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A Call for Action

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As the energy and natural resources ministers of the three North American nations meet in Washington, DC in December 2014, there is a compelling case to be made for a new era in regional energy cooperation. Six issues should define this agenda:

Creating a mechanism that institutionalizes and adds stability to policy coordination efforts;

Working with industry across the region to map out future supply and demand

In December 2014, the energy ministers of the three NAFTA nations met for the first time since 2007. The fact that they had not met for seven years reflects both the

switched their paradigm from scarcity to abundance. With oil production projected to increase still further, and with fuel efficiency standards and energy efficiency efforts holding consumption steady at the regional level, policy makers are now more concerned with the possibility of North America becoming a net exporter of oil.

However, the NAFTA partners are now in a unique position to provide such a mechanism. The coming together of a number of factors, including the Mexican energy reform that now allows for private participation in oil and gas exploration and production, and the dramatically altered energy security situation of the United States, proves there have never been more propitious circumstances for regional cooperation in the area of energy policy. Furthermore, there are very real and pressing issues to be discussed, including the thorny question of the Keystone XL pipeline and the highly politicized issue of aging and inadequate refining capacity and crude exports from the United States.

In light of

the main source of crude exports to the United States, eastern Canada imports crude oil from the United States. This reflects both the higher oil consumption and lower production of eastern Canada, as well as the fact that the pipeline network is oriented North-South as opposed to East-West. Canada imported 133,000 bbl/d of crude oil in 2013, the only country to import crude from the U.S. However, Canada

also imported a total of 415,000 bpd of petroleum products from the United States.

A major challenge for Canada in the coming years is the question of how to get its growing oil production to market. Alberta expects to double its current oil production within the next

15 years, meaning that total Canadian oil production would rise to 6.4 million barrels per day in 2030, compared with 3.5 million bpd in 2013. This will mean almost 3 million bbl/d more that need to find their way to refineries and then to regional or global consumers. With limited pipeline and refining capacity, and with rising production in the United States, Canada needs to look for alternatives to get its product to tidewater.

The natural gas relationship between the two countries shows some similarities to oil. Although Canada has traditionally been the most important source country for U.S. gas imports (again, around 97 percent of the total), this is changing as American national production from shale has risen so prodigiously in recent years, and the total amount of Canadian gas imported by the United States has fallen from 3.8 Tcf in 2007 to 2.8 Tcf in 2013. At the same time, Canadian gas production has been rising, and Canada, like the United States

If we consider the export potential of the region, there is clearly a need for pipelines that can move Canadian crude to tidal waters, on either the Atlantic or Pacific coasts. The option of exporting to Asia, where the most impressive growth in demand has occurred in recent years, is one that must be seriously considered by policy planners. Although the construction of a pipeline to carry Albertan crude to the Pacific coast for export to China has been used largely as an implicit threat by Canadian authorities in their declarations concerning the Keystone XL pipeline, at some point rising regional production will make such infrastructure a necessity.

In addition to the challenge of getting crude to tidal waters, exporting crude or refined product from North America will require port infrastructure investments. At the present time, there is infrastructure in place to allow for massive imports of crude into the United States. Adjusting to an export scenario should not be a major problem, but the logistics will need to be taken care of. For Mexico, rising production may necessitate looking for new markets in Europe and China if the United States cannot absorb all of the new crude.

On the gas front, there are impressive infrastructure projects underway to increase the linkages between the United States and Mexico. The Los Ramones, San Isidro-Samalayuca and Ojinaga-El Encino pipelines will dramatically change trade in gas between the two countries, allowing the Mexican economy to take advantage of the cheaper fuel source and convert existing fuel-oil generation plants. One of the main benefits of this process will be cheaper electricity for Mexican consumers, and there is also now an opportunity to grow the natural gas economy in Mexico. The government has recently announced an ambitious plan to build a gas pipeline network that will cover national territory, enabling the installation of natural gas distribution networks in cities and industrial areas.

Thinking far ahead, the

liquefaction plants for export, but it is likely that this will not suffice. Planning LNG export capacity on a regional basis would allow for optimal site location and would help to eliminate duplication of efforts.

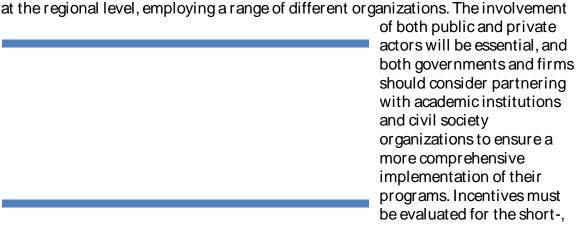
Canada has been leading the way in this regard, with a total of 20 companies applying for LNG export licenses (11 of which have already been approved). The

pipelines, refineries and generation facilities, and increasingly violent weather in North America. As a recent Wilson Center paper by Brian Bow has argued,

employment trajectory. More and better training, therefore, leads to higher professional satisfaction.

educational career paths that focus on the STEM (science, technology, engineering and mathematics) subjects.

In order to effectively address these challenges, a range of solutions must be sought



medium- and long-terms, and should focus on more than simply monetary compensation. The three energy ministers should look to existing mechanisms such as university exchanges, internship programs, and industry associations to develop a joint approach to the skills gap in the energy sector.

One area that would provide immediate benefits both in terms of efficiency for the private sector, and environmental protection and industrial safety, is regulatory dialogue between agencies from the three nations. There are a number of good reasons to promote this dialogue. First, in the case of trans-border infrastructure, such as pipelines or transmission lines, it makes no sense whatsoever for standards to differ. A pipeline that crosses the U.S.-Mexico border, for example, will by necessity be the same gauge, and it should meet identical safety standards on both sides of the border.

A second issue involves the socommunity approval before breaking ground on major projects. The energy
industry as a whole faces serious challenges in gaining public consent for big
projects. As a recent Op-ed argued,

ne is not unique. Everyone wants to use energy, but no one wants it transported across their back yard. And it does not make much of a difference if the energy is produced from fossil fuels or

Confronting Challenges to North America's Energy Future Forbes.com, 12/12/2014, http://www.forbes.com/sites/themexicoinstitute/2014/12/12/confronting-challenges-to-north-americas-energy-future/

Similar standards for safety, environmental protection and the establishment of accepted industry best practices would not eliminate public antagonism to energy infrastructure projects, but it would provide an opportunity for learning between coessful experience in

negotiating with First Nations communities and involving their people in energy projects is being studied by the United States and provides one example of how governments and industry can benefit from shared experiences.

Third, there are a number of areas in the region where shared resources require compatible regulations. The forthcoming wave of E&P activities in Mexican deep waters in the Gulf of Mexico has raised concerns about the quality of regulatory standards there. Post-Macondo, the United States imposed a new regime in which

offshore operators in the Gulf must now have a Safety and Environmental Management System (SEMS) in place. The two main actors in this new offshore regime are the Bureau of Safety and Environmental Enforcement (BSEE), the new offshore regulator, and the Center for Offshore Safety (COS), created under the

technical standards unit of the American Petroleum Institute, the industry's trade association. The Mexican industrial safety and environmental protection regulatory agency, the Energy, Safety and Environment Agency (ASEA, formerly ANSIPA) should adopt standards that are compatible with those of the SEMS to avoid a potential tragedy of the commons. Furthermore, it is imperative that agencies from both governments continue to engage in a conversation over regulations to ensure that the highest safety and environmental standards are maintained without overburdening the industry. The conversation will be of particular importance over the next few years as the ASEA begins its existence and seeks to bring itself up to speed with regulatory international best practice.

Fourth, the determination of energy efficiency and emissions standards makes far more sense at the regional rather than the national level. Given the shared economic space, and the high level of integration between both markets and production systems, it is logical for all three countries to adopt similar standards in these areas. Already, we have seen some convergence in energy efficiency standards, with Mexico adopting variations of both Energy Star and U.S. fuel efficiency standards. However, on the question of emissions, the three NAFTA countries exhibit

American space, would go a long way towards improving the human capital pool for the industry.

Lastly, to ensure that integrated regional energy markets function smoothly, regulators must work together to jointly develop rules, standards, norms and procedures. Avoiding a tragedy of the commons is only one, albeit the most critical, reason why this must be a priority for the three North American partners.

commitment to an ongoing conversation between governments, regulators, stakeholders and the private sector, there is good reason to predict that this can be sustained, and can continue to drive competitiveness and prosperity long into the future.

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