

Market observers cast doubt on Mexico's natural gas export hub ambitions

- Salina Cruz project called into question
- Gas imports from US reach all-time high
- Manzanillo could be turned into export terminal

Mexico could become a natural gas export hub to serve the growing Asian market given its proximity with abundant gas from the US. However, some market observers doubt the current projects envisioned by the Mexican government are the most appropriate to achieve this goal.

"Mexico and Texas could be the answer to Asia's energy needs, if they planned a better broader marketing effort together," said Texas Railroad Commissioner Jim Wright on Nov. 10 during a US-Mexico natural gas forum.

Asia will continue to grow in the coming decades, and Mexico and Texas are well positioned to take advantage of that growth, he said.

Developing Asian countries like China and India will be the largest importers of natural gas by 2050, he said. Other countries in the region like Japan and Korea already account for 50% of the US LNG exports, he said.

The Panama Canal currently presents severe challenges in terms of capacity which limit the ability for firm and reliable delivery to Asia, but Mexico could solve that, Wright said.

"It makes sense for Mexico to make those infrastructure investments concurrently with the investments for exploration and extraction and reap the benefits as a hub for markets in Asia along with Texas as its reliable partner," he said.

Mexico's state utility CFE recently announced plans to build an LNG export terminal in the port of Salina Cruz, in the state of Oaxaca. The government wants to complete the project by 2024. However, other panelists during the forum were skeptical about CFE's plans.

"It's nonsense," said Eduardo Prud'homme a partner at Mexico-based consultancy Gadex. "They want to invite someone to find a contract in Asia, build a pipeline, build a port, install equipment for a floating facility, but they want to be the owners."

Furthermore, there is no gas in the area, unless CFE finds a way to transport from the marine pipeline, Prud'homme added. TC Energy's 2.6 Bcf/d marine pipeline brings gas from Texas to the city of Tuxpan, in the state of Veracruz, hundreds of miles away.

Mexico has imported 6.1 Bcf/d from the US on average during 2021, but imports reached an all-time high of roughly 6.8 Bcf/d in June, data from S&P Global Platts Analytics shows. Total demand was 8.8 Bcf/d in August, the data shows. Pemex production was 2.3 Bcf/d in August, but most of it was reused for crude production.

Before thinking about liquifying and selling imported gas, the government should focus on covering the needs within the country first, said Carlos Arriola, CEO of natural gas transportation company IGASAMEX, during the forum.

"The south needs gas, and we have never been so close to solving the crisis of natural gas in the Yucatan peninsula," Arriola said, adding that if the government really wanted to export gas it would be wiser to use the LNG import terminal in Manzanillo. LNG import flows into Manzanillo have been replaced by gas piped through the Fermaca system from Waha.

"Manzanillo is already there, and it's easier to turn it into an export facility than developing one from scratch," he said.

Rosanety Barrios, an independent analyst and head of the natural gas sector under Mexico's prior administration, agreed and said the reason why CFE wants to export the gas is because it does not want to make spare pipeline capacity available to the market, and encourage competition in power generation. Barrios said the government should be concerned with recovering Mexico's natural gas production, which then could allow exports.

Prud'homme said private LNG export terminal projects, like the one from Mexico Pacific Limited in the state of Sonora, are better options to serve the Asian market, as they could use the spare pipeline capacity owned by CFE in that area.