

# **LNG: Towards a global natural gas market. The Mexican experience**

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## **Overview**

During the following years, the natural gas market will face important challenges. It is highly probable that natural gas prices will rise and turn more volatile, whilst more countries become dependent within regional markets, especially with the growth of LNG trading. Some experts talk about a global natural gas market.

However, most of the projections and perspectives for LNG assume that the supply and transport of this product will not be a problem. To assume that this industry will grow and develop unscathed could be a mistake. Moreover, many of the potential supplies of natural gas are likely to be constrained by economic, technical and political issues.

During the last ten or fifteen years, there had been a number of factors that are shaping the future of the LNG and the natural gas industry. Some of the most important changes are: new technology, new players and increased trading flexibility.

In the mid and long term, the natural gas industry will be more influenced by the LNG market. The growing participation of the LNG in the energy portfolios and the “dilution” of borders, tied to the possibility of acquire natural gas virtually from any part of the world, will contribute to create a global natural gas market. However, in the near future, the LNG industry will face four main challenges: access to large natural gas reserves, high costs of raw materials (including steel), availability of contractors that are able to develop large engineering projects under adverse conditions and highly qualified technical professionals. To assume that this industry will grow and develop unscathed could be a mistake.

In Mexico, LNG made its commercial debut in 2006. During the following years, it is estimated that a number of additional terminals will be built in the country, especially along the west coast. Therefore, LNG will play a crucial role in the Mexican energy portfolio. As Mexico becomes another player in the LNG arena, a number of questions emerge in terms of flexibility and energy security, especially for a country with large amounts of natural resources and submerged in a highly competitive LNG market.

Mexico’s energy portfolio is relying heavily on natural gas, especially in the power sector, while it has been shown that the country is not self-sufficient in this matter. Furthermore, this reliance is based on two delicate and crucial factors: On the one hand, the portfolio that supports the domestic production of natural gas strongly depends on the success of a large number of exploration and production projects across the country.

## **Methods**

Analysis based on the contemporary experience of the Mexican natural gas and energy sectors.

## **Conclusions**

Mexico's energy portfolio is relying heavily on natural gas, especially in the power sector, while it has been shown that the country is not self-sufficient in this matter. Furthermore, this reliance is based on two delicate and crucial factors: On the one hand, the portfolio that supports the domestic production of natural gas strongly depends on the success of a large number of exploration and production projects across the country. According to the State-owned oil company, PEMEX, in 2015 40% of the natural gas production will come from new discoveries and incorporations , with the risks and uncertainties that this situation implies.

Mexico has joined the global LNG market. In the near future the demand for LNG will grow rapidly and the regions that once were considered distant and "strange" could have an important impact in Mexican local natural gas markets, especially in terms of demand and pricing.

It becomes necessary to incorporate the new market conditions and variables of the global markets into the evaluations and forecasts of local markets. Moreover, current energy regulations will have to adapt to the new market variables in order to create the appropriate conditions for investments, certainty and market development.

## **References**

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