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United States Bullish on Mexican Energy

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Last August, the United States joined Canada and Mexico to renegotiate the North American Free Trade Agreement more than 20 years after its enactment. Despite the political rhetoric surrounding what President Trump has termed "the worst trade deal in American history," you would never suspect that there is a trade problem in the ports of Corpus Christi, Laredo, and Brownsville. In these and other locales, both private companies and governmental organizations appear to be optimistic about cross-border activity, adapting to a combination of the continuing success of U.S. shale, an end to the U.S.'s 40-year ban on oil exports, and eased restrictions on foreign investment in Mexico's energy sector.

The growing cities of Corpus Christi and Brownsville, both of which already have busy international ports, are ground zero for new liquefied natural gas (LNG) export facilities. Energy companies are attracted to these smaller ports because of their relatively low cost and easy access to the Eagle Ford and Permian Basin. Cheniere Energy, the largest U.S. LNG exporter, is currently constructing a $13 billion facility in Corpus (which was fortunately spared with minimal damage after Hurricane Harvey made landfall only minutes away in Aransas Pass). Another LNG facility is underway in Brownsville, Texas and is currently in the regulatory-approval stage.

Officials of the Port of Corpus Christi are also in the process of deepening the port to accommodate new supertankers that have recently been launched by Occidental Petroleum, which hopes to ship Permian oil from its terminal in Ingleside, Texas to markets as far away as Asia by 2019. There are few existing ports that can accommodate such large tankers right at the dock (rather than the current method of ferrying multiple loads offshore). Occidental's supertankers can each hold more than 2 million barrels of oil.

Further west on the U.S.-Mexico Border, the Customs agencies of both the United States and Mexico just inaugurated a new joint Unified Cargo Processing facility in Laredo, Texas for rail traffic. The Laredo rail crossing is the busiest on the U.S.-Mexico Border, with 23 trains crossing through this port per day on average. According to Texas Rail Advocates and U.S. Customs and Border Protection, the new facility is intended to process Non-Intrusive Inspection security scanning images, conduct Mexico export processing at the U.S. railhead, streamline the documentation review of northbound trains, and conduct joint inspections on inbound shipments. At the groundbreaking, Kansas City Southern CEO Patrick J. Ottensmeyer said that the "project, and others to follow, are essential to facilitate the goal of expanding trade and particularly increasing exports of goods such as refined petroleum products and petro-chemicals from the U.S. to Mexico." Though KCS constructed the new facility, the facility will benefit both KCS and Union Pacific Railroad and will undoubtedly support the increased energy traffic through both nations.

Finally, Shell just announced that it would invest $1 billion in Mexico over the following decade, inaugurating its first retail gasoline station in the country. The new investment will largely focus on improving infrastructure to accommodate Shell's anticipated activities in the country. A Shell station in Mexico would have been unheard of as early as five years ago, when nearly every gas station in the country was green and bore the name "PEMEX," the name of Mexico's state-owned oil company that has monopolized the sector since President Lazaro Cardenas shut out foreign oil companies in 1938. In 2014, President Enrique Peña Nieto signed comprehensive energy reform that is already returning foreign investment to

Mexico's energy sector. In the most recent round of bids this summer, PEMEX awarded 10-15 shallow-water areas of the Gulf of Mexico to Shell and other companies. If Mexico continues to open its energy sector, the effects will be undoubtedly felt along transportation corridors and in all aspect of the transportation industry from Laredo to Corpus Christi—not just in the energy-centric environment of the Port of Houston.

Assuming a renegotiated NAFTA adapts to rather than hinders these increased cross-border activities, there are a variety of new legal issues that will arise, ranging from compliance with the Foreign Corrupt Practices Act and U.S. export controls, insurance coverage for activities abroad, and choice-of-law issues in any resulting litigation. The KRCL Energy Blog looks forward to keeping you updated on these exciting new developments.