

The chance to avoid Panama fees would give Mexican export plans a competitive advantage, writes Ellie Holbrook

Pipeline projects buoy hopes for future LNG exports

The completion of key pipeline projects has boosted Mexico confidence that it could export LNG in the future, but its plans face tough competition.

The completion of the final leg of Mexican firm Fermaca's 5bn ft³/d (141.5mn m³/d) Wahalajara pipeline network in October marked the beginning of the end for the country's pipeline build-out. Ramped-up pipeline flows from the US have already reduced Mexico's reliance on LNG imports, and with US gas now reaching most of the country, Mexico may even have surplus volumes that it could export as LNG.

The idea of Mexico exporting LNG was "unthinkable 5-6 years ago", Fermaca subsidiary Santa Fe Gas chief executive Santiago Garcia tells *Argus*, rejecting suggestions that mounting market competition could challenge such plans. He believes that growing Asian demand requires continuous growth of global liquefaction capacity, and planned export facilities located on Mexico's Pacific coast – which would eliminate the need to transit the Panama Canal – will make Mexico a more advantageous option.

US firm Semptra Energy's Mexican arm plans to convert the existing Energía Costa Azul (ECA) import terminal on the country's Pacific coast into a liquefaction facility took a step forward last month, with IEnova reaching a final investment decision (FID) on the 3.25mn t/yr facility in November, following multiple delays.

Doug Shanda, chief executive of Mexico Pacific (MPL), tells *Argus* that MPL should reach an FID on the 12.9mn t/yr Sonora LNG facility "late next year or in the first quarter of 2022", with operations starting in 2025. The firm had previously expected an FID on the project by end of this year "but no later than first half 2021". Shanda also believes Sonora will start operations in time to help address the global demand-supply gap expected in 2025. MPL is at present securing binding offtake agreements with four Asian firms, having signed nonbinding agreements with these firms for the first 4.3mn t/yr phase of the project.

Garcia adds that the 3.2mn t/yr Manzanillo import facility could be converted into a liquefaction facility, using gas supply through the Wahalajara pipeline, while alternative options would see Manzanillo continuing to receive LNG for periodic back-up supply or operating as a storage facility.

Mexico's government has also proposed the construction of a 0.5mn t/yr liquefaction facility at the Pacific Coast port of Salina Cruz, although this would be focused on supplying fuel for maritime and road transport, rather than for export. In early October the government said that work would begin on the facility within the next few months, but details of the project remain sketchy and it is unclear how it would be funded.

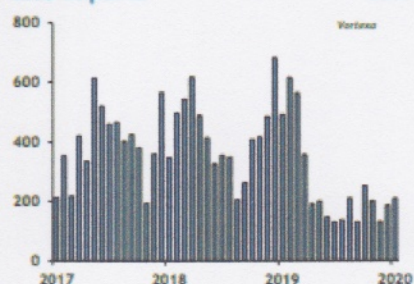
Short of the goal

But Shanda has reservations regarding the prospect of converting Manzanillo into an export terminal, as it is located further away from Waha, which would add to transportation costs for the US gas. In the meantime, it is probably best placed to serve gas-starved areas such as Yucatan and help wean Mexican large energy consumers off using LPG or diesel as a source of power supply, he says.

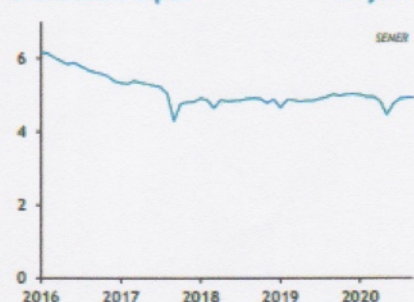
But plans for export facilities face numerous headwinds. The ECA facility has encountered difficulties in securing an export licence. And Shell in July filed an arbitration claim related to its storage contract at the terminal, followed by Russia's Gazprom in November. President Andres Manuel Lopez Obrador also suggested in October that the granting of ECA's export licence could also depend on IEnova's agreement to build a second LNG export facility in Topolobampo.

Mexico will also have to compete for a market share with other large-scale

LNG imports '000t



Domestic output bn ft³/d



MEXICO

export projects, such as those planned in Mozambique, as well as Qatar's planned expansion of the Ras Laffan complex. The Paris-based IEA expects the global LNG market to remain oversupplied until 2025, with the planned increase in liquefaction capacity set to outpace demand growth. This coupled with the uncertain impact of the Covid-19 pandemic on global gas demand has further weakened appetite for investments in LNG projects, the IEA says, as low prices and buyers' reluctance to secure long-term deals "severely constrain capital budgets among developers".

Garcia warns that while Mexican facilities offer a logistical advantage, such projects would have to rely on gas imports from the US rather than on domestic production, especially given declining Mexican output and the government's reluctance to employ hydraulic fracturing. New domestic production in Mexico would have to be sold at \$4.00-4.50/mn Btu in order to break even, Garcia says, making it uncompetitive with gas imports from the Permian basin.

Lines drawn

With declining upstream production in Mexico and domestic demand expected to grow further in the coming years, the issue of how to use the imported gas is also a divisive one. "Some are of the view that the pipeline imports should be for Mexico only," Garcia says, adding that the domestic network would need further development for the country's demand to increase further.

Mexico's network expansion is "behind the last mile", but the system is still "20-30 years behind" US infrastructure, Fermax head of government affairs Fernando Alonso tells *Argus*. New interconnectors are needed to avoid bottlenecks on a number of lines, including the 886mn ft³/d Villa de Reyes-Aguascalientes-Guadalajara pipeline. The two largest pipeline systems in the 25-line build-out, the Wahalajara and Texas-Tuxpan systems, are still operating at less than 50pc capacity, while delays to completing the 886mn ft³/d Tuxpan-Tula and 886mn ft³/d Tula-Villa de Reyes pipelines have led to bottlenecks on the Texas-Tuxpan line.