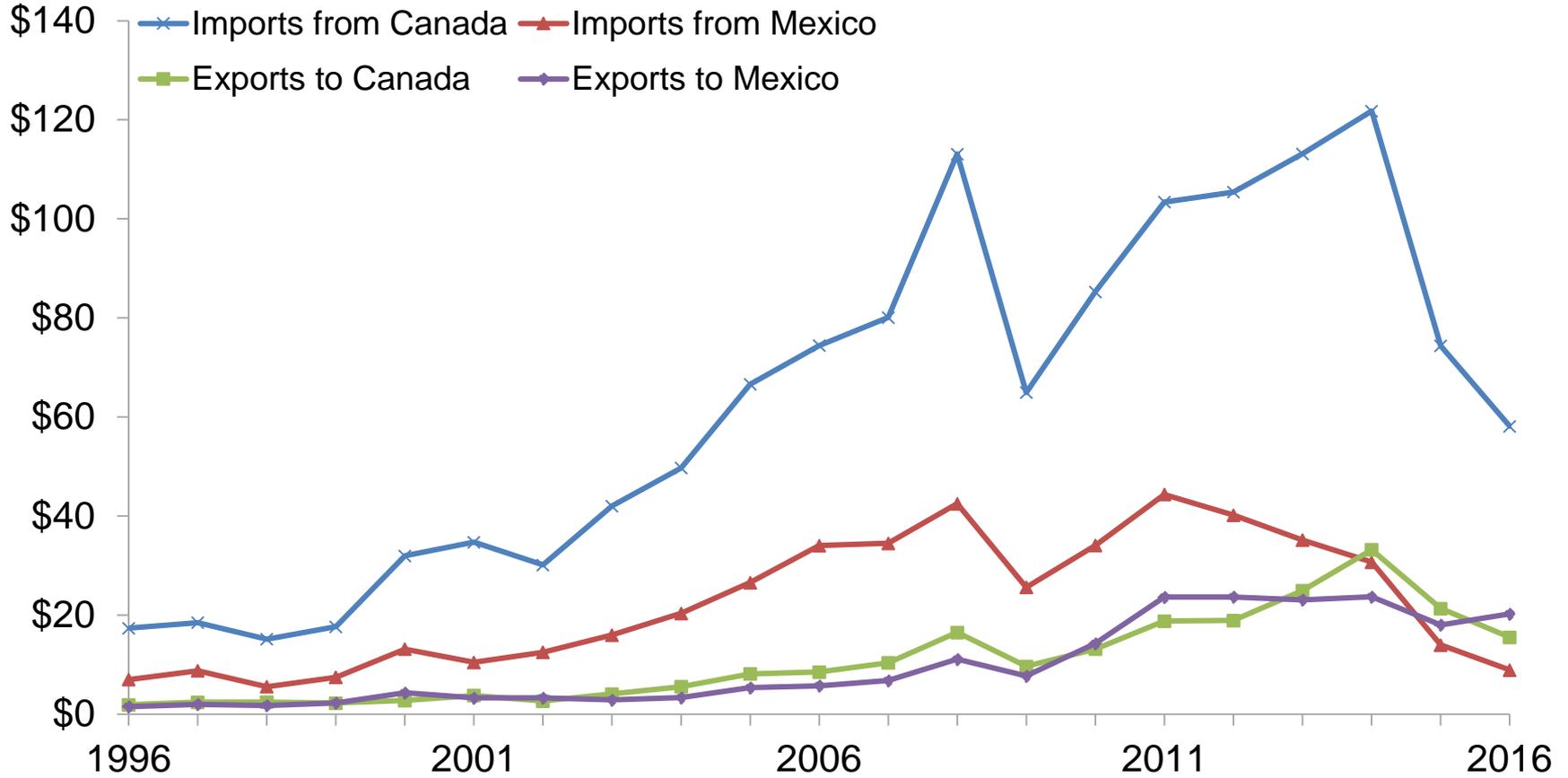


NAFTA and Energy

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July 17, 2017

US energy trade with North America

Billions of dollars

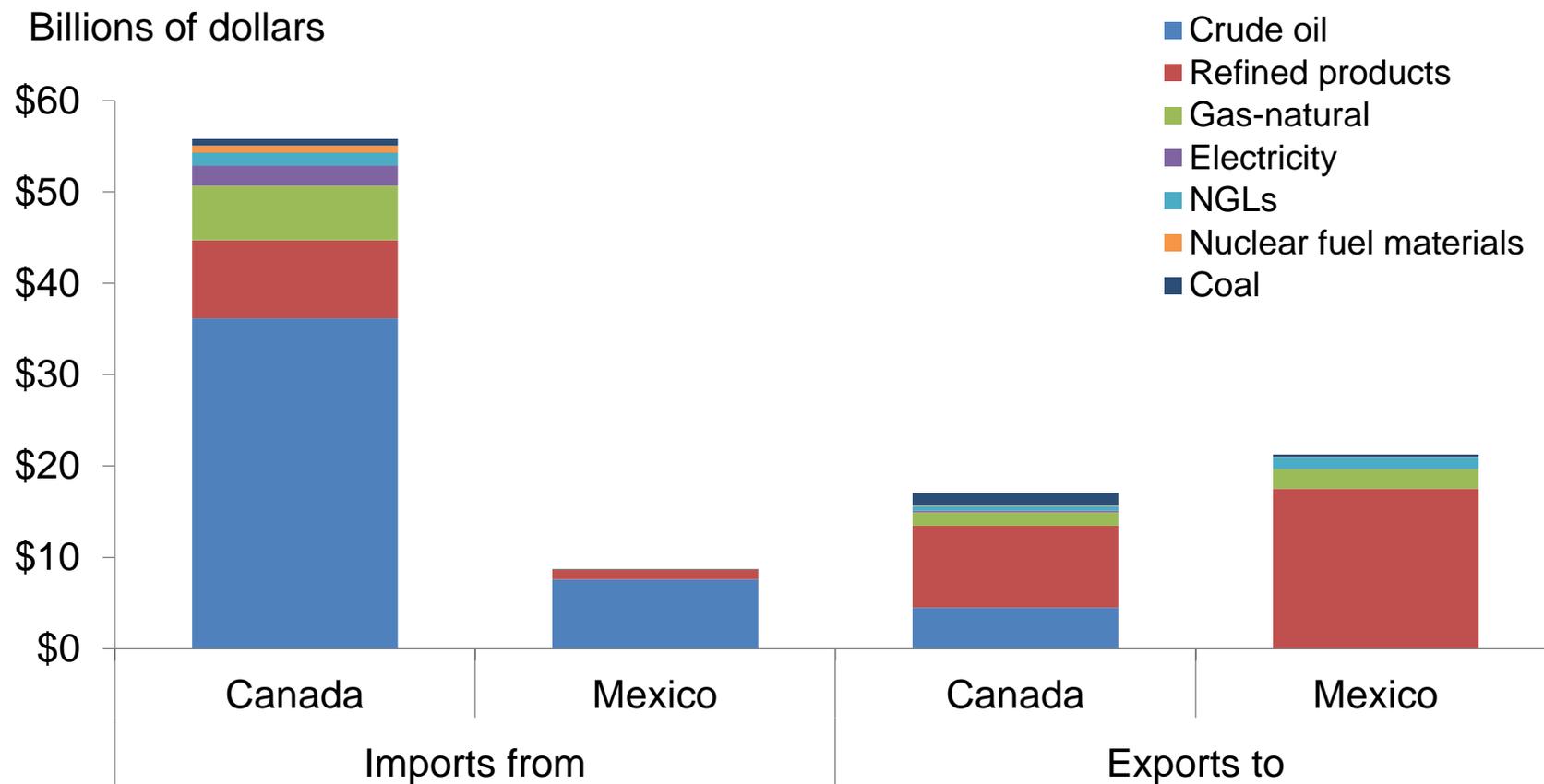


Note: Energy covers all products under HS 27 such as crude oil, refined petroleum products, natural gas and electricity.

HS=Harmonized System.

Source: US International Trade Commission

US energy trade with North America, by product (2016)



NGL=Natural Gas, Liquid.

Source: US Census Bureau, "Country by 5-digit End-Use Code, Annual totals, 2007 – 2016".

Energy developments since NAFTA

- Mexican constitutional reforms in 2013 allow private participation in fossil fuel and electricity sector.
 - Although the reform is subject to a ratchet clause, legal vagueness in the NAFTA text enables Mexico to continue preferential treatment to PeMex.
- Boom in natural gas production spurs US exports to Mexico due to existing gas pipelines and low costs.
 - More construction of electrical transmission and pipelines are expected across the US-Mexico border.
- Advance of renewable energy (especially wind and solar), with different standards, subsidies and buy local requirements in each NAFTA partner.

What could go wrong during NAFTA renegotiation ?



- Buy American and Hire American applied to future US pipeline and infrastructure construction violates NAFTA; could provoke retaliation by Canada and Mexico.
- NAFTA renegotiation could face challenges in liberalizing renewable energy sector owing to US and Canadian government subsidies and differing standards.
- If strict rules of origin apply to the energy sector, US MFN tariffs could be imposed on diluted Canadian crude oil.
- If US presses sensitive issues such as payment for the wall and deportation of immigrants, Mexican nationalism could hinder energy reforms.

Conclusion



- The new NAFTA should seek full liberalization of trade and investment in Canada, Mexico and United States, even for sensitive energy issues (e.g., renewables).
- To achieve this goal, President Trump should stop provoking Mexico, and put Buy American restrictions on the negotiating table.
- The new NAFTA should strengthen the legal basis for deeper energy integration in North America.