

# POLICY BRIEF

## Deep in the Heart of North America: Texas and the Future of North American Energy Trade

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### STATEMENT OF ISSUE

Texas, the heart of North American energy markets, has recently emerged from history's biggest oil boom, and is becoming the crossroads for an increasingly two-way trade in oil and gas. Texas and Mexico, in particular, have much to gain from expanded energy trade. Texas has become a global center of natural gas and light crude oil production that can meet growing demand for power for Mexican consumers and fuel for Mexican refineries. And Mexico's wind power resources in Tamaulipas would be most valuable if that power could be exported to centers of urban and industrial demand in Texas. Yet there is an increasing danger that this potential will be squandered. Growing movements against eminent domain, infrastructure permits, and energy exports in the United States and moves to renationalize the energy sector in Mexico are making energy companies increasingly wary of investing in the future of Texas-Mexico energy trade. This report shows how energy law changes in the U.S. and Mexico present under-studied dangers to cross-border energy trade and will set an agenda for legal reform to enable mutually beneficial fuel and power trade.

### KEY FINDINGS

- Roadblocks in one country can also be opportunities for the neighbor. For example, climate change pledges on the U.S. side and renewable energy built on the Mexican side.
- Distances matter. Energy commodities, infrastructure, and resources on one side of the border might be closer to high-demand urban areas or adequate export points across the border than in your own territory.
- Different sectors of the energy market can still do business under nationalistic views, as long as they are willing to play under new rules. Example: Shell's sale of Dear Park refinery to PEMEX to strengthen Mexico's "energy sovereignty."
- Borderlines of North America's jurisdictions are increasingly irrelevant to the energy challenges in the continent. Joint efforts and cooperation mechanisms are needed to meet common energy challenges.

### POLICY RECOMMENDATIONS

- Both countries should adopt clear rules that give part-ner country companies access to existing infrastructure and should not prevent companies from building new capacity when the existing one is insufficient.
- Both countries should adopt clear rules on expropriation and nationalization of energy assets, including formulas for com-pensation that contemplate market values, rates of return, and formulas to estimate future prices.
- Principles for regulator's decision-making processes and coordination on energy data.
- Adopt protocols that recognize the principle to cooperate in emergency situations and alleviate the supply needs of the region.
- Create a North American commission that serves as a connecting point for coordinating energy policies to further integrate the region.
- Cooperation for joint environmental and safety standards.
- The U.S. and Mexico should take the existing transboundary agreements on the joint development of resources at the bor-derline and integrate them in their energy relationship.
- Community engagement principles.

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