

Brief: Blackouts Highlight Mexico's Energy Dilemma

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Background: The Mexican economy's high dependency on the U.S. economy is a double-edged sword. On one hand, having close ties to the biggest economy in the world – made all the more accessible because of their proximity and trade agreements – is an advantage for many industries. On the other hand, Mexico's reliance on an external market means that many of the factors that determine the health of its economy are out of Mexico's control. It thus has a strategic interest in reducing this dependency but faces a multitude of factors that limit its ability to do so.

What Happened: Mexico's Federal Electricity Commission said Monday that **a winter storm in Texas reduced natural gas exports from the U.S.** by around 25 percent, causing blackouts in parts of northern Mexico. **The shortage** affected Sinaloa, Sonora, Durango, Chihuahua, Coahuila and Nuevo Leon states and disrupted production at electricity generation stations. President Andres Manuel Lopez Obrador used the occasion to point out **Mexico's high dependence on the U.S. for natural gas. Mexico's energy secretary estimated** last month that 70 percent of the country's gas supplies came from the U.S., while the remaining 30 percent was produced domestically.

The blackouts come amid the government's recent efforts to reform Mexico's electricity industry by increasing the role of the government-owned utility in the domestic market. **The Federal Economic Competition Commission warned** on Monday that the proposed changes could damage competition and hurt investor confidence. Mexican, U.S. and Canadian businesses have all expressed concerns over the proposed reforms.

Bottom Line: Solving the problems in Mexico's electricity industry cannot be done without evaluating its supplies – namely, those coming from its northern neighbor. In the short term, Mexico can do little outside of negotiate with Washington as the weaker party. **As mentioned in our forecast**, energy is one front where we expect U.S.-Mexican relations to sour this year.

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