, most notably in the midstream arena. There are substantial infrastructure constraints in the nation's fuel delivery system. As Ernst & Young note:

> Only 10% of the oil currently produced by Pemex is transported by pipeline to refineries; the remainder is carried by trucks — mostly by small businesses or individuals — or rail. The same is true of gasoline refined in Mexico and its transportation to retail locations. Pemex's existing transportation network, which connects production centers with domestic refineries and export terminals, includes just more than 3,000 miles of pipeline, mostly in southern Mexico, compared with the US total of about 57,000 miles of crude oil pipelines. In addition, Mexico's crude oil infrastructure is aging, and many parts of the country are unserved.

With gasoline sales in Mexico up this year, and projections of continued increases over the next decade and a half, there is certainly an incentive to invest in more robust infrastructure. Given such growth projections, investment in terminal and retail infrastructure should remain attractive over the longer term, especially after price controls end next year. Finally, with the end of U.S. crude export ban, Mexican refiners have greater access to light crude being produced in American shale formations. Since these refineries are built to process such crude more effectively than the heavy crude Mexico produces from its own oil fields, Mexican refiners could start to operate more efficiently, generating opportunity for investments to enhance profitability. The Current State of Play Mexico's downstream energy reforms seem to be moving in the right direction. The first private (e.g. non-state run) gasoline station in over 75 years opened in Mexico this past June. Gulf Oil International also indicated its intent to make a sizeable move into the Mexican fuel retail market. Since the April opening, Mexico's Energy Secretary has granted 89 permits allowing private entities to import gasoline into the country and 120 diesel import allowances. It should not be long before the public and interested private businesses can assess the benefits this investment is yielding for both the Mexican and U.S. economies. Why It Matters for the U.S.A. A strong Mexican energy sector enhances North American energy security and the economies of both the United States and Mexico. As previously mentioned, Mexico is already the largest recipient country of American manufactured fuels and the fourth largest foreign supplier of crude oil to U.S. refiners. Enhancing the Mexican economy through energy markets will not only mean more money flowing to U.S. businesses (and, thus, workers) exporting to and investing in Mexican energy production and petroleum product manufacturing, supply and distribution, it could also help mitigate some of the problems associated with the U.S.-Mexico border. A stronger Mexican economy, and more cost effective fuel for its consumers, means more jobs and disposable income for the nation's citizens. Greater economic opportunity in Mexico could lessens the nation's crime rate and help stem the tide of illegal immigration. While the border dispute is certain to continue throughout the election season, the prospect of Mexico successfully implementing its energy reforms will hopefully be one issue on which people of all parties – and both nations – can agree. *This is the second half of a two-part blog on Mexico's downstream sector.* Click here to see the first part. *The blog can also be found in full on Medium.*

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