Mexico looks to Asia amid NAFTA uncertainty

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Mexico's long-standing dependence on the US is already being replaced with a shift to the Orient and a diversification of its energy exports, with panellists at last week's Mexico Day in London unfazed by the prospect of a post-NAFTA era.

Juan Carlos Zepeda, commissioner and president at the National Hydrocarbons Commission

Mexico Day was hosted by the UK Mexican Embassy, the government institution ProMexico and the Mexican Chamber of Commerce for Great Britain. Yves Hayaux du Tilly, partner at Mexican firm Nader, Hayaux & Goebel, is chairman of the Mexican Chamber of Commerce and worked with the embassy and ProMexico to organise the day's programme. Nader Hayaux is the only firm listed in the Latin Lawyer 250 Mexico chapter with a London office.

Jaques Rogozinski, CEO of Mexican development bank Nacional Financiera, said uncertainty surrounding NAFTA could be a blessing in disguise. "Trump has cut the branch which forces the bird to fly…Mexico is that bird," he said. "Mexico has got too comfortable and has relied on the US as its neighbour for far too long." He predicted that while the US will remain the main buyer of Mexican goods – with or without NAFTA renewal – a new era of opportunity in a post-NAFTA era would prompt Mexico to diversify its buyers. While Mexico currently exports 80% of its goods to the US, Rogozinski predicted this could be reduced to 60% or 50% if Mexico acts strategically following a non-signing.

Asian interest in the country could help Mexico steer away from high dependence on the US. The Gulf of Mexico – specifically the Perdido belt – provides an opportune gateway between Mexico and the Pacific for oil and gas transportation. Considering that Asian countries – China, Japan, South Korea and India – import the most oil and gas worldwide, Juan Carlos Zepeda, commissioner and president at the National Hydrocarbons Commission, noted Mexico's strategic geographical location. "Pemex has developed several pipelines at Tepalcatepec… this infrastructure was originally only intended to transport oil and gas to the pacific coast of Mexico – nowadays, it is an important gateway to the Pacific market and Asia."

There are three remaining bidding rounds scheduled for this year that will tender 81 contracts, including Mexico's first non-conventional bidding round, which takes place on 5 September. On 27 March, bidding for shallow-water exploration and production contracts will take place. While BP, Capricorn, Chevron and ExxonMobil are among the registered bidders, there is increased demand from Asian companies, as they take advantage of the convenient gateway it provides between Mexico and Asia. Most of the Asian prospective bidders are national oil companies from China, India and Thailand. “Asia is coming to Mexico for reserves for the future,” Zepeda said.

Oil and gas continues to provide opportunities for investors in Mexico. Ninety-one oil contracts have been awarded to 71 companies from 20 countries over the past two years, and companies have committed to drilling 129 exploration wells over the next four years – this is roughly double what Mexico has seen in the previous four years. While the Mexican government currently takes on average a 74% cut from oil and gas project profits – a substantially higher portion than the US equivalent (55%) and that of the Brazilian government (64%) – Zepeda remarked that more projects are taking place thanks to the government’s new exploration and production contracts. “It’s not about getting the largest portion of the pie; you want to make the pie as big as possible.”

The figurative pie has increased in size thanks to not only oil and gas contracts, but also the boom in electricity projects across the country. Santiago Ross, an associate at Norton Rose Fulbright, highlighted the many positive developments as a result of Mexico’s energy reform. “The energy reform was a massive overhaul of the electricity sector, which made it very attractive to international players to invest in Mexico…there are a number of long-term investments already committed, and significant growth potential in areas such as private PPAs, storage, fuel transport, connection lines, energy efficiency, smart grids and distributed generation, amongst others,” he said.

The private sector’s participation in Mexico’s infrastructure continues to grow in importance. According to the G20’s 2017 Global Infrastructure Hub report, Mexico should be investing around 4% of GDP in infrastructure, but this has only reached around 2% in the past few years. Alejandro Blasco Ruiz, head of investor relations at state-owned development bank Banobras, affirms that Mexico is doing things the right way by inviting the private sector – both at home and from abroad – to plug the gap. “As we say in Mexico: we aren’t inventing the hot water; we are just following what the market is doing, with many countries around the world doing the same,” says Blasco.

- Country : Mexico, International
- Industry : Renewable energy, Electricity Production and Supply, Oil & Gas

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