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The Mexican government has announced plans to eliminate a tariff on imports of US and Canadian natural gas earlier than scheduled to compensate for a potential energy shortage in northern areas of the country. The 4% tariff will be scrapped July 1. If Mexico had followed the timetable spelled out under the North American Free Trade Agreement (NAFTA), the tariff would have remained in place until 2003.

The government had planned to eliminate the tariff at the end of 1999, but moved up the date to the middle of the year to boost supplies of natural gas in the rapidly growing industrial areas of northern Mexico. "Eliminating the tariff will improve the quality of energy available both to the industrial sector and to the public at large," Energy Secretary Luis Tellez Kuenzler said at a business and energy conference in Monterrey. As part of the plan to scrap the import tariff, President Ernesto Zedillo's administration is scheduled to release, for the first time ever, regulations spelling out a price structure for transporting natural gas and for access to pipelines owned by the state-run oil company PEMEX.

The lack of specific regulations was as much a hindrance to new investments in the natural-gas sector as the import tariff. "This is very good news that will surely spark new cooperative projects along the US-Mexico border," said Hector Olea, director of the Comision Reguladora de Energia (CRE). Opening the natural-gas market will allow US companies like KN Energy and Sempra Energy to proceed with projects that had been suspended. KN Energy had placed on hold the construction of a 92-mile gas pipeline connecting Roma, Texas, with Monterrey because of the high tariffs and lack of regulations.

KN inherited the project after acquiring Texas- based MidCon Corp. in October 1996. "Lifting these tariffs greatly improves the economic feasibility of our projects and in turn opens the door wider to greater opportunities," said KN Energy's business development analyst Delia Gallardo-Barnett.

Sempra Energy recently won a concession to construct and operate a US$40 million natural-gas distribution system in Durango and Coahuila states and should benefit from the elimination of the tariff. Sempra will rely on natural gas imported from the US to serve both its new Coahuila-Durango pipeline and an existing distribution system in Chihuahua state. The new Coahuila-Durango system will initially serve 50,000 customers in the two-state area, including the cities of Torreon, Gomez Palacio, Lerdo, and Victoria de Durango.

In late May, Sempra also begun constructing a 23-mile pipeline connecting California and Baja California to import natural gas to Rosarita and eventually Tijuana. This project is also expected to benefit from the elimination of the natural-gas tariff. The increased supply of natural gas in Mexico

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should benefit both industrial and residential users. "This will result in lower natural-gas prices," said Sergio Gutierrez, an officer at Mexico's steel manufacturer DeAcero SA.

Rules will be eased on liquified-petroleum (LP) gas Mexico projects natural-gas consumption to more than double by 2007 to an estimated 245 million cubic meters per day. The government is pushing natural gas as a substitute for liquified-petroleum (LP) gas, which is less friendly to the environment. However, since the conversion to natural gas is expected to take several years, the Zedillo administration is also planning to ease restrictions on imports of LP gas.

The government's principal change in the LP-gas market is to end the regulation reserving the right to import the fuel exclusively for PEMEX. The change means that LP-gas prices will now be dictated by the global market and not by the state-run oil company, said sources at the Secretaria de Energia (SE). The changes are expected to lower the cost of LP gas to consumers by about 15% initially. Roughly 40 million Mexicans, many of whom are residents of Mexico City, still rely on LP gas for cooking and heating needs.

The number of LP-gas customers is expected to decline as new natural-gas distribution systems are installed in Mexico City and other metropolitan areas. Two Mexican-foreign consortia were scheduled to begin construction of natural gas pipelines in Mexico City in May of this year (see SourceMex, 1999-04-28). [Sources: Reuters, 05/18/99, 05/20/99, 05/21/99 El Economista, 05/12/99, 05/17/99, 05/19/99, 05/24/99 Excelsior, 05/12/99, 05/14/99, 05/17/99 Bloomberg news service, 05/24/99]

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