

Will NAFTA's Repeal Threaten U.S. Natural Gas Exports to Mexico and Global Markets?

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Acknowledgments

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- U.S. Energy Information Administration
- Natural Gas Intelligence
- NES Global Talent- Latin America



Road Map

- What's at stake on both sides of the Mexico-U.S. Border
- How does Mexico see things
- Will NAFTA repeal affect the 2018 Mexican Presidential Election
- Possible Outcomes and Winners and Losers

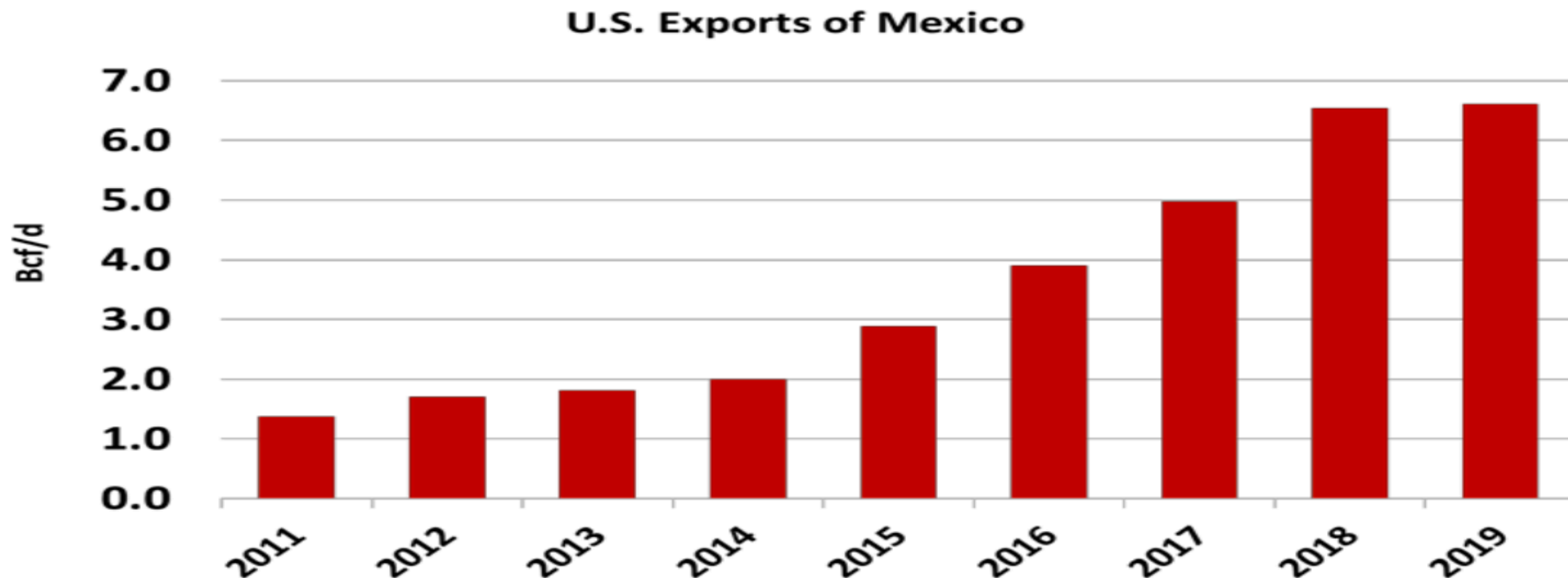


Some Energy Trade and NAFTA Factoids

1. NAFTA went into effect January 1, 1994
2. Prior to NAFTA, U.S.-Canada energy trade has been robust
3. Primarily due to deregulation of energy sector in U.S. & Canada
4. The U.S.-Canada Free Trade Agreement also helped
5. Mexico chose a protectionist energy policy until 2013
6. Current President Peña Nieto instituted Energy Sector Reforms
7. Could President Trump tear up the agreement? Yes!
8. Article 2205 of NAFTA allows any country to withdraw from the agreement 6 months after giving written notice

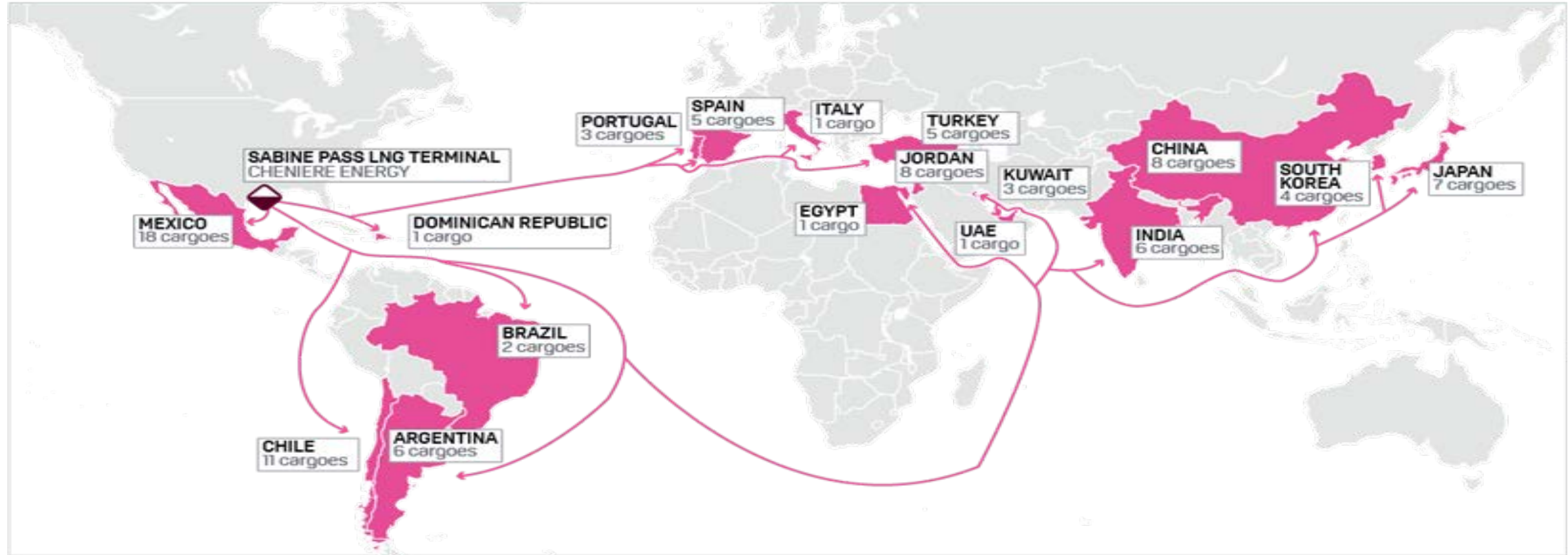


U.S. Natgas Exports to Mexico will double by 2019



U.S. Liquefied Natural Gas (LNG) Exports helped Mexico

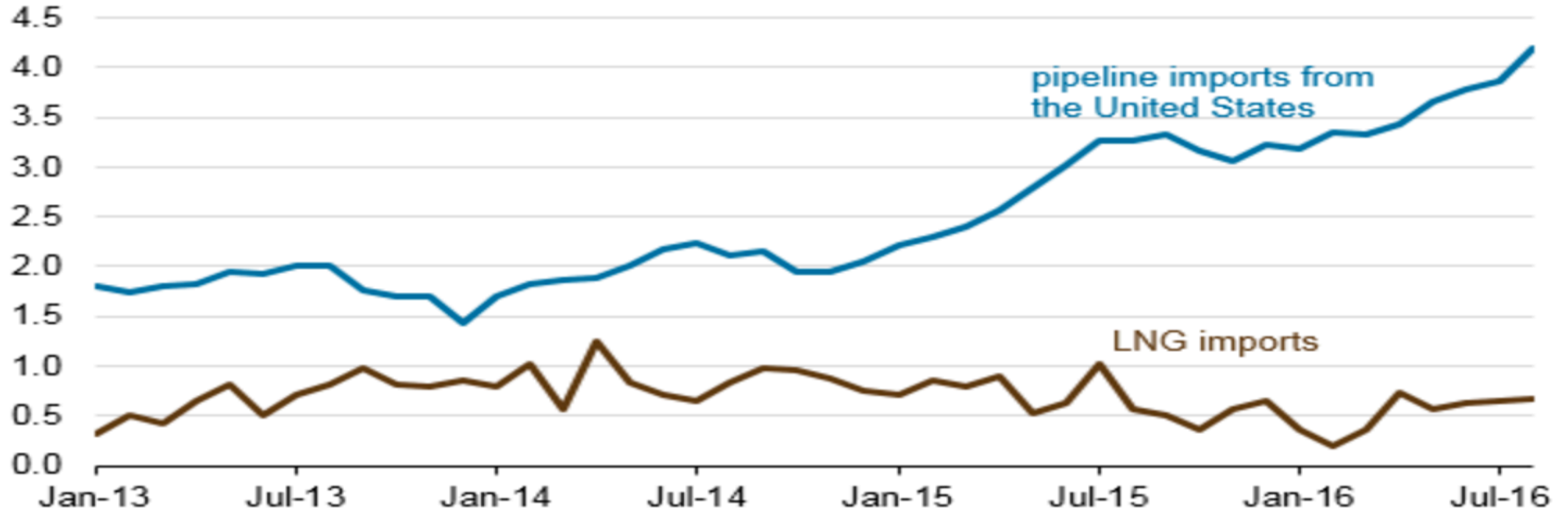
CHENIERE ENERGY'S EXPORTS FROM SABINE PASS TERMINAL



Note: Total exports delivered to date: 90
Cargoes loaded and currently en route to destinations: 10
Source: Platts Analytics' Bentek Energy

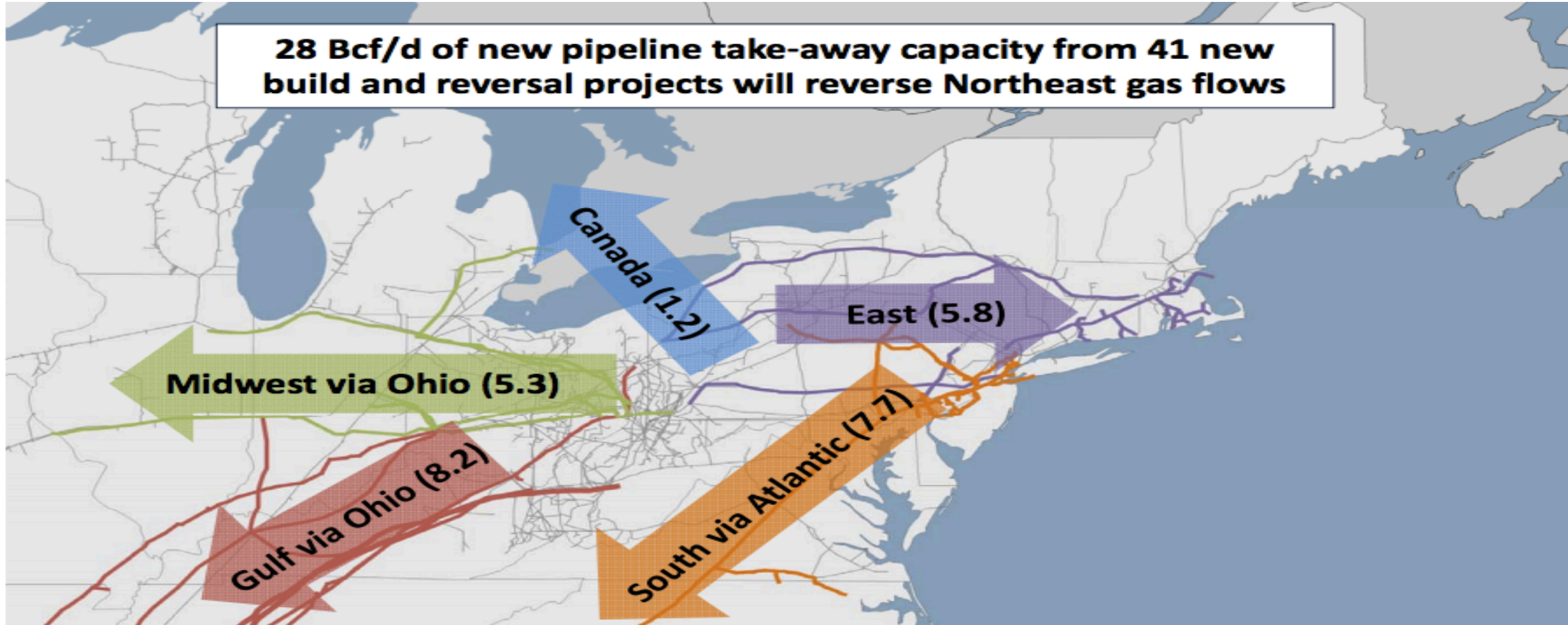
Mexico's now depending more on pipeline imports

Mexico natural gas pipeline and LNG imports
billion cubic feet per day

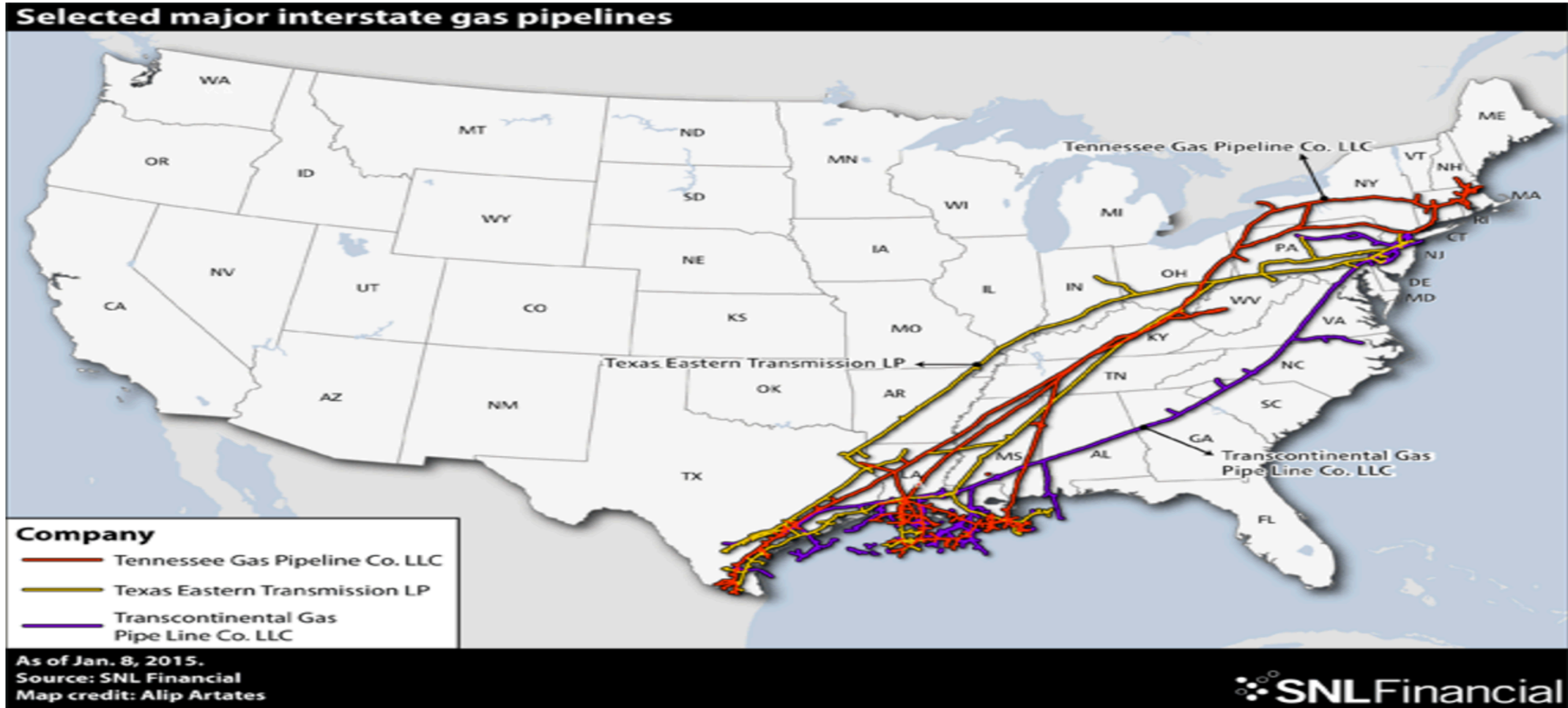


Source: U.S. Energy Information Administration, Mexico Secretaria de Economia export-import trade statistics

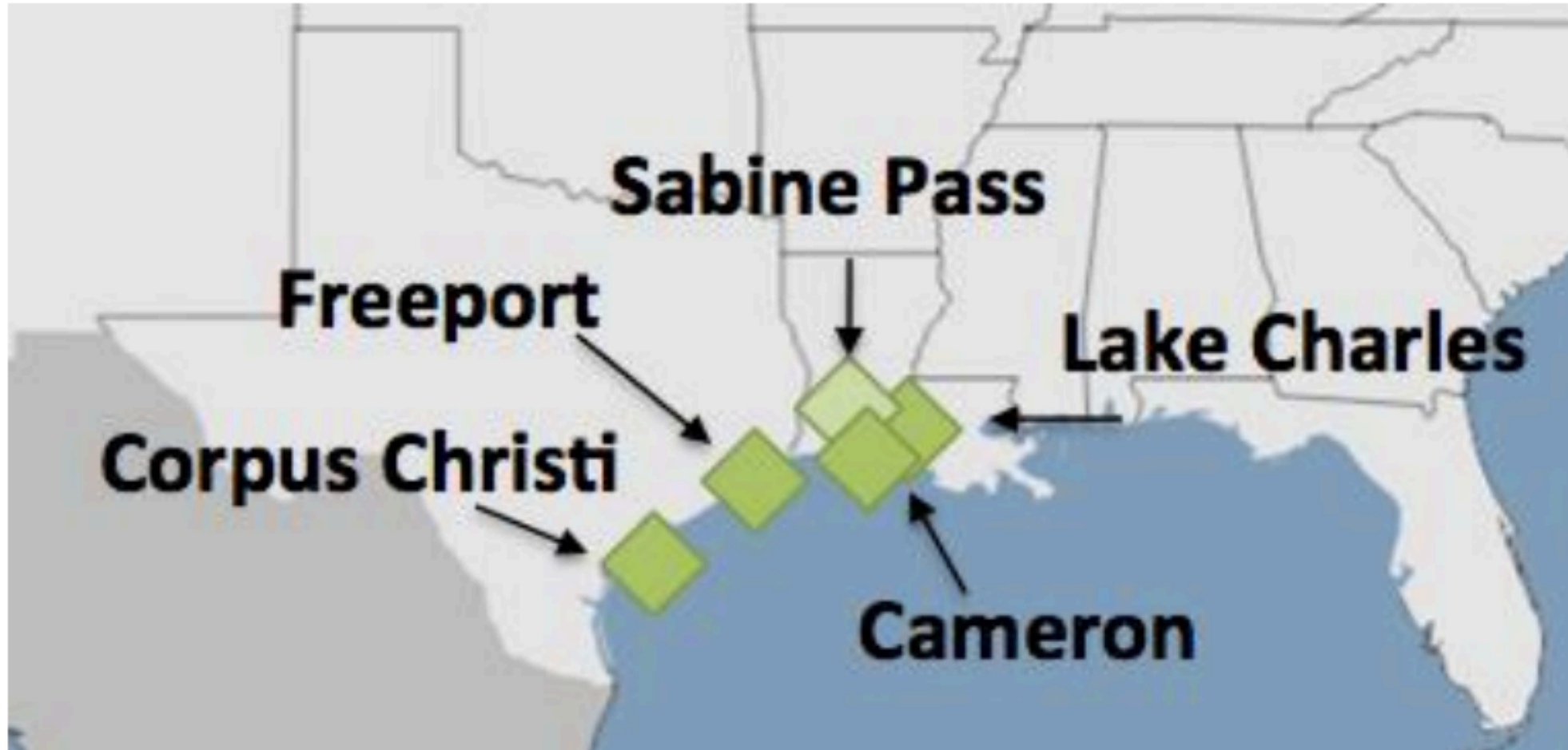
Abundant & Cheap Marcellus-Utica Gas heading South



Pipeline Reversals will send Gas South to Mexico and Abroad



Gulf Coast LNG Export Terminals are being built

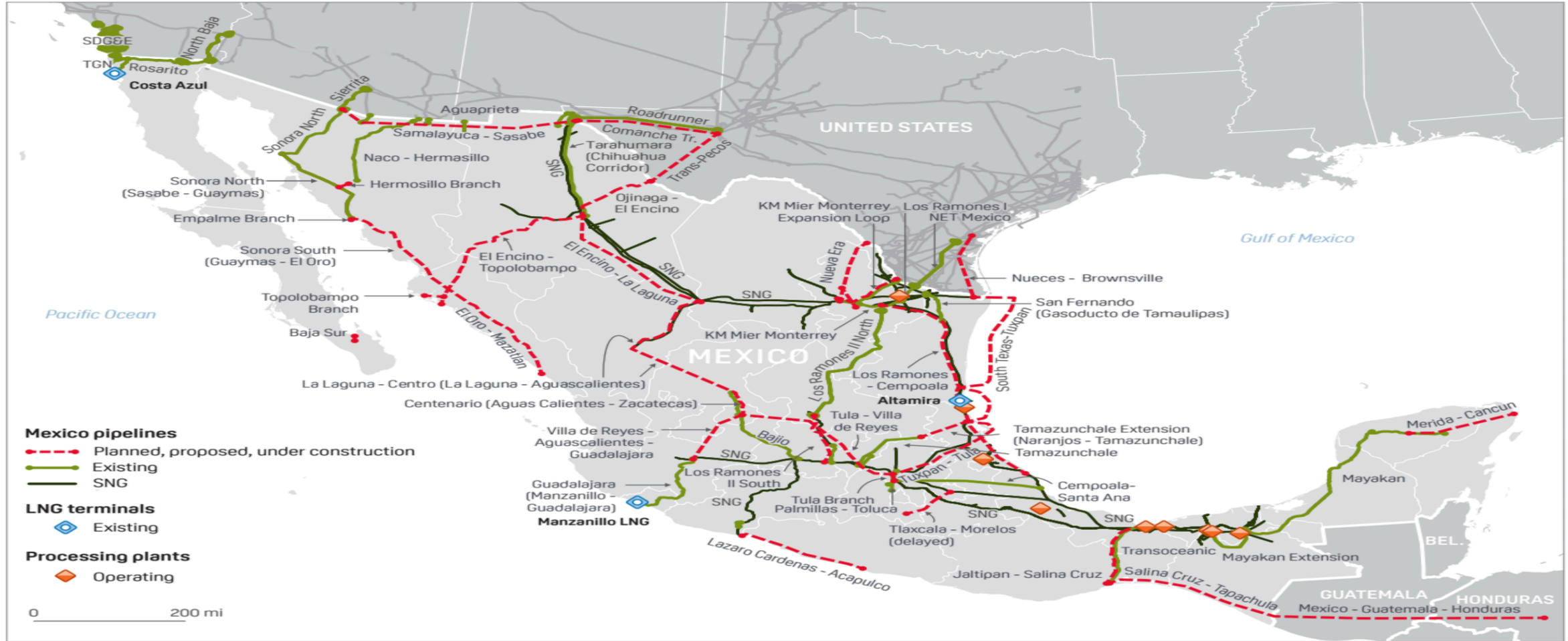


Key Points in Mexico's Energy Reforms

- Total Investment of **\$131.6 bn** in power sector
- Increasing electric capacity **by 60%** to 109,367 MW by 2030
- Wants to build 40 gas-fired power plants 900 MW each
- Plus build out natural gas pipeline system
- Expects **all** natural gas imports via pipelines not LNG
- **Why?**
 - Reduce electricity and gasoline prices
 - Make Mexico more competitive and strengthen economy



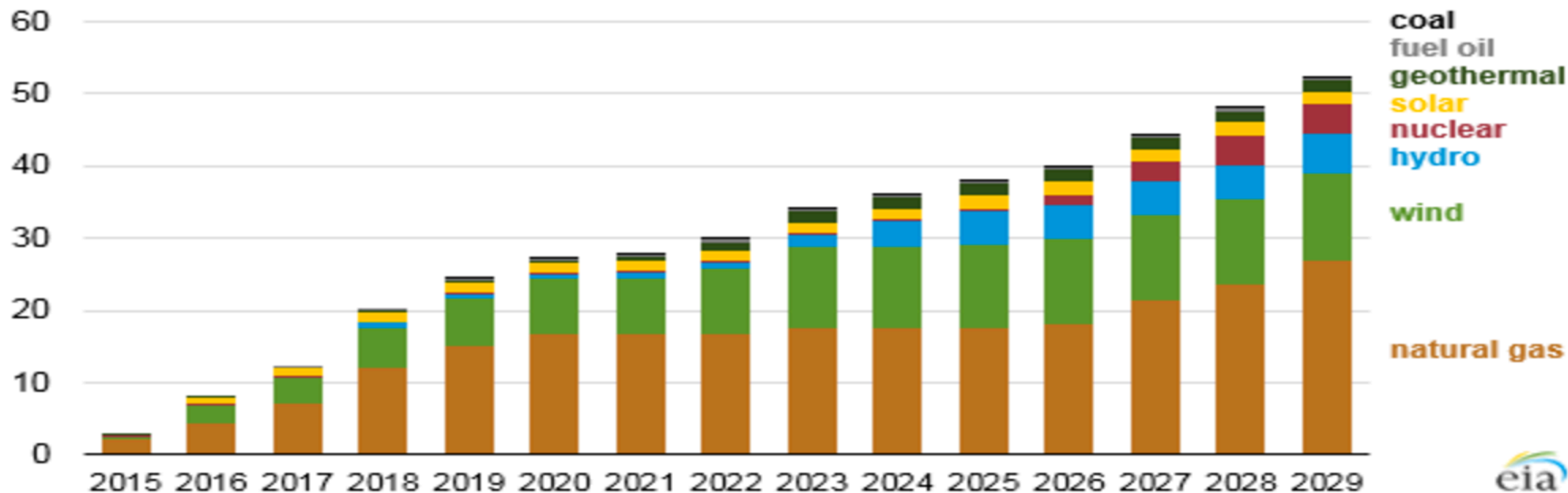
Mexico investing \$4.6 billion expanding gas pipelines



Source: Platts

Mexico's Power Sector will get "gassy" like U.S.

Cumulative projected generation capacity additions in Mexico by fuel type, 2015-29
gigawatts



Source: U.S. Energy Information Administration, based on reporting from Mexico's energy ministry (SENER)



Is Andres Manuel Lopez Abrador Mexico's next President?

- Described as Chavezlike, hard left, anti-American
- Has benefited from American disrespect and truculence
- Big critic of Mexico's inability to reduce gasoline & electricity prices
- Wants to undo the pro-market Energy Reforms with a Referendum
- Would take on Trump's immigration policy and "the Wall"



Immigration Policy and “the Wall” mean a lot to Lopez Abrador

1. Feels like he must stand up to Trump; Mexico is not a colony
2. If Trump persists, Lopez Abrador would go before the UN and accuse the U.S. of violating human rights & discrimination
3. Trump would retaliate via Twitter!
4. Common sense would take a back seat to national honor
5. U.S. and Mexico could lose sight of NAFTA benefits
6. Could win Lopez Abrador the election if energy prices don't decline and/or President Trump's tweet are more offensive
7. Today, Lopez Abrador has a 33% probability of winning



Luis Videgaray & Margarita Zavala are also contenders



Outcomes- scrap NAFTA or Do Nothing- Part A

1. Big winners might be Canada & Non-U.S. LNG Exporters
2. If U.S. withdraws, it doesn't affect Canadian & Mexican trade
3. If NAFTA is repealed does the U.S.-Canada FTA replace it?
4. Mexico's electricity reform may get more expensive if it has to import more expensive LNG
5. Mexico could decide to develop its own shale gas resources
6. Who would do that? PEMEX or private investors
7. The Environment may be the Biggest Loser in Mexico as coal and oil-fired generation retirements could be delayed



Outcomes- Scrap NAFTA or Do Nothing- Part B

1. Without Mexican imports, the new U.S. gas pipeline reversals will depend on the success of LNG exports to other countries
2. U.S. gas producers could pay Mexican tariffs or import fees with revenues from natural gas liquids or liquid petroleum gases
3. Strategically China could be biggest winner if NAFTA scrapped
4. Would China follow suit and mimic it's \$60 billion investment in Venezuela? Very likely.....
5. Would Russia also enter the game..... very likely



Questions

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