



Japan-Mexico Energy Agreements Signed in July 2014

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Summary

For the first time in more than 10 years a Japanese Prime Minister visited Latin America. On July 25 Prime Minister Shinzo Abe began a 9 day tour of Latin America. His traveling with a list of 70 top business leaders, with a key agenda issue being Energy. During the first few days of the trip Japan signed two agreements with Mexico that reflect Japan's focus on securing future energy resources and partnering with Mexico as it opens its doors to outside energy investment.

JOGMEC / Pemex Sign Memorandum of Understanding

On July 25, 2014 Japan Oil, Gas and Metals National Corp. ("JOGMEC"), and Mexico's state-run oil company, Pemex, signed a memorandum of understanding ("MOU") on technical and other cooperation.

In December 2013, constitutional amendments to reform the energy sector were published in Mexico. They are expected to open up the market for foreign private companies to bid on oil and gas fields. The MOU is intended to strengthen relationships between Mexico and Japanese companies including JOGMEC and contribute to promote Japanese companies' entry into oil and gas businesses in Mexico.ⁱ

Why this is important for Japan

The deal is expected to include cooperation in the technical development of the gas industry, with the long-term plan of building pipelines from fields in the Gulf of Mexico to the west coast, where the natural gas would be liquefied and exported to Japan in the form of liquefied natural gas (LNG). While Japan has committed to import LNG from the US Gulf Coast, transport costs will

be expensive because LNG tankers must pass through the Panama Canal. Vessels carrying LNG produced in Mexico would not need to pass through the Canal, resulting in a cheaper price for LNG landed in Japan than from the US Gulf Coast.ⁱⁱ

Why this is important for Mexico

For Mexico this is another step toward revitalizing its national energy company with foreign investment and expertise. After Mexico's constitutional amendments were enacted last December allowing for Pemex to partner with foreign companies, the oil company has been on the lookout for new partners to develop its deep water offshore fields, like the one east of the U.S.-Mexico border near Texas in the Perdido area, reportedly home to between 150 and 200 million barrels of oil.ⁱⁱⁱ

If Japanese companies can participate in gas field development, pipeline construction, ports and LNG terminals, it "will become a business opportunity that will amount to about ¥1 trillion [\$9.8 billion]," a Japanese government source said.^{iv}

Japan/Mexico Sign Carbon Trade Deal

On July 27, 2014 Japan and Mexico signed a deal for Japanese companies to earn carbon credits by investing in technology to cut greenhouse gas emissions in Mexico, Japan's 12th bilateral carbon agreement.

The program, known as the Joint Crediting Mechanism (JCM), lets companies in Japan, the world's fifth-biggest greenhouse gas emitter, use lower-cost emission cuts abroad to help meet domestic targets.

"The objective ... is to establish the basis through which the participants will promote the investment and the use of technologies, products, systems, services and infrastructure in order to reach a low carbon growth in Mexico," the Embassy of Japan in Mexico and Mexico's Ministry of Environment and Natural Resources said in a joint statement on Monday.

Past Agreements—Economic Partnership Agreement

In 2005, Mexico and Japan implemented their Economic Partnership Agreement to facilitate trade, investment and bilateral cooperation. Japanese companies have announced investment projects in Mexico for more than \$16 billion dollars since the EPA entered into force in 2005.

Of the \$16 billion, more than US \$12.1 billion was direct investment in Mexico by Japanese companies in sectors such as automotive and auto parts, but also energy, electronics, metallurgic, machinery, agribusiness, food processing high technology manufacturing and logistics and transports services. In addition, Japanese companies in the energy sector have won numerous public tender projects in Mexico, which reaches US \$4.3 billion. Tender projects include the building and operation of electric power plants, natural gas processing plants, and waste water treatment systems for municipal and industrial clients. ^v

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http://www.jogmec.go.jp/english/news/release/news_10_000028.html?mid=tw_140728_02e

ⁱⁱ <http://thediplomat.com/2014/07/abe-lines-up-energy-investments-on-latin-america-tour/>

ⁱⁱⁱ *ibid*

^{iv} <http://the-japan-news.com/news/article/0001450801>

^v <http://www.mexicotradeandinvestment.com/>