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Energy Policies under the AMLO Administration: Impact on US- Mexico Energy Trade

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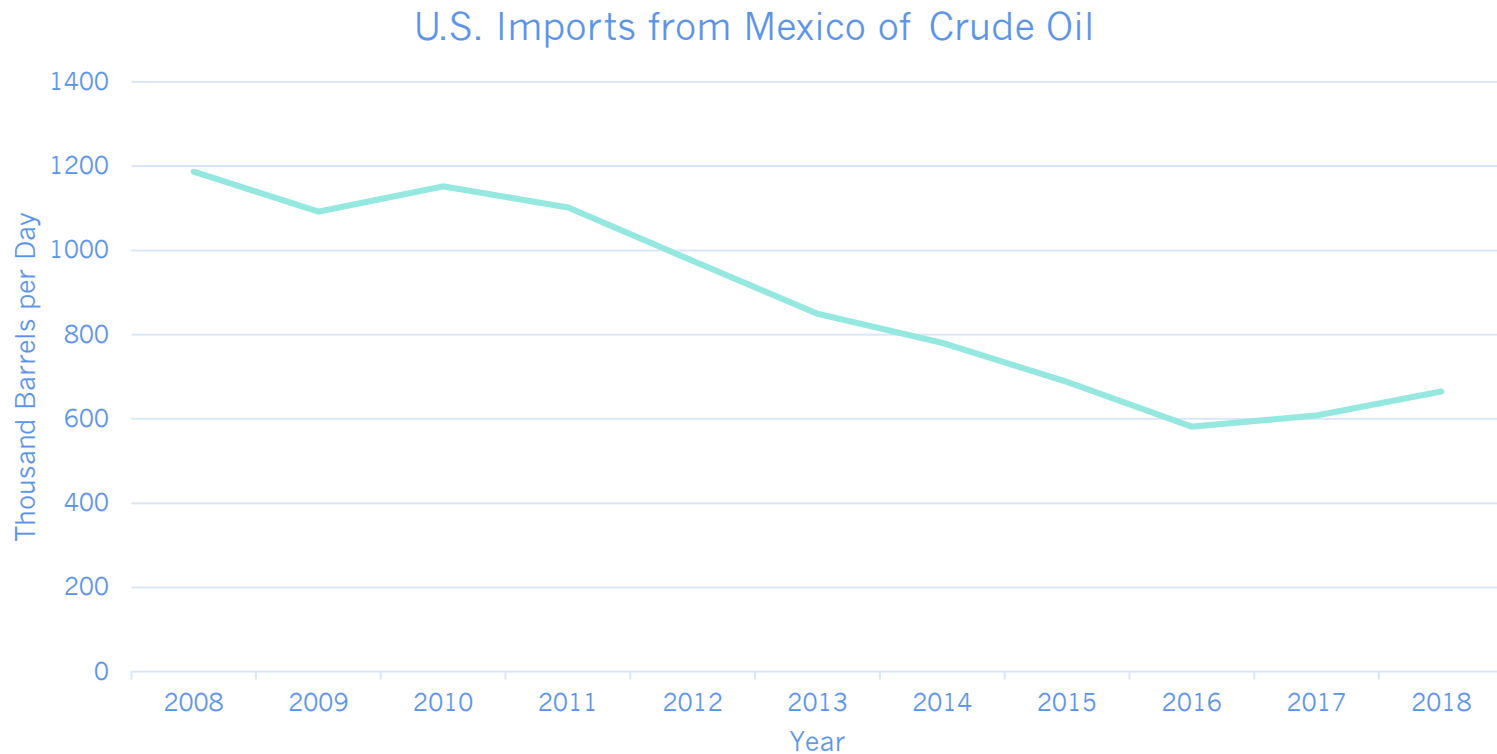
Mexico's Energy Policy Priorities Under President Lopez Obrador

- Focus on “energy sovereignty”
 - **Strengthening state companies Pemex and CFE**
 - **Decreasing role of private sector**
 - **Reducing imports**



Crude Oil

US Crude Oil Imports from Mexico Declining



Data Source: EIA.gov

AMLO's Policies

- Strengthening Pemex (increase Pemex's budget + decrease tax burden)
- Increase oil production to 2.5 million barrels per day compared to current 1.6 million barrels per day
- Suspended O&G bid rounds, cancelled farm-outs
 - **Existing contracts will continue, but new ones will not be offered until those already rewarded show results.**

Impact on Trade

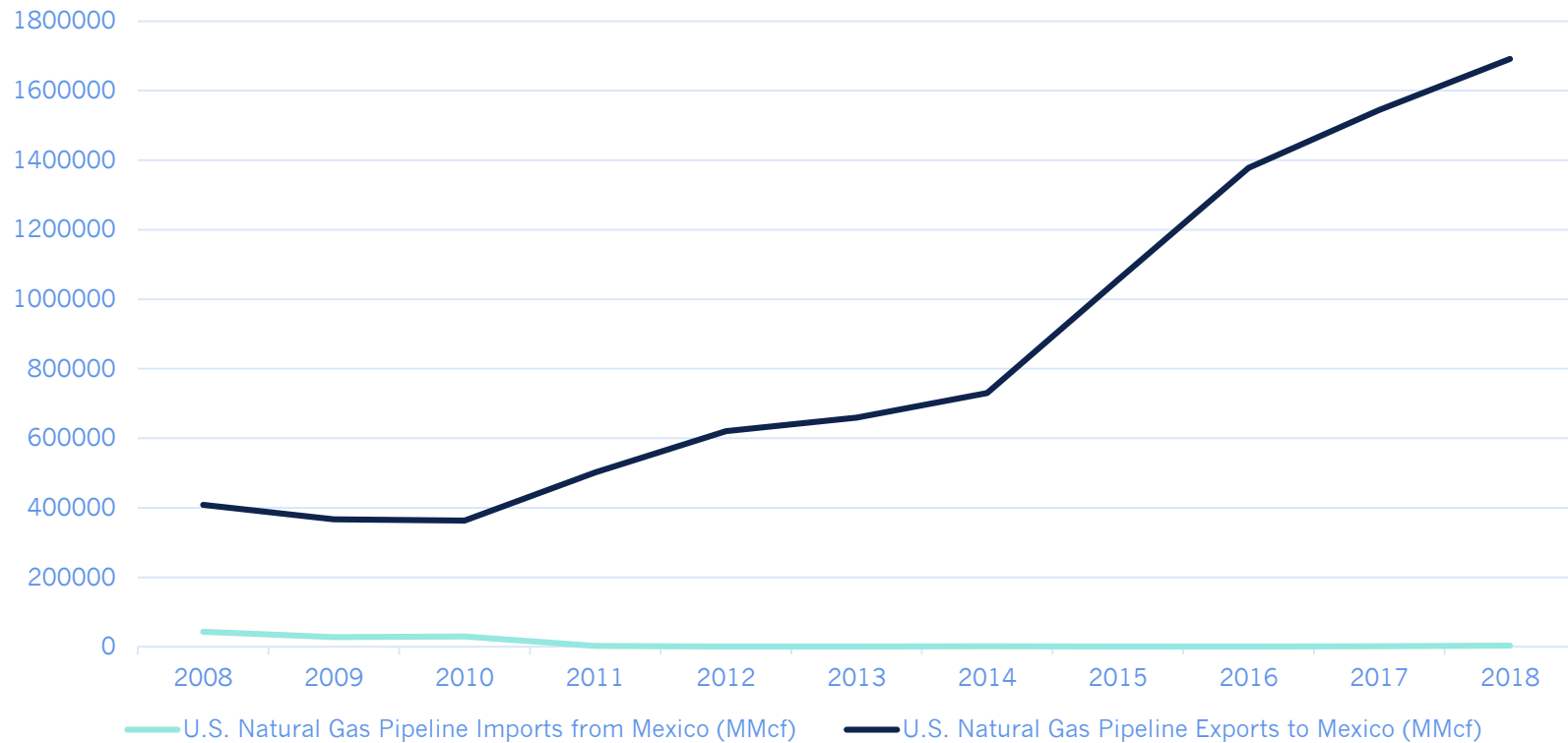
- Goal to increase oil production will be difficult to meet without private sector investment
- Suspension of E&P bid rounds means fewer companies to bring capital, expertise and risk appetite
- Pemex is at risk of a further downgrade
- Mexican production and therefore exports will likely continue to decline



Natural Gas & LNG

US Natural Gas Exports to Mexico Increasing

US Natural Gas Pipeline Imports vs Exports (Annual)



Data Source: EIA.gov

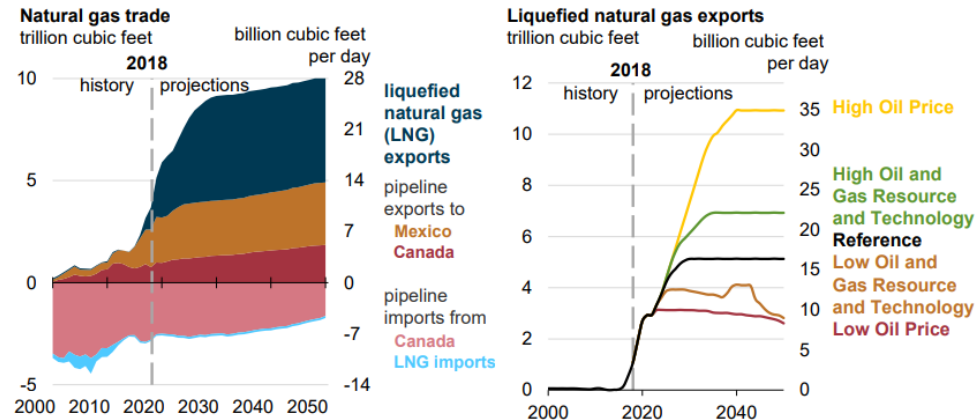
Mexico Expanding Gas Pipeline Infrastructure

U.S.-Mexico border-crossing pipelines and expansions of Mexico's domestic pipeline network

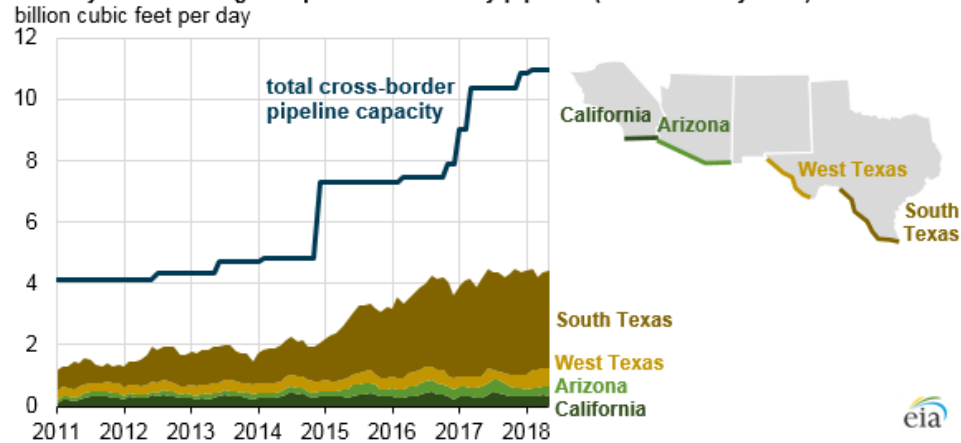


Source: U.S. Energy Information Administration, based on Mexico's Secretaría de Energía Status of Pipelines (in Spanish), IHS Markit, Genscape, and trade press

US Expects Gas Exports to Mexico to Continue Growing



Monthly U.S. natural gas exports to Mexico by pipeline (Jan 2011–May 2018)



Source: U.S. Energy Information Administration, *Natural Gas Monthly*, and Federal Energy Regulatory Commission

AMLO's Policies

- AMLO wants to reduce dependence on US imports of natural gas
- Increase natural gas production in Mexico
- Increase use of coal, oil and hydro for power generation
- Renegotiate CFE natgas pipeline contracts

Impact on Trade

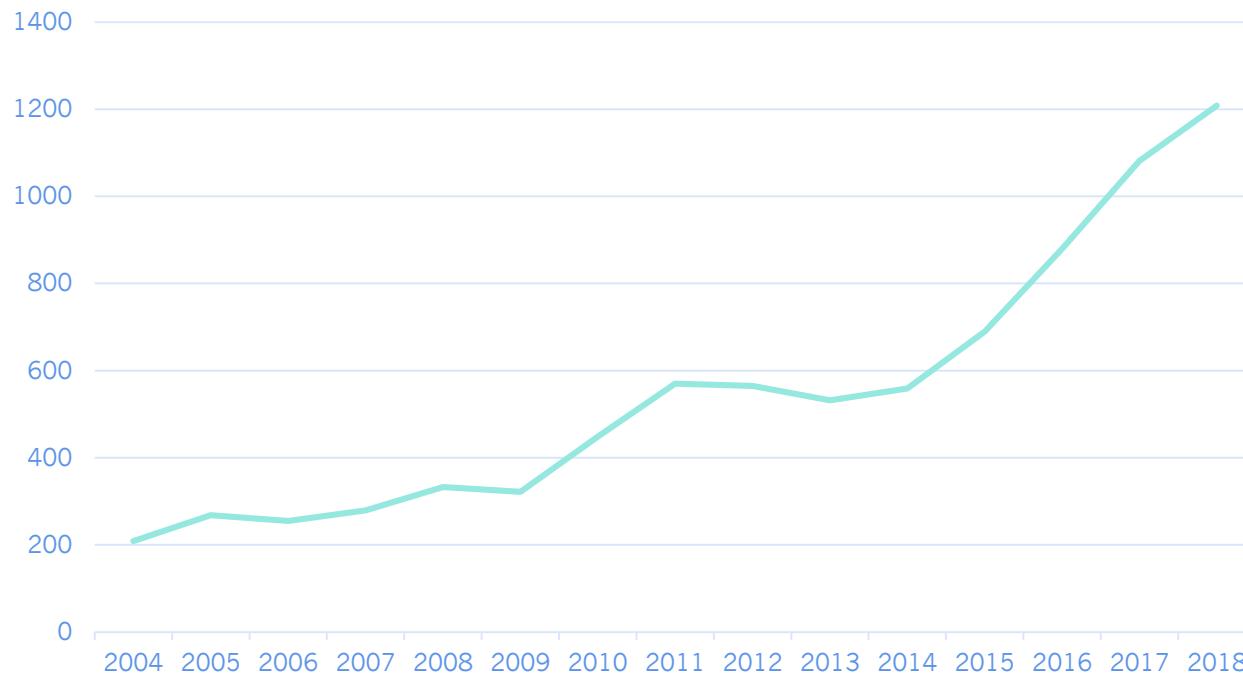
- Difficult to reduce Mexico's dependence on US gas imports without raising power generation costs, as US gas is cheap and much of the infrastructure is already in place
- He likely won't achieve his goals, which means dependence on US exports will likely continue



Refined Products

Mexican Imports of US Refined Products Increasing

U.S. Exports to Mexico of Total Petroleum Products
(Thousand Barrels per Day)



Data Source: EIA.gov

AMLO's Policies

- Reduce or eliminate reliance on US imports
- Upgrade Mexico's six existing refineries to increase utilization rates from 35% to 90% and produce cleaner fuels.
- Build new Dos Bocas refinery in AMLO's home state of Tabasco
 - **Proposed 3-year timeline: Finish May 2022**
 - **Recently winners of contracts to build and develop the refinery were announced**
 - **On June 2, Pemex began building the 340,000 b/d facility**
 - **Budget is \$8 billion, but Moody's has predicted it will cost \$2 billion to \$4 billion more**

Impact on Trade

- Upgrading existing refineries is necessary
- Utilization rates very low
- IMO 2020 will make Mexico's heavy fuel oil less valuable
- However, Dos Bocas refinery has been heavily criticized
 - **Timeline & budget both appear too limited**
- Despite the criticism, refinery is likely to be built, which ultimately will lead to lower reliance on US exports

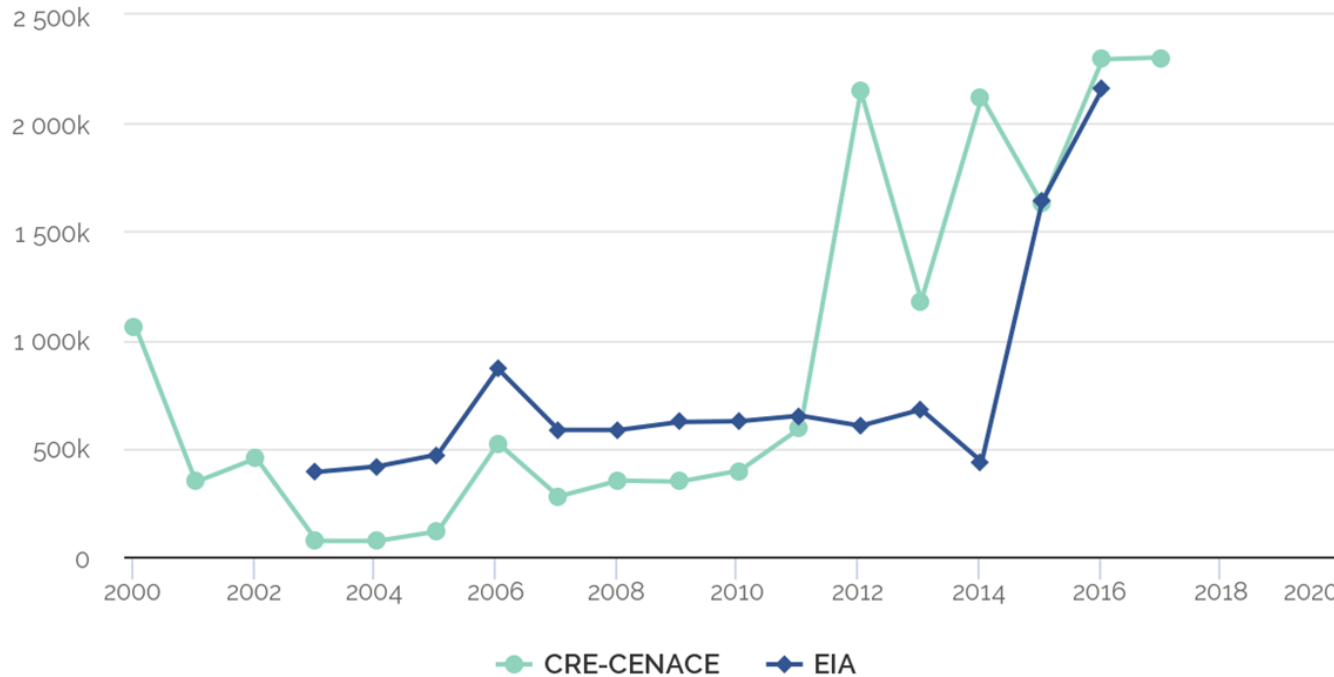


Electricity

Electricity Trade is Small, mostly US exports to Mexico

Electricity flows from U.S. to Mexico (Annual)

megawatthours



Comisión Reguladora de Energía, Centro Nacional de Control de Energía

AMLO's Policies

- CFE will prioritize modernization of the country's existing hydroelectric, diesel, fuel oil and coal fired power plants
- Reduce industrial energy consumption via increased efficiency
- Cancelled renewable energy auctions
- Cancelled 2 transmission line auctions
 - **Baja California line would have consisted of 1,400 km of HDVC circuit lines with a transmission capacity of 1,500 MW, and would have connected it to the Mexico's national grid**
 - **The Istmo de Tehuantepec line would have transmitted 3,000 MW along a 1,221 km circuit across Mexico City, State of Mexico, Morelos, Oaxaca, Puebla and Veracruz**

Analysis

- Baja California's power grid will continue to depend on electricity from California via the two existing 230 KV lines, one near Tijuana and the other Mexicali
- Expect decline in private investment in electricity generation and transmission

Thank you.

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