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BUILDING BRIDGES IN THE AMERICAS

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What about Energy? The North American Leaders Summit

As North America's three leaders meet in Toluca, Mexico today it will be in the shadow of NAFTA's 20th Anniversary, with discussions likely to focus on trade. Regional energy trade is an important part of this picture. So is trilateral energy cooperation, as North America burnishes its status as a regional energy hub.

So, what are we likely to hear from the leaders in terms of energy?

Praise for Mexican President Enrique Peña Nieto's energy reforms, as well as general support for cross-border energy cooperation and promoting clean energy sources. And much will be made of the importance of North American energy security and ambitions for regional 'energy independence'.

But the issue that has truly captured media attention – the Keystone XL pipeline - will almost certainly remain off the agenda as the topic has significantly strained relations between President Obama and Prime Minister Harper since last year's meeting.

What about the North American energy landscape?

The United States' resurgence as a major oil and gas producer has been well-documented. On the back of the so-called 'shale revolution', the US has become the world's largest hydrocarbons producer. And growth is set to continue in the coming decade, albeit at a slower rate.

Canada is following suit. Home to the world's third largest oil reserves, the country is already a major energy player in its own right. But with 97% of these contained in the unconventional oil sands, Canada's efforts to boost oil production and move it to market have provoked furious debate across North America.

Mexico, meanwhile, is poised to initiate a hydrocarbons resurgence of its own after sweeping energy reforms were passed last December.

By amending the Constitution to allow private investment in oil and gas, and breaking the monopoly of national oil company Pemex, the country hopes to attract the foreign capital and expertise required to dramatically increase production, particularly when it comes to deepwater and shale reserves.

And what about energy trade?

Each of the foregoing trends not only has important economic implications at home but will also impact energy trade both within the region and beyond.

The United States and Canada form the largest integrated energy market in the world. The US gets 25% of its petroleum imports and 90% of its natural gas imports from Canada. And cross-border electric interconnection has been one of the most successful areas of cooperation between Canada and the United States.

Yet as US production continues to rise, Canada appears set to lose its largest market, leaving hydrocarbons producers to seek new destinations for oil and gas supplies.

Instead Canada is looking westward, with plans to increase LNG exports from new facilities on the west coast. Canada has an advantage in its far shorter shipping route to lucrative Asian markets.

The US, also keen to capitalize on Asia's growing demand for natural gas, is banking on an expanded Panama Canal to shorten its shipping route. But with construction delays pushing the deadline to 2015, Canada may have the upper hand.

Both countries are facing several other hurdles in their efforts to reroute oil and gas supplies abroad.

Canada has suffered environmental and community backlash against the proposed Northern Gateway Pipeline to British Columbia. And it is unlikely we will hear anything new from President Obama or Prime Minister Harper on the Keystone XL pipeline given the strain it has already placed on bilateral relations.

In the United States, pressure is mounting to lift the ban on crude exports, while LNG exporters are demanding quicker approval for export licenses for countries without a Free Trade Agreement with the United States.

In the meantime, the US will continue to provide increasing quantities of natural gas to Mexico, until domestic production there takes off. US pipelines to Mexico are already operating at capacity but several new projects are underway. Today, the United States accounts for 80% of Mexico's natural gas imports.

Which brings us to the topic of bilateral cooperation

While it might appear that North America is moving toward a new era of competition, there are also new opportunities for cross-border cooperation, in particular between Mexico and the United States.

Joint development of unconventional energy resources, greater electric integration, and cross-border renewable energy markets would bring economic, environmental, and political benefits for Mexico and the US.

In December last year, the United States Congress finally approved the US – Mexico Transboundary Hydrocarbons Agreement. The accord, approved by Mexico in 2012, opens 1.5 million acres of the maritime boundary area in the Gulf of Mexico for oil and gas exploration.

Importantly, it also establishes a framework for cross-border cooperation in other areas, such as shale oil and gas development onshore.

Mexico has the world's sixth-largest shale gas reserves, according to the Energy Information Administration. Much of the potential is believed to be an extension of the Eagle Ford formation in Texas. Given the United States' experience and expertise, as well as geographical proximity, bi-national cooperation would be the logical next step.

Such cooperation could be supported by the formation of a Mexico – US Shale Gas Council; a public-private advisory body modeled on the US National Petroleum Council.

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The council would provide a forum for considering opportunities for bilateral unconventional natural gas development, or at the very least formulate a bilateral road-map that addresses some of the shared environmental concerns, such as water usage and contamination.

An often overlooked area for enhanced US – Mexico cooperation is cross-border electric integration.

The most active connections today are between Baja California and the regional network connecting the Western United States and Canada. While connections also exist between Texas and Mexico, they are largely for emergency use only.

Greater interconnection would not only boost energy security but can also increase renewable generation and consumption on both sides of the border.

One example is the connection between the Mexican state of Baja California and California.

Baja California has some of the region's greatest wind potential and a population too small to consume it. This presents both a challenge and opportunity in matching Baja California's large and likely growing surplus of renewable energy production with the demand for renewable energy in California.

This type of cross-border exchange would also help California reach its ambitious renewable goals.

Reinvigorating the Cross-Border Electricity Task Force, set up between Mexico and the United States in 2010, would be a good first step toward expanding these opportunities as well as creating new ones.

We may not hear any major pronouncements on energy from North America's leaders in Toluca today, but as the region's energy profile continues to grow, trilateral energy cooperation will only make more sense, particularly in a global geopolitical context.

The Institute of the Americas' Energy Program works to foster a deeper understanding of the most critical energy issues facing the Western Hemisphere. For more information, visit www.iamericas.org/energy or follow us on twitter @IOA_Energy