

**ENERGY SECTOR : QUESTION #5**

Will a NAFTA increase competition faced by Canadian exporters of natural gas in U.S. markets?

**Background:**

**Mexican Energy:**

Natural gas has become increasingly important component of the total energy consumption base of Mexico. To reduce the domestic dependence on the oil, natural gas and electricity has become increasingly exploited sources of energy. Since 1984, Mexico has followed a "no export policy" for natural gas, which resulted in the deterioration of export infrastructure, thereby precluding any major export initiatives to the U.S. without major reinvestment.

The potential for large gas exports does exist, however export potential will be limited to 200 to 250 billion of cubic feet for the 1990's. It is unlikely that Mexican exports will directly challenge Canadian exports to the United States over the long run, however, the demand for gas in the short run at peak periods cannot be met by Canadian producers without a significant increase in prices, and may thus be filled by Mexican exports. Market share, however, should not be significantly damaged.

**RESPONSE:**

- UNDER A NAFTA, THE CANADIAN EXPORTERS OF NATURAL GAS TO THE UNITED STATES WILL NOT BE HARMED BY THE LIBERALIZATION OF THE MARKETS. BARRING A DRASTIC CHANGE IN MEXICAN ENERGY POLICY, THERE WILL BE NO INCREASE IN COMPETITION FOR THE CANADIAN EXPORTERS AS THE MEXICAN GAS EXPORT INFRASTRUCTURE CANNOT SUPPORT IN THE SHORT SUCH A CHANGE.
- IN THE LONG TERM, WITH DIMINISHING OIL PRODUCTION AND RISING DOMESTIC ENERGY REQUIREMENTS, ANY LARGE SCALE EXPORTS MAY BE LIMITED, EXCEPT TO MEET THE EXCESS U.S. DEMAND NOT SERVICEABLE BY CANADIAN COMPANIES.