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U.S.-Mexico Energy Relationship Going Forward

The U.S.-Mexico energy relationship is simultaneously both stronger and weaker than ever before. As the two countries begin their respective economic recovery efforts it will be key to work together seeking collective interests. At the same time, they stand to lose geopolitical power to countries like China who are taking an active role in molding the energy transition to their advantage.

Bilateral Energy Integration

The passing of the Mexican energy reform in 2013 put an end to 75 years of state monopoly in the energy sector. Petroleos Mexicanos (Pemex), Mexico's state-owned oil company, and Comision Federal de Electricidad (CFE), state-owned utility company, became national enterprises competing with other private sector participants.

The privatization of Mexico's energy sector allowed foreign companies to invest in all segments of the energy value chain. This led to the build-out of cross-border natural gas pipelines, enabling natural gas production and export growth, particularly from Southern Texas. According to the Energy Information Administration (EIA), since 2014 U.S. natural gas exports have increased by 176%, averaging 5.5 billion cubic feet per day (Bcf/d) last year. Mexico's growing share of natural gas in its energy mix has gradually displaced more carbon-intensive fuel oil and diesel, replacing the most polluting power plants with more efficient gas-fired ones.

In recent years, Mexico's fuel market has also become more interconnected with the U.S. for a variety of reasons that include close geographic proximity between U.S. refineries and Mexican ports, a booming demand for petroleum products in the transportation sector (particularly in Mexico City), competitive fuel prices from the U.S., and declining domestic oil production. As stated by the EIA, in 2019 Mexico received 1.2 million b/d of petroleum products from the United States, valued at more than $29 billion. Nevertheless, the gradual undoing of the energy reform by the Mexican government threatens to disrupt trade flows and private sector commercialization of fuels between both countries.

Mexico's Government Nationalist Policies

Since taking office two years ago, AMLO's nationalist policies have limited the options for private energy companies to participate in Mexico's energy sector. A lack of private greenfield energy projects is already taking a toll on Mexico's economy while threatening its energy security. Oil and gas bidding rounds and renewable energy auctions have been indefinitely cancelled to favor state-owned enterprises Pemex and CFE, increasing uncertainty for private investors.

Meanwhile, the Ministry of Energy and Pemex continue to carry out the construction of AMLO's emblematic Dos Bocas Refinery, a project with an estimated cost of at least $8 billion dollars. The government's goal with this project is for Mexico to produce its own gasoline, even though oil production is not sufficient to meet the country's growing energy demand needs and Pemex's six existing refineries utilization rates averaged only 38% last year due to operational issues. The International Monetary Fund has already warned that if the project goes through it will be a drain to the country's public finances at a time when Mexico's GDP is projected to contract by 9% this year.

As part of this fuel self-sufficiency goal, AMLO has weakened energy regulator Comision Reguladora de Energía, obstructing the granting of permits to private companies for the past two years. On December 21st, the Energy Ministry proposed changes to the regulation regarding petroleum product imports and exports, which will affect private companies directly, imposing restrictions to them in favor of Pemex. Cofece, Mexico's antitrust watchdog, has said this move would harm competition in the fuels market, increase obscurity in the granting of permits, and affect consumers.

The Incoming Biden Administration

Mexico's protectionist approach to energy policy has severe implications for U.S. private and public energy sector interests and should be a matter of concern to the incoming U.S. administration. The energy context faced by the incoming Biden administration will be very different than the one he experienced during the Obama presidency. As such, the USMCA is a valuable foreign policy tool that can be used to enhance cooperation through free trade, but that can also be used to guarantee that countries abide by their commitments.

Biden's proposal to further integrate North America's supply chains in the manufacturing of green energy technologies to compete with China can be an effective strategy to gain back geopolitical power in renewable energy. Mexico has ample lithium resources and Hong Kong-listed Ganfeng is already planning to build a battery recycling facility in Mexico to supply minerals to the U.S. growing electric car manufacturing industry. With the right cooperation programs in place, the U.S. and Mexico could work together to establish these renewable energy technology manufacturing supply chains without China as an intermediary. As the energy transition continues to gain traction, it will be important for North America to position itself as a leader in decarbonization technologies, setting environmental standards as to how renewable energy components are mined and manufactured. This can be accomplished while increasing local content and reducing the environmental footprint of the renewable energy industry.

There are several existing and innovative opportunities for cooperation in the bilateral energy relation, but it is important that both countries align and work to meet shared objectives instead of seeking only individual interests. Instead of pursuing protectionist policies that stagnate economic growth and inhibit progress, the Mexican government should embrace strong cooperation and integration with the Biden administration. This will result in strengthening North America's position as a green technology manufacturing hub, while benefiting from access to affordable energy.

About EPRINC

The Energy Policy Research Foundation, Inc. (EPRINC), was incorporated in 1944 as a not-for-profit organization that studies energy economics with special emphasis on the production, distribution, and processing of oil and gas resources. It is known internationally for providing objective analysis of energy issues.

The Foundation researches and publishes reports on all aspects of the petroleum industry which are made available free of charge to all interested organizations and individuals. It also provides analysis for quotation and background information to the media. EPRINC has been called on to testify before Congress on many occasions, and it briefs government officials and legislators, and provides written background materials on request. Additionally, EPRINC has been a source of expertise for numerous GAO energy-related studies and has provided its expertise to virtually every National Petroleum Council study of petroleum issues.

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