Hecho En Los Estados Unidos

By John Harpole

There is a famous nighttime satellite photo of North and South Korea making the rounds on the Internet. South Korea appears as a shiny glob of light. To the north there is nothing. That stark contrast causes some to refer to North Korea as the "dark country."

That one photo instantly and succinctly sums up the vastly different political realities and quality-of-life issues between the two countries.

A similar comparison could be made in the Gulf of Mexico. The northern, U.S. portion of the Gulf is filled with more than 3,000 offshore oil and gas production platforms, which twinkle in the night, and 25,000 miles of pipelines. There are comparatively few platforms or pipelines in the dark, deep waters of the Mexican side—an area that most geologists consider to be one of the largest undiscovered, undeveloped, oil and natural gas resource plays in the world.

Mexico still celebrates every March 18, the day when 75 years ago then-President Lázaro Cárdenas nationalized Mexico's oil and gas production.

When that annual celebration runs into the night, requiring light, odds are that it will be powered by gas-fired electric generation. It is also increasingly possible that the gas supply for that electricity was *hecho en los Estados Unidos*—made in the U.S.

The reason for the contrast between our two countries in the quality of life, politics and free market realities seems to be lost on our neighbors to the south. South of the Rio Grande, they seem to be blissfully ignorant of the comparative drilling rig and production platform count in the Gulf and what capitalism and energy security means to the U.S.

Public ownership

The major factor in that equation is the Mexican people's belief in public ownership of oil and gas. The current nationalistic constitution backs up the public's sentiment, effectively banning private investment in oil and gas exploration and development.

However two recent decades' worth of politicians are apparently not deterred by that sentiment. They continually push for constitutional reforms to allow foreign investment in their country's resource extraction.

Twelve years ago while on a trade mission to Mexico, I had the opportunity to experience some of those promises first hand. At the time, then-President Vicente Fox made the same pledge to pursue constitutional reforms, a pledge echoed by current President Enrique Peña Nieto.

Yet very little has changed.

To its credit, Petróleos Mexicanos, or Pemex, Mexico's state-owned giant, is chasing oil in reaction to plummeting production volumes at its prolific shallow-water Cantarell field. Cantarell's production has fallen from a high of 2 million barrels (bbl.) per day to 400,000 bbl. per day.

Pemex is investing billions of dollars in the deep waters of the Gulf, an area historically reserved for super-majors. Following 23 consecutive dry holes, Pemex finally struck oil in the deep water Gulf last year.

Chasing oil

Note to all U.S. gas producers: They are chasing oil, not gas.

But what about Mexico's unmet need for gas supply?

That unmet need has obviously caught the attention of U.S. shale gas producers.

In 2012, Mexico consumed record amounts of gas. U.S. supply satisfied nearly 30% of Mexico's increase in demand. Nearly 1.7 billion cubic feet (Bcf) per day of U.S.-produced gas crossed the Rio Grande, a 24% increase in one year.

Thanks to U.S. free-market systems, relatively speaking, and capitalism pumping on all cylinders, Mexican consumers will be the first foreign beneficiaries of the U.S. shale gas revolution.

U.S. supply is not Mexico's only solution for gas, but it is clearly the low-cost alternative. They do have a liquefied natural gas (LNG) import option in supplies from Nigeria, Qatar, Indonesia and Yemen. However, there's no effective delivered-price competition between that LNG supply chain and pipeline supplies from the U.S.

That obvious competitive reality accounts for the large number of pipeline expansions.

Analysts expect incremental gas demand in Mexico to grow by at least 2.7 Bcf per day in the next five years. That new demand is equal to nearly one LNG tanker of U.S. shale gas delivered by pipeline. However, with the U.S. to the north there is no need for liquefaction, shipping or regasification.

Some experts expect that total U.S. exports to Mexico could increase to 5 Bcf per day by 2028.

It's ironic that in the U.S., federally controlled Gulf of Mexico gas production has mirrored the downward spiral of Mexico's oil production. It's also ironic that U.S. natural shale gas production, produced principally from private-fee lands, will be the energy solution for one of the more nationalistic countries in our hemisphere.

We can only hope that people on both sides of the border will note which market approach brings true energy security.

Perhaps the light bulb will finally turn on. ■

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