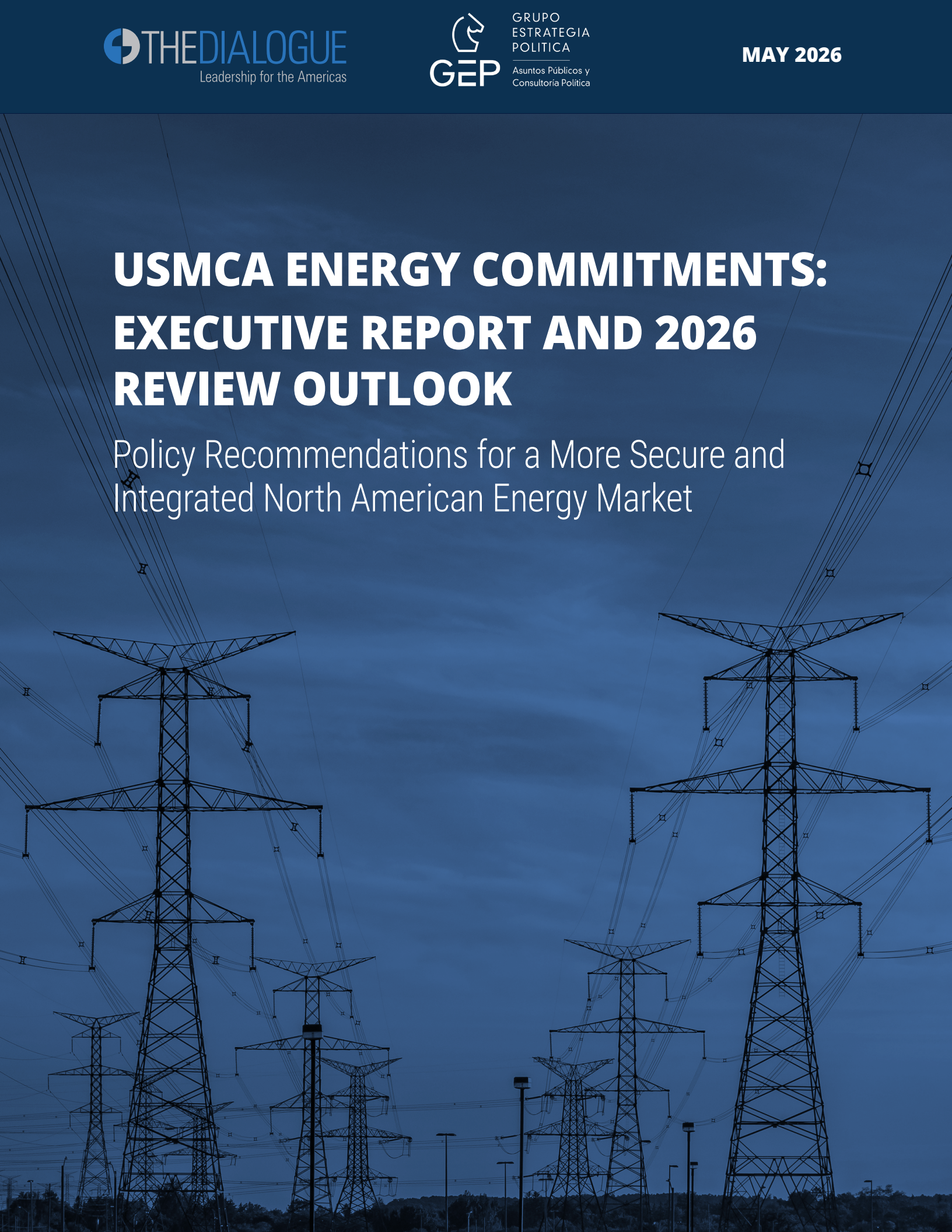


USMCA ENERGY COMMITMENTS: EXECUTIVE REPORT AND 2026 REVIEW OUTLOOK

Policy Recommendations for a More Secure and
Integrated North American Energy Market



© 2026, Inter-American Dialogue Mexico Program.
First Edition.

Inter-American Dialogue
1155 15th St. NW, Suite 800 Washington, DC 20005
Tel: + 1 202-822-9002 / Fax: 202-822-9553
Email: mcalderson@thedialogue.org

Foreword by: Juan Carlos Baker Pineda

Edited by: María Calderón

Essays by: Miriam Grunstein and Adam Williams | Larry B. Pascal and Carlos Alva | Diego Rivera Rivota and Ramses Pech | Priscilla Zozaya and Adena Goza | Duncan Wood and Armando Ortega

Cover Image: Adobe Stock / Redfoxca. The image has been edited to black and white with a blue overlay.

Layout: Lucas Martins Carvalho / Inter-American Dialogue

This report is a product of the Mexico Program of the Inter-American Dialogue, in partnership with Grupo Estrategia Política (GEP). The opinions and recommendations contained herein are those of the authors and do not necessarily reflect the views of the directors, staff, or members of the Inter-American Dialogue, nor of its partners, donors, and/or other supporting institutions. This document has not been subject to editorial review. The Inter-American Dialogue is an impartial institution, committed to intellectual independence, transparency, and accountability. We occasionally invite our donors to participate in our activities, but the work of the Inter-American Dialogue is in no way influenced by its donors. Our donors have no control over what is written, the methodology, the analysis, or the results of the Dialogue's research work.

Acknowledgments

This report and its policy recommendations would not have been possible without the insight, dedication, and collaborative spirit of many individuals. The Dialogue's Mexico Program extends its deepest appreciation to Grupo Estrategia Política (GEP) and to the authors of this report for their expertise and partnership throughout the process. We also wish to express our sincere gratitude to María Calderón and Alejandro Torrescano Benitez, whose leadership, coordination, and editorial guidance were instrumental in bringing this project to fruition.

Table of Contents

FOREWORD (BY JUAN CARLOS BAKER).....	5
CHAPTER I: ENERGY TRADE: CROSS-BORDER FLOWS, INFRASTRUCTURE, AND COMPETITIVENESS (BY MIRIAM GRUNSTEIN AND ADAM WILLIAMS).....	7
CHAPTER II: INVESTMENT & LEGAL CERTAINTY: ENERGY REFORM, STATE CONTROL, AND USMCA COMPLIANCE (BY CARLOS ALVA & LARRY B. PASCAL).....	12
CHAPTER III: OIL & GAS: ENERGY SECURITY, INDUSTRIAL DEMAND, AND TRANSITION REALITIES (BY DIEGO RIVERA RIVOTA & RAMSES PECH).....	18
CHAPTER IV: ELECTRICITY: GRID RELIABILITY, TRANSMISSION, AND INDUSTRIAL COMPETITIVENESS (BY ADENA GOZA & PRISCILLA ZOZAYA).....	25
CHAPTER V: CRITICAL MINERALS & ENERGY SUPPLY CHAINS: NORTH AMERICAN INTEGRATION, STRATEGIC INSTRUMENTS, AND REGIONAL COMPETITIVENESS (BY ARMANDO ORTEGA & DUNCAN WOOD).....	32
REFERENCES	38

Foreword

Juan Carlos Baker Pineda

I. The Strategic Vision

There is little doubt that today, energy policy is understood as a key element in the industrial competitiveness of any region, and a crucial element for North America to expand its global leadership. As the United States–Mexico–Canada Agreement (USMCA) review approaches, it is only natural that the Parties seek to reflect in its contents the current view of the region's energy future policy, including national objectives and shifts in energy policy worldwide.

Unlike its predecessor, the North American Free Trade Agreement (NAFTA), the USMCA includes commitments related to energy policy in several horizontal chapters, from foreign investment to trade in services to the treatment of state-owned enterprises; however, the energy landscape has gone through radical changes in a few years, influenced by the need to power a new industrial policy and rapid geopolitical changes, making the update of these disciplines an urgent matter.

In this sense, the USMCA review represents an ideal platform to pursue a truly modern North American energy policy. Mexico, the U.S., and Canada have an historic opportunity to create a cohesive trilateral energy agenda. The review is an opportunity to define a long-term vision for continental integration – in an era shaped by the energy transition, the radical restructuring of global value chains, and the geopolitics of energy.

Such a task is not easy. Mexico changed its legal framework – including amending its Constitution – to allow its state-owned companies to participate more in energy generation. The United States has also pursued aggressive goals in this regard, eliminating environmental restrictions and promoting increased oil production in areas previously off-limits. Moreover, there are other policy issues and decisions beyond energy policy that must be considered: the main driver of economic decisions is not efficiency but security. Thus, energy security goes hand in hand with economic and trade security, and that is where the USMCA review inevitably comes into play.

To provide elements for this discussion, and to promote an educated discussion about the future contents of the USMCA in the wake of the energy debates, the Mexico Program at the Inter-American Dialogue has gathered five

expert teams – specializing in economics, public policy, law, and engineering – to deliver this meticulous, action-oriented analysis. The proposals in this analysis don't offer cosmetic solutions; rather, given the new elements shaping energy policy, this document offers a strategic roadmap for how to handle tensions, identify opportunities, and make unavoidable decisions.

II. New Elements Shaping Energy Policy

The Geopolitical Shift

The strategic rivalry between China and the United States has turned semiconductor, critical minerals, and clean energy supply chains into key instruments of foreign policy. The North American region has a once-in-a-lifetime opportunity to build a viable regional alternative to Chinese dominance, given its rich reserves of copper, silver, lithium, and rare earth elements across the three countries. However, for this to happen, rules of origin are necessary to incentivize regional value, a permitting framework (that encourages investment rather than stifling it), and trilateral financing mechanisms.

The Industrial Shift

Reindustrialization has increased demand for affordable and reliable electricity. At present, México's power grid is struggling to keep up. As Miriam Grunstein and Adam William state in the first chapter, 91% of the industrial parks in Northeast Mexico reported substantial power supply issues in early 2026. This bottleneck is preventing Mexico from capitalizing on its biggest productive integration opportunity in decades.

The Institutional Shift

Mexico's landscape for private investors and trade partners has been fundamentally altered by the 2025 legal reforms. By maintaining the dominance of state-owned Pemex and the Federal Electricity Commission (CFE), concentrating power within the Ministry of Energy, and dissolving independent regulators (the National Hydrocarbons Commission, or "CNH," and the Energy Regulatory Commission, or "CRE"), Mexico has rewritten the rules of the game. Formal USMCA consultations initiated by the U.S. and Canada in 2022 failed to address the substantial issue, as neither country established the dispute settlement panel after the consultation period expired.

III. Key Issues on the Table for 2026

The five upcoming chapters identify the main components of a trilateral energy agenda for the upcoming USMCA review:

Energy Trade: Cross-Border Flows, Infrastructure, and Competitiveness (Chapter 1)

This chapter examines whether energy integration in North America will shift from a fragile interdependence to a predictable, rules-based system by addressing bottlenecks in logistics and unresolved trade disputes.

Investment & Regulatory Certainty: Legal Protections, State Control, and USMCA Compliance (Chapter 2)

It analyzes how Mexico's 2025 reforms – which eliminated independent regulators and centralized state control – collide with USMCA protections concerning investment security and non-discrimination.

Oil & Gas: Energy Security, Industrial Demand, and Transition Realities (Chapter 3)

This section proposes achieving true energy security through matrix diversification, reduced waste, and increased storage capacity to mitigate Mexico's overreliance on Texas natural gas.

Electricity: Grid Reliability, Transmission & Enabling Industrial Competitiveness (Chapter 4)

It argues that collective, trilateral planning of transmission infrastructure is crucial for industrial competitiveness and suggests making electricity an official base/foundation of the agreement.

Critical Minerals & Energy Supply Chains in North America: U.S. – Mexico-Canada Integration, Strategic Instruments, and Regional Competitiveness (Chapter 5)

This chapter calls for a formal USMCA framework that promotes regional processing of essential minerals, such as copper and lithium, to reduce reliance on Chinese imports.

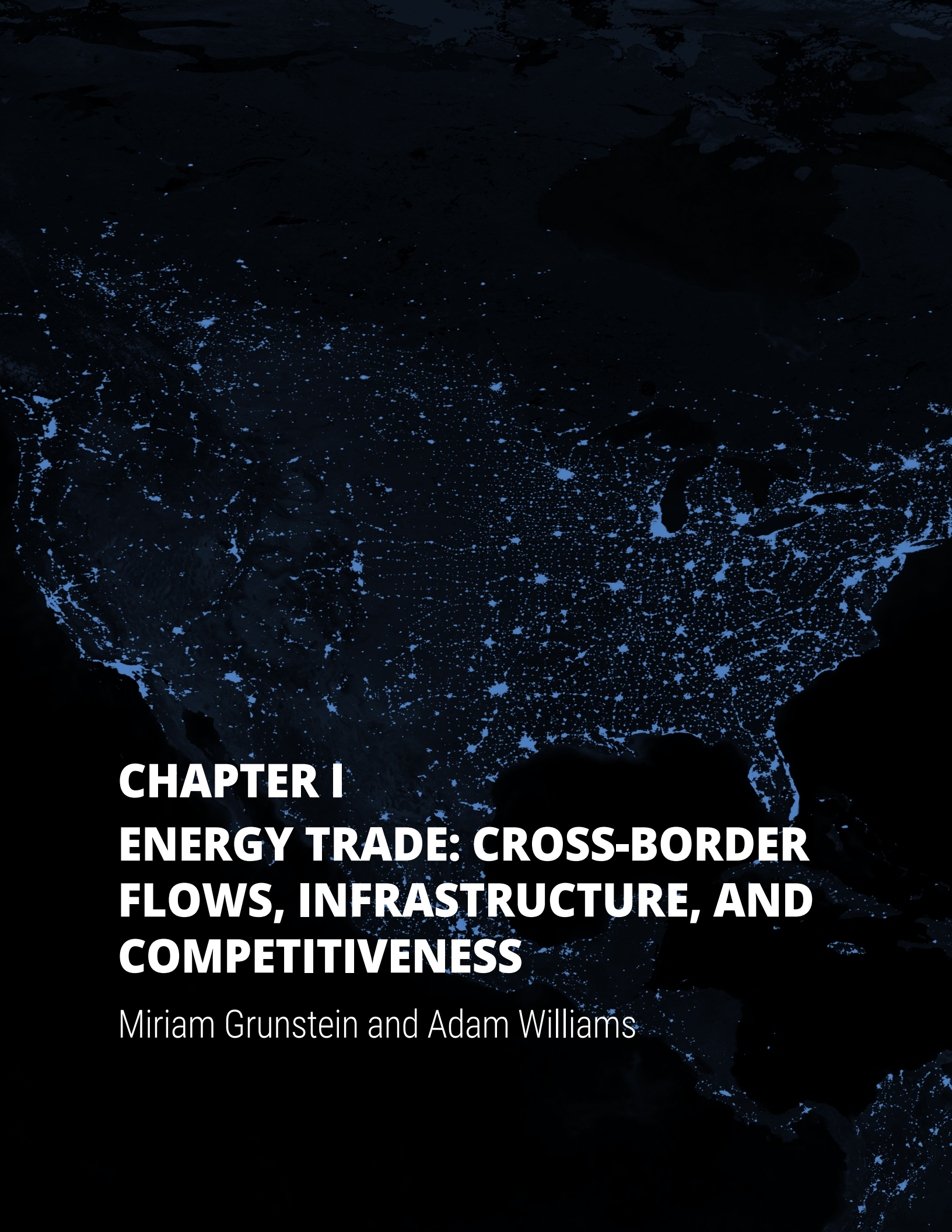
IV. A Call to Action

The USMCA review represents a unique, high-stakes opportunity to reshape the region's future. Rather than offering a list of aspirational goals, this report provides a strategic blueprint for a North American energy architecture that is safer, more competitive, and more resilient against global disturbances.

North America already has the essential capital, natural resources, and technology to guarantee its energy objectives. What has been missing is a collective policy and the political vision to project these resources for a shared purpose. To achieve this, more than settling existing disputes is needed.

By balancing national sovereignty with deeper integration, the three nations can take the lead in setting the global energy standard. But if we fail to act with strategic clarity and decisiveness, we risk missing the opportunity to become global energy leaders and to use our resources to improve our competitiveness.

The USMCA review represents a unique, high-stakes opportunity to reshape the region's future. Rather than offering a list of aspirational goals, this report provides a strategic blueprint for a North American energy architecture that is safer, more competitive, and more resilient against global disturbances.



CHAPTER I

ENERGY TRADE: CROSS-BORDER FLOWS, INFRASTRUCTURE, AND COMPETITIVENESS

Miriam Grunstein and Adam Williams

Introduction

Since the early 2000s, the U.S., Mexico, and Canada seemed to share a vision of creating an integrated North American energy market. One where oil, fuel, gas, and electricity flow across international borders, free of tariffs and regulatory obstacles, as an interconnected energy system that spans from Canada's Arctic to Mexico's Yucatan peninsula.

Due to constitutional, legal, and regulatory conditions, this vision for a unified, collaborative, and coordinated North American energy market was absent from the 1994 NAFTA; however, in Mexico, the 1995 reforms to the Oil Law permitted private investment in natural gas transportation, distribution, and storage. These reforms also liberalized the import and export of natural gas, which permitted more dynamic market integration. This reform resulted in increased natural gas flows from the U.S. into Mexico, and shipments of the fuel across the border reached record levels in 2025¹ and are expected to continue to grow.

During the first twenty years following the inception of NAFTA, it seemed that such a reality might gradually come to pass, particularly after the Mexican energy reform of 2013, which opened the national oil and electricity industries to private investment and ended the long-standing state-market dominance of Pemex and CFE.

Though Mexico's doors to private investment opened, they were shut in 2018 following the election of President Andrés Manuel López Obrador (AMLO) as leader of the Movimiento Regeneración Nacional (MORENA) party. As part of his Fourth Transformation (4T) mission—which guarantees that Mexico's state energy companies Pemex and CFE are the dominant market players—López Obrador immediately put an end to new oil auctions to permit private companies from developing Mexico's crude, while announcing that existing E&P contracts would be put under scrutiny. The next blow came when Manuel Bartlett, CFE's CEO under AMLO, announced that long-term natural gas pipeline contracts signed with private energy companies during the administration of Enrique Peña Nieto would be renegotiated, as he deemed the terms "abusive." Although an agreement was later reached between the companies and the AMLO government, within the first months of the new administration, a new horizon of uncertainty for private investment emerged that would prevail for the following six years.

These swings in Mexico's energy policy, including denials and omissions by regulatory agencies in awarding permits and other authorizations that enabled private companies to operate, disrupted plans to integrate North America's three energy markets.

AMLO's energy policy became so disruptive that, on July 20, 2022, the U.S. government called for state-to-state consultations, as stipulated by the USMCA. Canada joined Washington in this effort, and these consultations—charged with resolving four specific complaints brought forth by the U.S. government—were to be completed by the end of October 2022.

The four complaints, as disputed by the U.S. government, were as follows:

- Mexico's power industry law obligates the National Center for Energy Control (CENACE) to give preference to CFE over other generators. This measure violates the commitment to equal treatment of all market participants.
- Regulatory delays, denials, and revocations of private companies' permits to operate in Mexico violate the commitment to guarantee equal treatment of all market actors.
- Allowing Pemex to provide ultra-low-sulfur diesel— a measure not granted to other companies— was postponed; and
- Mexico's practice of regulatory discretion, through the National Center for Control of Natural Gas (CENAGAS) and CRE, which gives priority to CFE or Pemex, discriminates against companies that have other suppliers but need such services to operate.

The consultations regarding these complaints remain unresolved. However, since they began in 2022, there have been significant actions undertaken by AMLO's successor, President Claudia Sheinbaum, that continue with a policy that interrupts the dream of North American energy market integration. Since taking office in October of 2024, the Mexican energy policy framework has undergone the following significant changes:

- **The constitutional redefinition of CFE and Pemex:** CFE and Pemex from "Productive State Companies" to "Public State Companies". This change signifies a shift from a profit-driven mandate to a social purpose, focusing on energy sovereignty and public service.
- **Constitutional "prevalence" of CFE.** The reform of Article 27 of the Constitution guarantees that the state-owned CFE will supply at least 54 percent of the country's yearly electricity, while private companies are limited to a maximum of 46 percent.
- **Elimination of CRE and CNH.** They were replaced by a new body, the National Energy Commission (CNE), which operates under the Ministry of Energy (SENER) and centralizes regulatory control. Instead of acting as a market watchdog, the mandate of the newly created CNE is to prioritize energy sovereignty, collective welfare, energy justice, and the dominance of CFE and Pemex as the key actors in achieving these goals.
- **Mixed Investment Schemes:** Another form of state control manifests itself through public-private investments, particularly in power generation, in which the state retains a minimum 54 percent stake in electricity projects.
- **Upstream reforms:** In the hydrocarbons sector, Pemex has been granted preferential rights in selecting exploration and extraction areas. The new Hydrocarbons Sector Law allows Pemex to enter into "mixed development" contracts with private parties, provided Pemex maintains at least a 40 percent participation.

And with the first six-year USMCA joint review scheduled for July 1, 2026, a central question heading into the negotiations is whether the region still seeks to fortify its position as a unified energy market, or whether the current geopolitical tensions will drive it further apart and closer to the goals of national energy sovereignty.

It is important to note that since NAFTA came into effect, the U.S. and Mexican energy industries have become more integrated and intertwined than ever before, with billions of dollars in crude, gasoline, natural gas, and electricity shipped daily via cross-border pipelines.²

There are, however, numerous logistical constraints, chokepoints, and coordination gaps that could be addressed during USMCA negotiations, should the goal of a trilateral energy industry remain a regional priority. Mexico's constrained electricity transmission capacity, for example, has become a chokepoint, hindering bilateral business development opportunities in industrial parks and data centers that require a steady, reliable power supply. While nearshoring is purportedly driving energy demand, Mexico's infrastructure is struggling to keep pace, with 91 percent of industrial firms in the northeast reporting difficulties with electricity supply as of early 2026.

Below, other challenges in the bilateral energy relationship are examined, such as the lopsided natural gas trade and Mexico's rampant gasoline theft, which are likely to factor into USMCA review talks.

Cross-border Logistical And Infrastructure Constraints

Some of the key constraints in U.S.-Mexico energy trade ahead of USMCA are as follows:

Electricity Grid Infrastructure Bottlenecks

- **Limited Cross-Border Power Trade:** Electricity interconnection between the two countries remains limited, hindering the import of reliable power to meet industrial demand. The Baja California peninsula, for example, has historically constrained energy supply given its unique geography, and the CFE has struggled to provide reliable power to the region. Allowing greater bilateral electricity trade in the region, specifically from California, has long been considered a potential solution to prevent power and natural gas shortages and to lower transmission and fuel costs.

• **Mexico's Insufficient Generation and Transmission:**

Mexico's electric infrastructure is heavily constrained, particularly in industrial hubs needing power for nearshoring operations. The grid often lacks the capacity to distribute energy from producers to high-demand areas. The CFE has announced extensive plans during this administration to improve Mexico's electricity and transmission generation, though how much private participation from U.S. companies will be allowed under the 54 percent government stake model will likely factor into USMCA negotiations.

Natural Gas Supply and Logistics

• **Dependence on U.S. Natural Gas:** Mexico's imports of U.S. natural gas reached record levels in 2025 and have grown exponentially in recent years. Currently, around 70 percent of Mexico's daily electricity demand is powered by U.S. sourced natural gas, primarily from Texas. This dependency on cross-border natural gas flows is a potential bargaining chip for the U.S. that could be used to secure energy-related concessions during the USMCA talks.

• **Pipeline Congestion and Disruptions:** With a high volume of imports through the Waha hub in Texas, pipeline capacity often struggles with congestion during high peak, particularly during the cold winter months or summer heat. Furthermore, given the vast network of cross-border pipelines, should there be an aberrational weather or climate event in the U.S. that disrupts pipeline availability and supply, such as the Winter Storm Uri of 2021, regions of Mexico are at risk of blackouts. This lopsided relationship creates billions of dollars in opportunities for U.S. midstream companies, though it distances Mexico from its expressed goal of energy sovereignty.

• **Supply Reliability in Northern Mexico:** Around 40 percent of industrial parks in Mexico's Northeast report natural gas distribution shortages, limiting industrial expansion.

Security

• **Fuel Theft:** Over the past decade, gasoline theft, known as huachicol, has proliferated across Mexico, causing billions of dollars in losses for Pemex and companies involved in fuel transportation. In recent years, a new form of fuel theft, known as huachicol fiscal, has also boomed at the U.S.-Mexico border. The scheme involves shipments of U.S. gasoline and diesel being declared as lubricants as they cross the border into Mexico, thereby allowing them to avoid steep import taxes on fuel. The gasoline is then often sold by organized crime at a markup, while Mexico loses billions in tax revenue.

• **Natural Gas Pipeline Risks:** With the majority of the U.S.-Mexico cross-border natural gas pipelines originating in Texas, long-haul pipelines must be constructed across Mexico to ship fuel long distances, such as to Mexico's Pacific Coast. The development of these pipelines, particularly in northern Mexico, is often accompanied by significant risks of interruptions, including interference by criminal groups, permitting delays, and resistance from indigenous groups and environmental agencies. Currently, the Mexico Pacific project – which has U.S. investor backing and includes construction of an LNG export terminal at Puerto Libertad, Sonora, and an 800-kilometer pipeline that crosses northern Mexico – has faced a litany of challenges during its development stage, despite it being considered a priority project by President Sheinbaum, who said it would attract \$15 billion in investment.

Give and Take

In the wake of the U.S. government's 2022 claim that AMLO's energy policies were unfair and its call for consultations under the USMCA, the dynamic in the sector between the two nations has taken on a somewhat different tenor. While the MORENA party has maintained and reinforced its ideology that Pemex and CFE should be the dominant market players, both AMLO and Sheinbaum have announced major energy project developments with U.S. and Canadian companies – such as TC Energy, Semptra, New Fortress Energy – seemingly as a way to appease their biggest trade partners and demonstrate some openness to private investment. In February, for example, Sheinbaum announced her government will develop a \$3.5 billion LNG export terminal with Amigo LNG in Sonora, which will include the construction of new natural gas pipelines to transport U.S. fuel to the coastal plant.

What will be at play in the USMCA energy talks is whether Mexico's current strategy of awarding a limited number of large projects to U.S. energy companies, while at the same time being mandated to partner with CFE and Pemex, will be considered an acceptable trade-off. If the countries still share the goal of becoming an interconnected regional energy power, it is likely the U.S. will seek more favorable conditions – such as easier permitting, greater legal certainty, and investment guarantees – to be satisfied with the newly defined landscape of the treaty.

As the July 1 start for USMCA talks nears, it is clear that energy-related tensions between the two countries remain heightened. On 1 April, for example, the U.S. Trade Representative (USTR) published a report that said: "private companies operating in Mexico are often unable to participate effectively, if at all, in Mexico's energy sector."

The USTR report claimed that U.S. companies operating in Mexico experience "frequent delays, unexplained or unjustified rejections, and inaction regarding applications for new permits or permit modifications." It added that over the last two years, U.S. companies supplying the Mexican oil and gas sector have reported "unprecedented challenges" in receiving payment from Pemex and are owed more than \$2.5 billion.

What is evident in the USTR report is that Mexico's shift in energy ideology in 2018 to favor Pemex and CFE over outside participation hasn't been well received by the U.S. over the past eight years and will likely be a major point of contention in USMCA talks.

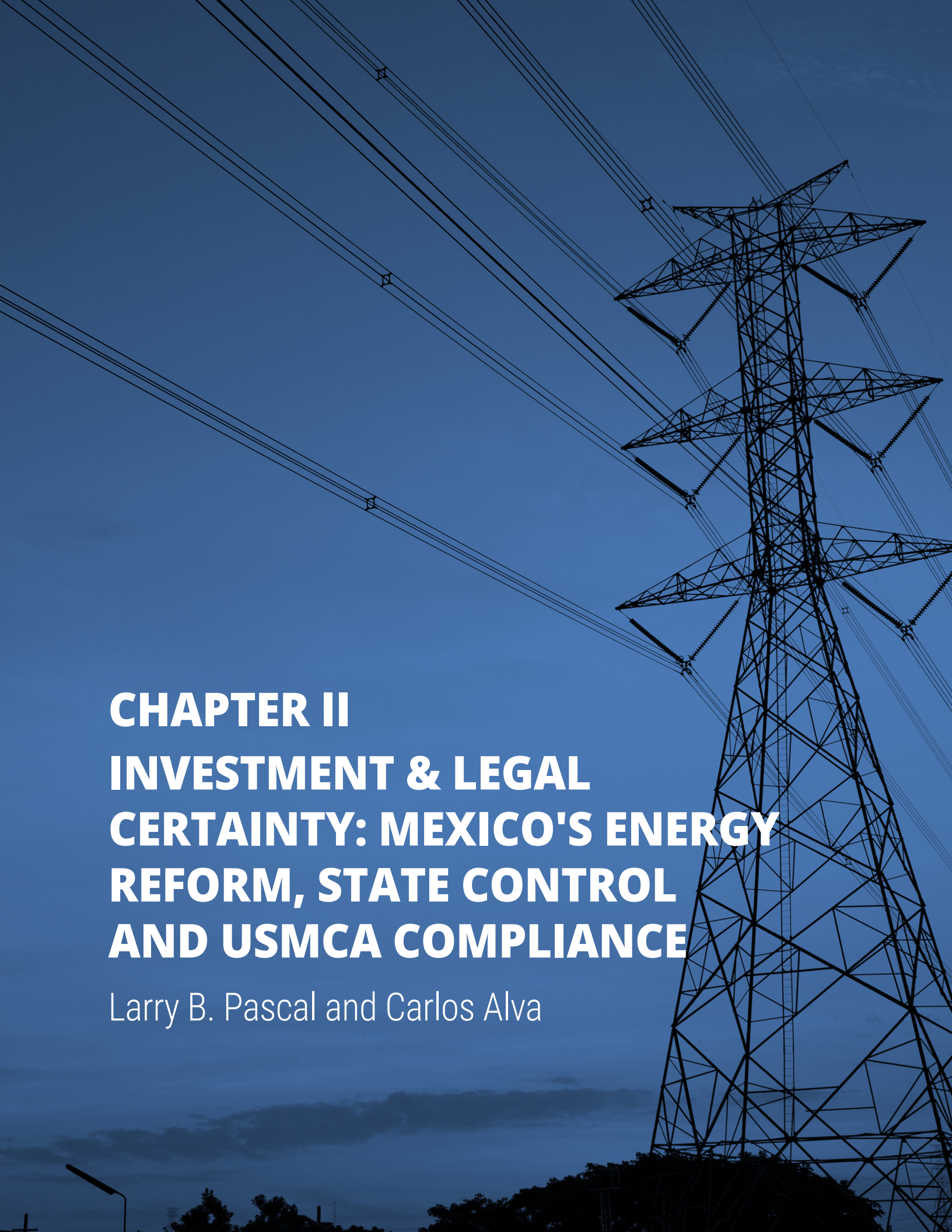
Policy Recommendations

Mexico

- Limit alliances with Pemex and CFE to cases where they are truly necessary and where joint participation creates additional market or operational efficiency.
- Clear bottlenecks in the National Energy Commission by reducing the regulatory burden on private companies, particularly where such burdens are significantly greater than those imposed on Mexican SOEs.
- Invest in unconventional natural gas development and fracking technologies to boost national output and reduce Mexico's dependence on U.S. imports. This could be accomplished by allowing Pemex to partner with private foreign companies, including U.S. developers currently extracting shale oil and gas from Texas basins.

U.S. and Mexico

- Ensure inclusive and non-discriminatory energy planning, given its central role in project development.
- Promote transparency in competitive bidding processes for permits and contracts, and allow the terms and conditions for company participation to be discussed before such processes are initiated.



CHAPTER II

INVESTMENT & LEGAL CERTAINTY: MEXICO'S ENERGY REFORM, STATE CONTROL AND USMCA COMPLIANCE

Larry B. Pascal and Carlos Alva

Introduction

Over the last decade, Mexico's energy sector has experienced profound changes - first with the opening of the energy sector to private investment during the Enrique Peña Nieto administration, followed by a counter-reform and recentralization under the administration of former President Andrés Manuel López Obrador, and now with President Claudia Sheinbaum, with energy reforms enacted in 2025. The upcoming renegotiation of the USMCA, combined with these new national energy policies in Mexico, represents an important moment for Mexican economic development.

The 2013 energy reform enacted by the government of former President Peña Nieto was intended to consolidate Mexico's energy market opening to private investment. Principally in the oil and gas sector through the execution of exploration and production contracts ("E&P contracts") awarded in public bidding rounds, and the entry of private companies into the retail gasoline sector, which historically was dominated by Pemex. In the power sector, the Peña Nieto reforms allowed private –including foreign-companies to participate in power generation, marketing, and supply activities as well as the creation of the Wholesale Electricity Market to promote fair competition in the power sector.

However, starting in 2018 with President López Obrador's six-year term, energy policy took a sharp turn, shifting from an opening to private investment to strengthening Pemex and the state-owned power company, CFE. It also limited foreign investment in the energy sector by suspending future upstream bid rounds, delaying regulatory approvals, and issuing policies that favored Pemex and CFE. In the oil and gas and power sectors, tenders for E&P contracts and power projects were canceled, and permits for foreign companies to develop energy activities were suspended or delayed, halting projects under development.

Mexico's 2025 Energy Reform and the Return to State-Led Planning

With the energy reform enacted by President Sheinbaum in 2025, the change in Mexican energy policy was consolidated through a variety of measures. Such reforms included (i) the elimination of independent energy regulatory bodies (i.e., CNH and CRE), which were public

agencies designed to operate as technical bodies, (2) the centralization of functions in SENER, and (3) the establishment of new private investment structures, but always with Pemex and CFE, respectively, as the leading actors in the market. These changes naturally affect foreign investment in the Mexican energy sector and Mexico's commitments under the USMCA and its impending re-negotiation.

Judicial Reform and Investor Confidence

Concurrent with the 2025 energy reform, Mexico underwent a reform of its judicial system promoted by the administration of former President López Obrador and finally adopted by President Sheinbaum, which mainly focused on: (i) the method of electing judges, (ii) the elimination of the judicial career path to become judges and Supreme Court justices, (iii) restructuring of the Supreme Court of Justice, and (iv) creating a new entity for judicial administration and professional careers. These judicial reforms have raised investor concern, as the judiciary has historically played an important role in resolving constitutional challenges in the energy sector. (Some of these judicial decisions protected private investor interests at the expense of the State, or state-owned enterprises). As a result, changes that may affect judicial independence, technical expertise, or predictability could weaken domestic avenues of legal protection for investors and heighten the relevance of Mexico's international commitments under the USMCA.

USMCA Obligations and the Energy Sector: Ownership, Investment, and Non-Discrimination

The USMCA recognizes Mexico's constitutional ownership of hydrocarbons while establishing investment protections, controls on state-owned enterprises, non-discriminatory treatment obligations, and market access commitments for foreign companies. However, since the 2018 energy reforms, the United States and Canada have raised concerns that the Mexican energy reforms (or their implementation) may run afoul of the USMCA, particularly because the current energy policy favors Pemex and CFE and blocks the development and commencement of operations of foreign-financed projects.

Given this panorama, the energy chapter for the USMCA renegotiation in 2026 may address the following topics raised by the U.S. and Canada, among others: (i) Pemex and CFE treatment vs. foreign companies, (ii) fuel market and power market access, (iii) contractual and regulatory transparency, and (iv) investor-state dispute settlement mechanisms.

Although the new energy regulatory framework will be an important topic in the 2026 USMCA negotiations, Pemex's current financial position should not be ignored. The state-owned company depends heavily on government financial support and international debt offerings. The government, through its development banks, also recently initiated an investment fund of up to 250 billion pesos in 2025 (equivalent to approximately USD 14.2 billion at current exchange rates) to support Pemex, expedite payments to suppliers, and finance oil and gas projects. Pemex's indebtedness has limited its capacity to invest in new exploration and production fields and in infrastructure maintenance, which is why it is seeking to improve its position in the oil and gas sector by once again including private investment through mixed contracts.

Pemex's fiscal situation could affect Mexico's commitments under the USMCA, because the Mexican Government, in order to stabilize Pemex, may provide ongoing support through subsidies, regulatory advantages, and policies intended to favor Pemex over private parties, which could affect market access and non-discriminatory principles.

Current Legal Framework

Oil & Gas: Market Structure, Investment Channels, and USMCA Pressure Points

The Mexican oil and gas sector has undergone dramatic changes over the past 13 years and represents both an important economic driver for the Mexican economy and a key historical touchpoint for Mexican identity, independence, and self-reliance, dating back to the nationalization of the oil and gas sector by President Lazaro Cardenas in 1938.

During the 2013 energy reform and up to 2018, several E&P contracts were awarded to private companies under License Agreements and Production Sharing Agreements, respectively. Of the 111 E&P contracts awarded under the 2013 reform, 88 projects remain in force, as others have already been terminated by the consortiums for commercial or other reasons. Notwithstanding the energy policy shift, some

legacy contractual commitments remain, and these private actors continue to develop hydrocarbons under the reforms under President Peña Nieto. Currently, there are no planned bid rounds for the upstream sector.

Despite the suspension of bidding rounds, existing operators continue to explore and develop oil fields. Some of the principal oil fields that remain active up until today and that have commercial potential are: (i) Trion (farmout between Pemex and Woodside Energy), (ii) Zama project (unification oil field developed by Harbour Energy and Pemex), (iii) Miztón oil field (developed by Eni and currently with a production of 53,900 bpd), and (iv) Hokchi oil field (developed by Hokchi Energy and currently with a production of 53,900 bpd). Although these privately operated fields represent only a small portion of the current daily Mexican oil production of 1.3 million barrels per day (based on the 2025 published average), they are nevertheless important for an economy with a strong national manufacturing base facing declining national production.

At this time, the Sheinbaum Administration is seeking to increase oil production to 1.8 mbd and reactivate the upstream sector through the development and exploitation of new oil fields in shallow waters and onshore through mixed ventures between Pemex and private companies called "mixed contracts," resembling enhanced service agreements, where Pemex retains operational control and private parties receive service-based remuneration. Vis-à-vis private investors, such contracts offer less control, a different remuneration structure, and dependence on Pemex as the operating partner. Under these mixed contracts, Pemex must hold a minimum 40 percent stake, and private investors contribute capital, technology, and operational support.

As part of this initiative in December 2025 and January 2026, Pemex awarded the first mixed contracts for the following fields:

- (i) Tamaulipas-Constitucionales to Consorcio Petrolero 5M del Golfo (Pemex 80% interest),
- (ii) Cuervito to Geolis (Pemex 46% interest),
- (iii) Tuplico Terciario to CESIGSA (Pemex 64% interest),
- (iv) Sini Caparroso to Consorcio Petrolero 5M del Golfo (Pemex 84% interest),
- (v) Agua Fria to Petrolera Miahuanpan (Pemex 48% interest), and
- (vi) Macavil (Pemex 40% interest), located in the states of Tamaulipas, Nuevo León, Tabasco, and Veracruz, respectively.

As for the retail fuel sector, it remains technically open to private investment, as there are no statutory prohibitions, though there are considerable permitting and operational challenges such as retail stations branding, product importation complications due to additional permit requirements, product theft in transit to the stations, and insufficient storage infrastructure, that persist in practice which complicate activities by foreign companies in the downstream sector, and has even caused certain companies to decide to cease operations in Mexico due to regulatory complications and the government's decision to prioritize Pemex as the dominant operator in this sector. These obstacles make the retail fuel sector a key topic in the renegotiation of the USMCA, particularly regarding market access and non-discrimination principles, as foreign investment in the sector has been significantly impacted.

In the refining sector, the Olmeca (Dos Bocas) refinery, located in the State of Tabasco and the government's flagship project under its energy self-sufficiency policy, has been criticized for construction cost overruns and delays (with total reported development and construction costs exceeding US\$20 billion). Pemex's objective for the new refinery is to strengthen and increase domestic refining capacity, and the new refinery recently reached a new high for refining capacity of 264,402 bpd in December 2025, marking a significant milestone for domestic refining capacity. Notwithstanding the above, to reduce dependence on gasoline imports from the United States and achieve energy self-sufficiency, both the Dos Bocas refinery and the other seven refineries in Mexico will need to increase their capacity. This requires the refurbishment and modernization of other refineries in Mexico, at a time when Pemex is facing financial pressures.

Nevertheless, given the demand for refined products in Mexico, even if the Dos Bocas refinery reaches its maximum refining capacity and the other refineries are successfully modernized, Mexico will likely continue to rely to some extent on gasoline imports from the U.S. Midstream sector activities such as transport, storage, and importation have also undergone significant changes because of the 2025 energy reform, from a system that promoted market competition and encouraged private companies to conduct their activities, to a centralized system with SENER as the highest authority on energy matters.

In practice, permits, tariff regulations, and open-access rules are now subject to government strategic plans. While private participation is still possible, it now operates within a more regulated framework than before. Any increased regulatory discretion in permitting, tariff supervision, and conditions for open access could affect cross-border energy transactions. Hence, these midstream activities are not

only a domestic issue but also have important bilateral (or trilateral) significance under the USMCA, particularly with respect to market access, non-discriminatory treatment, and existing investments. Midstream activities may become a key topic in USMCA renegotiations due to Mexico's historical reliance on U.S. natural gas and fuel imports, coupled with more recent evidence of discriminatory treatment of foreign companies in the Mexican energy market. Midstream is an area where regulatory decisions can directly affect foreign investors, and hence, the topic is ripe for discussion in the upcoming USMCA rounds.

Power

Similar to oil and gas, the Mexican power sector recently underwent an important transformation, shifting to a centralized model in which the state, acting through CFE, serves as the dominant player in the national electricity system, and regained a predominant role in power generation and dispatch, limiting private participation to certain structures that are designed to give CFE a leading role and facilitate state planning of the sector.

One of the main points of the 2025 reform in the power sector was the redefinition of participation percentages. Currently, as established by law, the CFE must maintain at least 54 percent of the country's energy generation, while the private sector may participate up to 4 percent. This percentage does not imply the elimination of private investment, but it does establish a limit that both restricts the development of new private projects and adds regulatory complications. Thus, new projects must comply with the government's binding planning, coordinated by SENER, meaning that the expansion of private capacity will depend on its compatibility with the national electricity system's development plans.

Currently, private parties may participate in the power sector through one of the following structures:

- (i) exempt generation (no permit required),
- (ii) distributed generation (small-scale power generation, i.e., installation of solar panels),
- (iii) self-consumption (isolated or interconnected),
- (iv) generation in the Wholesale Electricity Market either individually or jointly with the CFE through the mixed development scheme (for projects over 0.7 MW), and
- (v) power storage.

Both distributed generation and self-consumption are two forms of generating electricity by powering small electrical installations and opening up participation to individuals, and companies in the electricity market, as in addition to meeting their energy needs, they liberate space in the transmission and distribution lines of the National Electric System, contribute to reducing greenhouse gas emissions (by using mostly renewable energies), and improve the reliability and efficiency of the electric system. In certain modalities, they can even contribute to the system by producing surpluses.

Additionally, as a result of the 2025 energy reform, power storage is now considered a way to participate in the sector. Energy storage systems (ESS) can participate in the electricity market, either associated with a power plant (if their capacity is greater than or equal to 0.7 MW, they require a storage permit) or independently (if their capacity is greater than or equal to 0.7 MW, they require a storage permit). With power storage, it is proposed that energy can be stored at lower cost times and used during peak rates, with the aim of optimizing consumption and reducing load on the electrical grid.

In October 2025, SENER launched the Call for Priority Attention to Applications for Power Generation Permits, which was directed to the private sector to develop up to 5,970 MW of new electricity capacity. In December 2025, the results were announced, with approval of 20 private renewable generation projects totaling 3,320 MW of installed capacity and 1,488 MW of power storage. The approved projects will be located in 11 states, including Campeche, Hidalgo, Yucatán, Guanajuato, Oaxaca, Tamaulipas, Quintana Roo, Puebla, Veracruz, Zacatecas, and Querétaro.

Additionally, in February 2026, CFE and SENER published the Call for Mixed Development Schemes. The projects will be awarded in accordance with the procedures set forth in the Guidelines for Mixed Development Schemes. The mixed investment scheme provides for joint development between private parties and CFE for the construction, financing, operation, and maintenance of power plants. In these contracts, CFE will hold a 54 percent stake through contributions in kind, and the other partner will hold a 46 percent stake through capital contributions. Of the electricity produced by the project, 70 percent will be purchased by CFE and qualified suppliers, and the remaining 30 percent will be sold on the wholesale electricity market.

It is important that, under the aforementioned mixed ventures with CFE, investors carry out enhanced due diligence to assess various risk factors. First, the project's bankability must be analyzed, because although CFE would contribute land and permits, private investors would assume the risks associated with the project's construction and financing. It is also important to consider that, under these schemes, CFE would have operational control with its 54 percent stake, while private investors would hold 46 percent, limiting their decision-making capacity in the projects.

Conclusion

The changes in the Mexican energy sector must be analyzed alongside the commitments in the USMCA. Party negotiators will have to evaluate whether Mexico's current energy policy is in line with the commitments made and promotes the principles of non-discriminatory treatment and open market conditions. The results of the USMCA renegotiation will affect Mexico's competitiveness and the ongoing development of a North American energy market.

In particular, we envision that from a U.S. (and Canadian) perspective, the energy chapter for the USMCA renegotiation in 2026 will likely address: (i) Pemex and CFE treatment of foreign companies, (ii) fuel market and power market access for foreign investors, (iii) contractual / procurement and regulatory transparency, and (iv) investor-state dispute settlement mechanisms. The role of a Party's court system is usually not addressed in detail in the context of a free trade agreement, except to ensure access to a neutral dispute-resolution process, such as international arbitration, for investor-state disputes.

The North American energy market is an important facet of U.S. security and prosperity and setting forth viable treaty commitments that enhance legal certainty and stability are likely to promote this market and the corresponding policy objectives of the U.S. over the long term.

From a Mexican perspective, Mexico may be looking to take a balanced approach, wishing to preserve its sovereign right to structure its energy sector in a manner consistent with its public policy and legislation, while at the same time facilitating an efficient North American energy market, which market continues to receive foreign investment for the sector along the lines set forth in its regulatory framework.

Policy Recommendations

Mexico

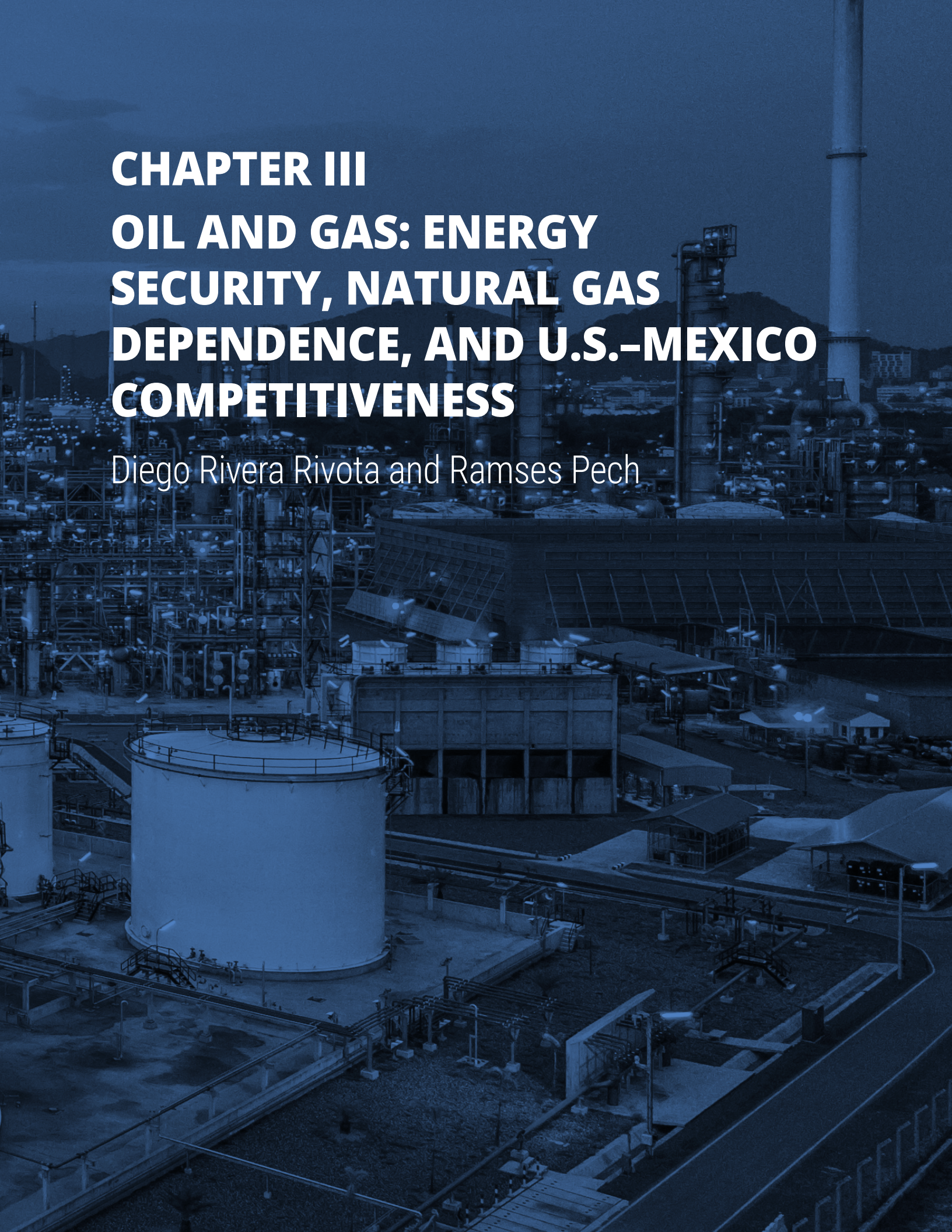
- Preserve Mexico's sovereign right to structure its energy sector in a manner consistent with its public policy and legislation.
- Facilitate an efficient North American energy market that continues to receive foreign investment under Mexico's regulatory framework.

United States and Canada

- Address the treatment of Pemex and CFE vis-à-vis foreign companies as part of the 2026 USMCA energy discussion.
- Address fuel market and power market access for foreign investors as part of the 2026 review.
- Include contractual, procurement, and regulatory transparency as a key topic in the 2026 USMCA energy discussion.
- Preserve investor-state dispute settlement mechanisms as part of the discussion, particularly to ensure access to neutral dispute resolution, such as international arbitration.

Trilateral

- Evaluate whether Mexico's current energy policy is in line with USMCA commitments and promotes non-discriminatory treatment and open market conditions.
- Set forth viable treaty commitments that enhance legal certainty and stability and promote the North American energy market over the long term.

An aerial photograph of a large industrial facility, likely an oil refinery or chemical plant. The image shows a complex network of pipes, walkways, and large storage tanks. In the foreground, there are several large, cylindrical storage tanks. In the background, there are more industrial structures, including tall distillation columns and a large building with a gabled roof. The entire image has a blue tint.

CHAPTER III

OIL AND GAS: ENERGY SECURITY, NATURAL GAS DEPENDENCE, AND U.S.-MEXICO COMPETITIVENESS

Diego Rivera Rivota and Ramses Pech

Mexico's energy landscape is characterized by a stark paradox: it is the world's 11th-largest crude oil producer and has an enormous resource for solar, wind, and other renewable resources, yet its power sector runs mostly on imported natural gas from the United States, as well as 53 percent of its gasoline and 21 percent of its diesel demand in 2024[i]. This heavy reliance of Mexico's energy sector on its northern neighbor leaves Mexico with access to affordable and reliable energy most of the time, but also highly exposed to the markets' dynamics and potential disruptions in the U.S. energy sector.

In the context of North America and the USMCA, this reality puts Mexico in a challenging situation. For one, the North American energy sector is profoundly integrated, albeit asymmetrically, and the U.S.–Canada and U.S.–Mexico energy relationships follow distinct dynamics. U.S.–Canada energy integration is deeper and more infrastructure-driven, particularly in crude oil, natural gas, and electricity, while the U.S.–Mexico relationship is shaped by a different mix of trade dependence, domestic energy policy, and regulatory constraints.

For instance, Canada is the largest crude oil supplier to the U.S. by a large margin, accounting for over 60 percent of total U.S. imports or around 4 million barrels per day (bpd) [ii], flows that are particularly important in certain regions across the two countries' borders.

In terms of Mexican energy exports to the U.S., its heavy-type crude oil is its main export, accounting for about 10 percent of total U.S. imports.[iii] Those exports have fallen due to a continuing decline in Mexican production and as the nation refines more of its crude for domestic use. Mexico is also the top importer of most U.S. petroleum products, including gasoline, diesel, and jet fuel.[iv] In this context, while not implemented, it was illustrative that the U.S. administration set a tariff last year on Canadian energy imports at a 10 percent tariff, but, in contrast, left in place the 25 percent -wide rate for Mexico's crude oil imports.[v]

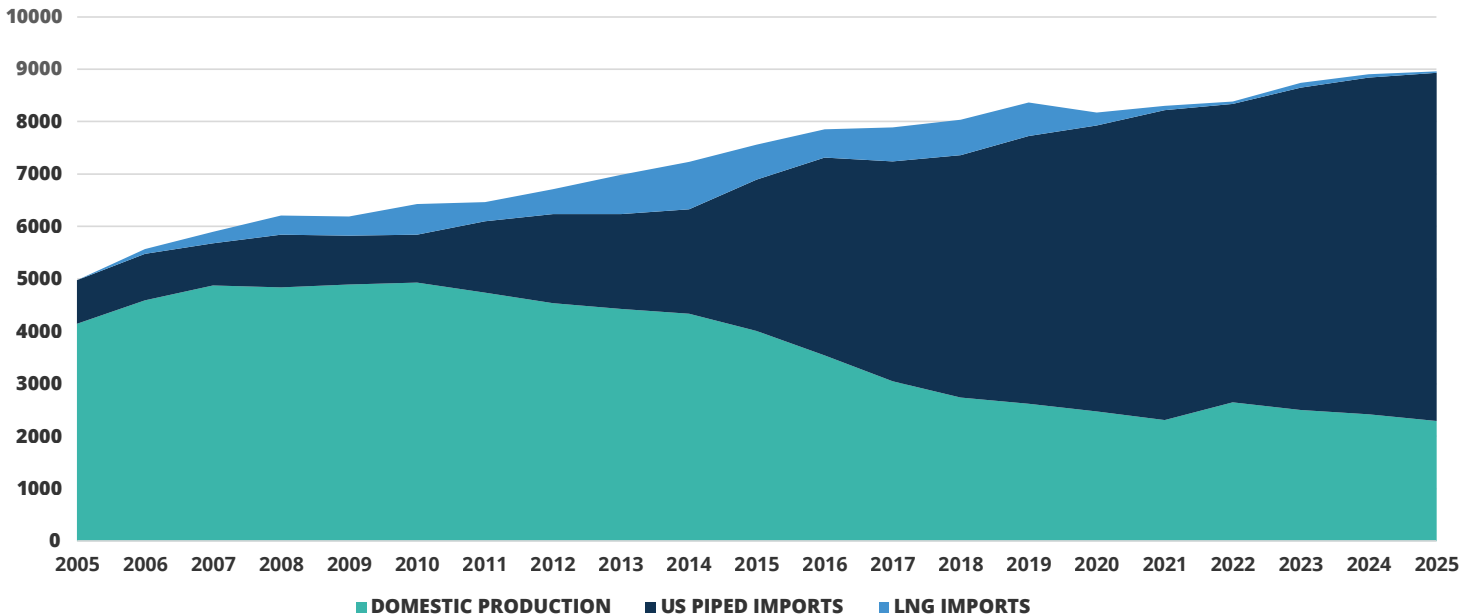
Mexico's Natural Gas-run Electricity Sector: “Energy Sovereignty” or Energy Insecurity?

Mexico's natural gas demand has almost doubled over the last 20 years, with the lion's share of that growth driven by the power sector.[vi] This growth, however, has occurred in spite of a collapse in Mexico's domestic production, which peaked in 2010 at around 5 billion cubic feet per day (Bcf/d) and decreased by 53 percent by 2021.[vii] In recent years, domestic gas production has remained stagnant with some mild upticks, reaching 2.9 Bcf/d in 2025. Moreover, one of the most critical operational policy failures in Mexico's energy sector is the inefficiency of its domestic gas industry, which wastes approximately 10 percent of its total natural gas production through flaring and venting.[viii] This further increases the supply gap, which has been almost completely covered by pipeline imports from the United States.

Currently, Mexico imports everyday about 75 percent of its natural gas demand via a complex network of over 24 cross-border pipelines with the United States. [ix] In other words, every day 7 to 8 billion cubic feet of mostly Texan-produced natural gas cross the border to Mexico to fuel dozens of combined-cycle power plants, keep the operations of high-heat industries on, and, to a lesser extent, are used for cooking in households.[x] In this context, it is no exaggeration to say that U.S. shale production is critical to keep the lights on in Mexico.

FIGURE 1: MEXICO'S NATURAL GAS SUPPLY BY SOURCE 2005-25 (BCF/D)

Source: Authors' own analysis with data from Pemex, SENER, and US EIA (2026)



The dependence on U.S. natural gas is even higher than it initially seems, given that, in fact, most of Mexico's domestic natural gas production is consumed by its main producer, Mexico's state-owned national oil company, Pemex. Indeed, Pemex consumed about 1.6 bcf/d in 2025, including for its refining and petrochemical facilities.[xi] In this context, excluding Pemex demand, Mexico's more realistic exposure to U.S. piped natural gas imports is in fact over 95 percent.

While this high reliance on natural gas imports was driven by a number of factors, its increase has relied on three key assumptions:

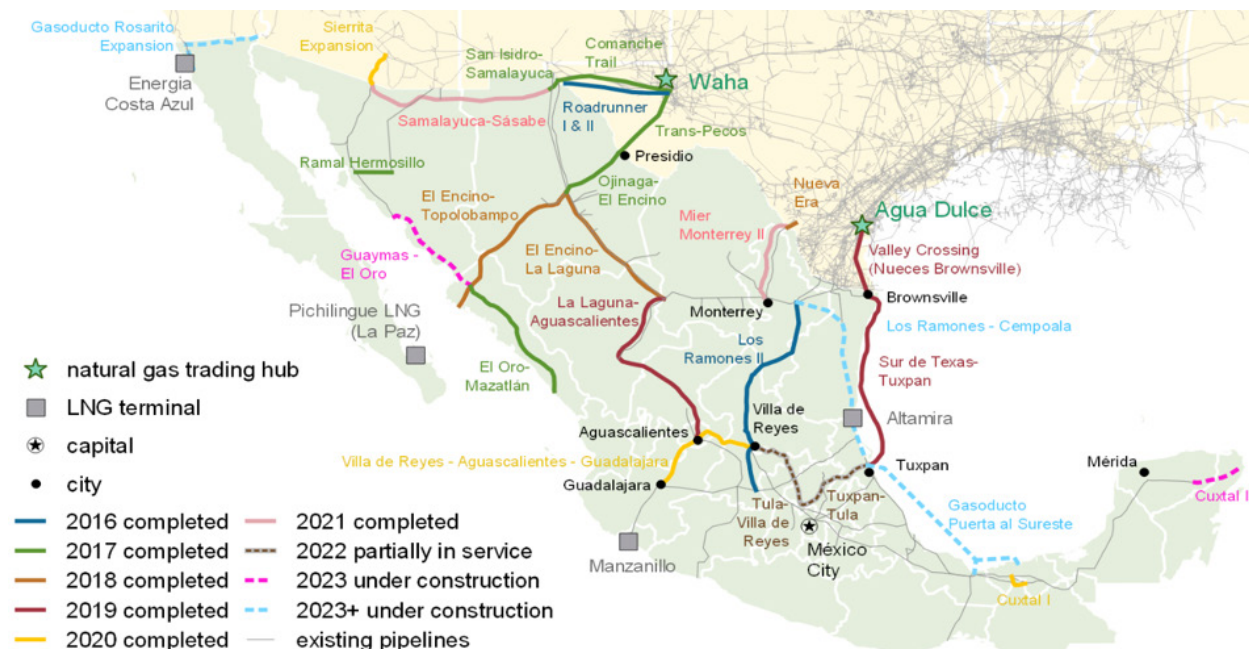
- Shale gas in Texas, especially in the Permian Basin, is abundant and has enormous reserves.
- Low prices, linked to the Henry Hub, Houston Ship Channel, or even the Waha Hub in Western Texas, which is regularly priced at a discount of other benchmarks and is one of the lowest-priced natural gas in the world.
- In Mexico, financially constrained Pemex prioritized ramping up oil production over expanding natural gas supply.

However, relying on an external source of supply for the majority of this key fuel for Mexico has put the country at the mercy of gas supply dynamics in Texas. This high concentration, along with Mexico's extremely limited storage capacity of less than 3 days, has posed a serious concern for energy security. As detailed elsewhere, a few events, chiefly winter storm Uri, made this clear, with natural gas flows to Mexico being interrupted, causing blackouts and disruption in over 20 Mexican states, as well as stratospheric bills and years-long judicial battles for Mexico's state-owned electrical utility, CFE.[xii]

As for energy security, this concept could not be timelier amid the ongoing energy crisis spurred by the war in Iran, the de facto blockade of the Strait of Hormuz, and attacks on the energy infrastructure of some of the world's largest energy suppliers.[xiii] While an evolving concept with no unique definition, the International Energy Agency (IEA) defined energy security in a useful way as the uninterrupted access to energy at an affordable price. The IEA has on numerous occasions highlighted that diversification of supply is crucial to mitigate risks, including suppliers, fuels, chokepoints in transportation routes, resilience to extreme climate events, and physical safety.

FIGURE 2: MEXICO'S NATURAL GAS INFRASTRUCTURE

Source: U.S. EIA (2025)



Energy security can also be understood in at least three dimensions: supply, transportation and storage, and demand. In that sense, being a net importer of an energy source does not necessarily equate to energy insecurity if measures to diversify suppliers, build storage capabilities, and implement demand-side measures are in place. South Korea's gas supply represents an interesting example of this. While the Asian nation relies virtually entirely on imported natural gas, it imports this fuel in the form of liquefied natural gas (LNG) from a basket of 16 countries across different regions, and it has the world's three largest LNG storage terminals. While not unexposed to increasingly integrated global LNG markets, South Korea is relatively more resilient and hence stronger in energy supply than other importers.

The current context in Mexico starkly contrasts with this, especially regarding natural gas. As explained, natural gas supply is not only severely concentrated in a single source but also dominates the country's power sector. In terms of transportation and storage, two or three major gas pipelines in Mexico concentrate the inflow of such volumes, with ample redundancy, and most importantly, natural gas storage is minimal, located at LNG importing terminals. On the demand side, the direction of travel under the present administration is towards greater natural gas consumption.

In recent years and for the foreseeable future, the bulk of new power generation additions are natural gas-fueled power plants, which will require more, not less, natural gas. In this context, while the Mexican government has on numerous occasions repeated the adage that "Mexico has achieved its energy sovereignty", the data and the enormous amounts of natural gas that flow under the ground from Texas all the way to power plants in Jalisco, Querétaro, and beyond are a stark reminder of the energy security in Mexico.

Challenges in the Context of the USMCA Renegotiation for Mexico

Within the USMCA, energy is a particularly unique case and does not have a sector-specific chapter. Instead, its provisions are spread across various sections of the agreement, including National treatment (Chapter 2), Investment (Chapter 14), Trade in services (Chapter 15), and the role of State-Owned Enterprises and monopolies (Chapter 22).

These provisions are key for investments and trade in the energy sector, given the importance of state-owned companies Pemex in oil and gas supply chains and CFE in the power sector. While some activities, such as electricity transmission, are exclusively reserved to the state, CFE and Pemex participate, along with other companies, in activities such as power generation or fuel product supply, and, according to USMCA provisions, their activities should not “affect trade or investment between Parties”. Collectively, these chapters establish principles to ensure competitive conditions, non-discriminatory treatment, and investment certainty in North American energy markets.

However, since 2018, Mexico has pursued a set of energy policies that prioritize and expand the state's role through state-owned companies Pemex and CFE. These policies have focused on activities including the import and retail sale of gas and diesel, oil and gas exploration and production, and power generation. These actions have included a set of regulatory changes in 2020 and notably the approval of the Electric Power Industry law in 2021. This created tensions with both the U.S. and Canadian governments, particularly over the roles of state-owned companies and the evolution of regulatory frameworks.

In 2022, the United States government formally requested dispute settlement consultation under the USMCA, arguing that Mexico's policies undermined American companies and U.S.-produced energy in favor of CFE and Pemex, violating USMCA provisions of less than favorable treatment and regulatory uncertainty.[xiv] Canada later requested two consultations with similar arguments, focusing on the Mexican power sector.[xv]

Further, the Sheinbaum administration pursued a Constitutional amendment in 2024 and changed Mexico's energy legal and regulatory framework in 2025, codifying and imprinting a larger participation of the State across the oil and gas, as well as power industries. The Mexican government has argued that this new legal framework is consistent with USMCA rules. While the U.S. and Canada decided not to escalate to the establishment of a dispute settlement panel, it is highly probable that these three issues will be on the negotiating table during the USMCA review process. As of March of this year, USTR considered there to be significant investment barriers, including the 2024 Constitutional Amendment, the 2025 legal frameworks, the dismantling of the CRE, and uncertainty regarding permitting.[xvi]

The Path Forward

While Mexico's energy sector faces a challenging path ahead, the context of the USMCA revision also presents opportunities in at least two areas relevant to the North American region. Namely, addressing the concerns of the U.S. and Canadian governments in order to boost investment and development in energy infrastructure in Mexico's energy sector. The second area focuses on strengthening trilateral cooperation mechanisms to enhance energy security, competitiveness, and the adoption of clean energy technologies.

The Mexican government would need to strike a balance between its state-centric energy policies and attracting investment for its energy sector, including from U.S. and Canadian companies. If successful, companies and investors from the three countries could take advantage of recent technological advances in low-carbon energy sources, geothermal, solar, and wind power, as well as storage technologies they are developing in their own countries.

This can also boost Mexico's energy security and its energy transition in three specific areas where natural gas is at the very core.

- First, on the demand side, the power sector drives natural gas imports, as this fuel is dominant in Mexico's power generation. Mexican officials should work to diversify power generation sources. The enormous technical potential includes 25,000 GW of solar photovoltaics, 3,700 GW of wind, 2.5 GW of geothermal, and 1.2 GW of additional hydropower capacity; by comparison, today's installed renewable capacity across all technologies stands at around 30 GW.[xvii] This, of course, would require addressing severe transmission bottlenecks and creating conditions for investment for renewable developers under the 2025 legal framework.

- Second, regarding transportation and storage of natural gas, Mexican policymakers should invest in natural gas storage and optimize gas transit routes, especially in regions with natural gas supply bottlenecks and projects that have been stalled for years.

- Finally, on the supply side, Mexican policymakers and Pemex in particular have yet to seriously address the long-standing problem of flared and vented methane in its operations. While these operations require upfront capital investments and Pemex remains the most indebted oil company in the world, the benefits of such projects would go far beyond Pemex's finances by enhancing energy security through cheaper, cleaner gas.

In a geopolitically complex, rapidly evolving, and increasingly fragmented global context, energy is increasingly being viewed through the lens of security and sovereignty. In this context, Mexico, despite its abundant energy resources, both renewables and fossil, faces severe energy security challenges, with the very high concentration of natural gas from a single source as well as the dependence of this fuel for most of the power generation in the country and the competitiveness for key heavy industries like cement, iron, and steel.

While the rhetoric on boosting energy sovereignty was largely based on the construction of the Dos Bocas refinery and the purchase of another refinery in Texas during the previous administration, the Sheinbaum administration has the opportunity to actually strengthen energy security. The path forward to enhance energy security requires careful, data-driven long-term planning for diversification. This could be done by significantly investing in power transmission and distribution grids, enabling the development of renewable and other low-carbon power generation sources, building out power and gas storage facilities, and doubling down on energy efficiency and demand-side management.

In the context of the ongoing USMCA renegotiation, the energy sector has an opportunity to boost investment in specific areas, particularly natural gas and electricity. If Mexico manages to take advantage of this opportunity, it could lead to attractive investment opportunities and project development for American and Canadian companies, as well as an enhancement of Mexico's energy security, affordability, and cleaner energy matrix.

Conclusion

The USMCA review process offers a range of uncertain possible scenarios for this important instrument, from a so-called "clean renewal" to a collapse of the negotiations with unprecedented levels of uncertainty for each of the three member countries' economies. In this context, the energy sector is only one more area, albeit of key relevance, in the complex trilateral relationship, with clear intersections and an enabling role for other relevant economic activities and supply chains, such as the automotive, manufacturing, and mining industries, to mention a few. During this revision period, it would be essential for the three partners, especially Mexico and the U.S., to resolve issues currently under dispute, particularly in the areas mentioned above that may hinder investment and create barriers to investment, including regulatory and permitting uncertainty.

This is in the interest of all three countries, especially Mexico, since its electricity sector and, more broadly, the energy sector are in dire need of investment to develop new infrastructure, including solar panels, wind farms, power stations, transformers, poles, and cables. A revised USMCA that keeps the North American partners, in relative terms, better off than with other commercial partners could provide certainty for this much-needed investment, both in the energy sector and in other areas of the economy. At the same time, other domestic challenges are set to remain in the longer term, including the uncertainty arising from the reform of Mexico's judicial system and how its full implementation will affect certainty and dispute-resolution mechanisms. That said, should the USMCA remain with a privileged commercial relationship amongst the three North American partners, this could materialize in investments in the energy sector that would be instrumental to enhancing energy security, resilience, affordability, and the transition to low-carbon technologies.

Policy Recommendations

United States

- Ensure the country's energy security while preserving regional stability and its leadership in exports by establishing U.S.-controlled coordination mechanisms for energy storage—including information exchange and protocols with Mexico and Canada.
- Incorporate an energy security chapter that establishes mechanisms for petroleum stockpiling across North America in the event of supply disruptions.

Mexico

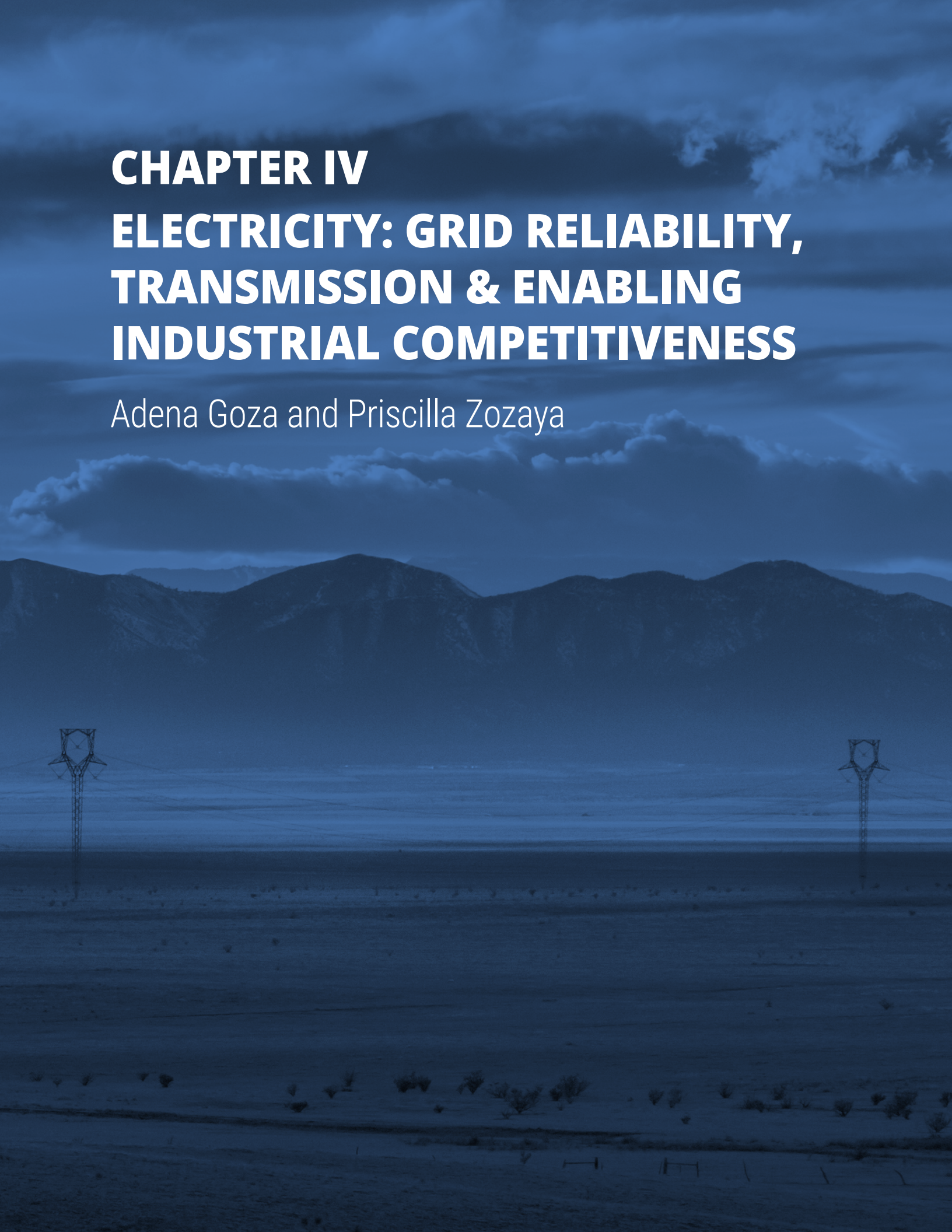
- Consolidate the current legal and regulatory framework to create a stable and attractive environment for investment and infrastructure development in Mexico's energy sector.
- Establish a "Cross-Border Flow Guarantee Mechanism" for natural gas that requires coordination of minimum volumes in cross-border pipelines during emergency situations.
- Establish firm, long-term contracts with U.S. producers and transporters for natural gas supply, including physical priority clauses.
- Developing strategic natural gas storage capacity in Mexico.

Canada

- Increase power transmission interconnections with the U.S., especially to meet peak demand periods to boost reliability and affordability for consumers across borders, especially in supply-constrained markets.
- Expand natural gas interconnections with the United States to bolster regional resilience and energy security.

Trilateral

- Enhance the role of the North America Development Bank (NADBank) on energy infrastructure projects across the region, especially those that can benefit from integrated supply chains or energy systems, including electricity grids, power generation, or fuel transportation.
- Encourage the creation of a trilateral mechanism for energy security, including stockpiling and response to supply disruptions, especially for petroleum products and natural gas.
- Enhance trilateral cooperation on data collection and exchange for the production, stocks, transportation, and trade of electricity and fuels.

The background of the page is a blue-tinted photograph of a desert landscape. In the foreground, there is a flat, arid plain with sparse, low-lying shrubs. Two high-voltage electrical transmission towers are visible, one on the left and one on the right, with power lines stretching across the horizon. In the background, a range of rugged mountains is silhouetted against a sky filled with soft, white clouds. The overall color palette is monochromatic, consisting of various shades of blue.

CHAPTER IV

ELECTRICITY: GRID RELIABILITY, TRANSMISSION & ENABLING INDUSTRIAL COMPETITIVENESS

Adena Goza and Priscilla Zozaya

Introduction: Electricity as Strategic Infrastructure

Electricity reliability has moved decisively from a background technical concern to a core pillar of North American competitiveness. As reshoring, digitalization, and electrification reshape industrial geography across the United States and Mexico, the ability to deliver reliable, affordable, and increasingly clean power is integral to supply chain resilience and regional economic integration.

The United States and Mexico face distinct, but increasingly interconnected, electricity challenges. On the U.S. side, surging demand from data centers and advanced manufacturing is colliding with slow transmission buildout, interconnection bottlenecks, and growing reliability risks. In Mexico, the nearshoring opportunity unlocked by the USMCA and geopolitical trends is running headlong into a structural electricity supply and transmission deficit that threatens to cap industrial growth just as global firms seek to relocate production.

Critically, these challenges cannot be addressed in isolation. North American supply chains operate as an integrated system, and electricity reliability on one side of the border increasingly affects investment, production, and competitiveness on the other. Electricity, therefore, must be treated not merely as a domestic energy issue, but as a **strategic regional priority**.

Nearshoring and Energy Constraints

Nearshoring has emerged as one of the most powerful structural shifts in North American industrial policy in decades. Manufacturers of automobiles, semiconductors, aerospace components, medical devices, and energy equipment are relocating production closer to U.S. markets, drawn by incentives, trade policy, geographic proximity, geopolitical risk management, and the preferential trade framework created by the USMCA.

Mexico is a central beneficiary of this trend. However, nearshoring is energy-intensive. Modern manufacturing, logistics hubs, and data-driven operations all require a firm, uninterrupted electricity supply. Increasingly, multinational firms also require access to clean energy to meet corporate sustainability commitments.

This is where constraints are emerging. In Mexico, industrial electricity demand in the northern and north-central corridors is projected to grow by **8 to 12 percent annually through 2028**, driven by manufacturing, logistics, and data center expansion. At the same time, more than **half of the national transmission network operates near maximum capacity**, limiting the ability to connect new load even where generation exists. Transmission congestion in regions such as Nuevo León, the Bajío, and border states has led to multi year delays in interconnection requests, forcing firms to recalibrate or postpone investment decisions.

In Mexico, transmission bottlenecks in regions such as Nuevo León, the Bajío, and northern border states have resulted in delayed or denied grid connections, forcing companies to reconsider or postpone investments, according to ENEGECE, a power sector consultancy firm. Six out of every seven investment projects no longer come to Mexico. They are going to Brazil and other Latin American countries.

In parallel, the United States is experiencing tightening reserve margins and growing reliability risks across almost all major regional grid operators.

Electricity availability has thus become a **gatekeeper** for nearshoring success.

The U.S. Perspective: Reliability Under Pressure

In the U.S., the electricity system is under unprecedented strain. Demand growth is accelerating at a pace not seen in a generation. U.S. electricity demand, which had remained relatively flat for more than a decade, has increased by 2.1 percent per year, on average, over the last five years, according to the U.S. Energy Information Administration, and projected to grow at an estimated rate of 1 - 1.5 percent per year through 2050. Data center development alone is expected to account for 14 percent of power demand by 2050, a 10 percent increase from today's numbers, while electrification of transportation and industrial reshoring are driving sustained demand growth across nearly all regional grid operators.

At the same time, large amounts of dispatchable generation are retiring, while new generation struggles to clear congested interconnection queues. Transmission development, the backbone of the system, has lagged

far behind need. While the U.S. has over 600,000 miles of high voltage transmission lines, studies indicate that the system must expand several fold by mid century to maintain reliability.

Permitting and siting remain the most persistent bottlenecks. Transmission projects routinely take a decade or longer to move from conception to operation. Federal reforms—such as FERC Orders 1920 and 2023³—represent meaningful progress in long term planning and interconnection reform, but implementation timelines mean their full benefits will materialize slowly.

The result is a reliability gap: five of six major U.S. grid regions now face elevated or high risk of supply shortfalls. From the U.S. perspective, electricity delivery is no longer just about domestic reliability—it directly affects the resilience of North American supply chains that extend deep into Mexico.

The Mexican Perspective: Nearshoring Meets a Structural Grid Constraint

Mexico's electricity challenge differs in structure but is no less consequential. The country faces a **structural supply and transmission gap**, exacerbated by years of underinvestment in grid infrastructure and increasing policy centralization around the state owned utility, CFE.

For decades, Mexico's electricity sector has been governed by a constitutional framework that assigns primary control over generation, transmission, and distribution to the state through the state owned utility CFE. While limited private participation has been permitted under specific contractual and regulatory schemes, overall system planning, grid expansion, and reliability obligations have remained centrally managed. Recent policy adjustments do not change this constitutional structure, but they do reflect a more pragmatic approach—one that recognizes mounting demand pressures and introduces greater operational flexibility to preserve system reliability.

The federal government has announced an ambitious 2025–2030 expansion plan led by CFE, aiming to add significant transmission capacity and new substations. The introduction of reliability procurement mechanisms that allow emergency purchases from private generators further signals recognition that CFE alone cannot guarantee system reliability under current conditions. If executed on schedule, the Expansion Plan could materially reduce congestion in priority industrial corridors, add over **10,500 MVA of transformation capacity**, and unlock transmission access for both conventional and renewable generation. Beyond capacity, the plan would improve voltage stability, reduce curtailment risk, and shorten interconnection timelines—directly addressing the reliability constraints currently limiting industrial investment.

At the same time, fiscal constraints mean that public investment alone will not be sufficient. Mobilizing private capital—through instruments such as Fibra E and structured public private participation—has become indispensable.

WHAT MEXICO'S POLICY SHOULD FOCUS ON

Mexico's electricity policy should remain focused on ensuring timely, reliable power delivery in high-growth regions, while advancing planned grid expansion. Recent measures reflect an important recognition of demand pressures and system constraints; the next priority is effective execution. Accelerating transmission development, maintaining operational flexibility, and mobilizing private capital within transparent and predictable frameworks will be key to supporting nearshoring investment while remaining consistent with Mexico's constitutional model.

Transmission: The Shared Bottleneck

Transmission is the critical shared challenge linking U.S. and Mexican electricity systems.

In the United States, inadequate interregional and interstate transmission limits the ability to move power from resource rich areas to demand centers. In Mexico, constrained transmission networks prevent available generation from reaching industrial hubs, even when capacity exists elsewhere in the system.

The physical interconnections between the U.S. and Mexican grids remain limited, and stronger coordination could generate mutual benefits. Cross border transmission planning could allow:

- Mexico to access U.S. flexibility resources during peak hours.
- U.S. systems to leverage Mexican generation as a regional backstop; and
- Better integration of renewable energy across both systems.

Transmission planning, therefore, is no longer a purely national exercise; it is a regional competitiveness issue.

For example, stronger north–south transmission within Mexico could allow surplus generation in the northwest to support industrial growth in the northern manufacturing belt, while coordinated planning with U.S. grid operators could enable emergency support and ancillary service sharing during periods of peak stress. Over time, this coordination could also facilitate more efficient integration of renewable energy resources across both systems.

Flexibility, Storage, and System Resilience

Both countries face a common integration challenge: adding capacity alone is not enough. Modern grids require flexibility.

In the United States, battery storage, demand response, grid enhancing technologies, and large load curtailment policies

are increasingly essential tools for maintaining reliability amid volatile demand and weather extremes.

In Mexico, flexibility solutions are emerging largely as private sector workarounds—on site generation, microgrids, and solar plus storage installations to compensate for grid uncertainty. Formal integration of storage and flexibility into planning and regulation remains limited, but the economic case is strengthening rapidly.

Taken together, these developments signal a shift in how electricity systems support industrial growth. Flexibility resources are no longer optional; they are becoming essential tools for preventing outages, managing peak demand, and enabling continued investment in energy intensive sectors. Systems that fail to integrate flexibility risk turning electrification and nearshoring into sources of instability rather than competitiveness.

USMCA: Constraint, Catalyst, and Opportunity

The USMCA frames much of this discussion. While the agreement explicitly recognizes Mexico’s sovereignty over its electricity sector, it also establishes clear obligations regarding non discrimination, transparency, and investor protection when private investment is permitted. These relevant obligations are primarily contained in USMCA Chapters 8 (Energy), 13 (Government Procurement), 14 (Investment), and 17 (Financial Services).

From a U.S. perspective, unresolved energy disputes⁴ risk undermining confidence in the trade framework. From a Mexican perspective, the USMCA provides legal certainty and access to capital that few emerging markets enjoy.

Most importantly, the 2026 mandatory USMCA review offers a structured and timely opportunity to elevate electricity reliability and transmission from a background concern to a pillar of North American economic cooperation. Without reopening the treaty, existing mechanisms—such as the Energy Subcommittee—could be leveraged to enhance transparency, coordinate grid planning, and support infrastructure execution aligned with regional supply chain needs. Used constructively, the review can shift the energy dialogue from dispute management toward joint problem solving focused on competitiveness.

TABLE 1: USMCA MECHANISMS RELEVANT TO MEXICO'S ELECTRICITY SECTOR—ANALYSIS AND RECOMMENDED ACTIONS

USMCA MECHANISM	RELEVANCE TO MEXICO'S ENERGY SECTOR	RECOMMENDED ACTION
Chapter 8 (Energy)	Non-discrimination in conditions for private investment in permitted energy activities; competitive conditions standard	Clarify private investment rules under Fibra-E for foreign investors; use 2026 review to reset energy cooperation agenda
Chapter 13 (Procurement)	Transparency and access for construction/services contracts; CFE's Special Scheme Contracting System (SCOEE) model consistent with obligations	Extend SCOEE methodology; make reference price database accessible to foreign suppliers under transparency norms
Chapter 14 (Investment)	Protections for foreign investment in Fibra-E and similar infrastructure vehicles	Issue Mexico's Ministry of Finance and Public Credit (SHCP) guidance on foreign bank subsidiary eligibility for guarantee instruments
Chapter 17 (Financial Services)	Non-discrimination in financial services access; relevant to guarantee issuance requirements	Review guarantee requirements for USMCA compliance; broaden eligible guarantor pool
Article 8.9 (Energy Subcommittee)	Institutional vehicle for bilateral technical cooperation	Reactivate and upgrade with cross-border transmission planning mandate
Article 34.7 (Joint Review)	Structured diplomatic moment for energy policy review and cooperation agenda-setting	Propose North American Electricity Reliability and Interconnection Dialogue as joint 2026 commitment

THE USMCA SHOULD CONSIDER

The USMCA would benefit from giving greater practical attention to electricity reliability and transmission as enabling conditions for regional trade and nearshoring. Without altering the treaty framework, existing mechanisms—such as the Energy Subcommittee and the 2026 review process—could be used to strengthen cooperation on grid planning, reliability standards, and cross-border coordination. Doing so would help ensure that the industrial integration the agreement promotes is supported by the physical infrastructure required to sustain it.

Toward a North American Electricity Vision

The central insight emerging from both perspectives is clear: electricity reliability is now a North American problem.

Supply chains do not stop at borders, and neither do the consequences of grid failure. Mexico's nearshoring success depends partly on U.S. grid flexibility and investment; U.S. manufacturing competitiveness increasingly depends on Mexico's ability to deliver reliable power to integrated production networks.

A forward looking agenda would treat electricity as strategic continental infrastructure, not merely national utility policy. This includes:

- Accelerated transmission permitting and execution.
- Greater use of flexibility and storage.
- Clear, transparent rules for private participation; and
- Coordinated U.S.–Mexico grid planning under existing USMCA mechanisms.

Conclusion: Getting the Grid Right

Electricity is the silent enabler of nearshoring—and its most underestimated risk.

For Mexico, securing reliable electricity is not just an energy challenge; it is a prerequisite for capturing the historic opportunity presented by North American supply chain reconfiguration. For the United States, reinforcing transmission and reliability is essential to sustaining industrial growth and regional leadership.

The window is open. The investments, regulatory tools, and institutional frameworks exist. What remains is execution—and a shared recognition that the future of North American competitiveness runs through the grid.

The window is open. The investments, regulatory tools, and institutional frameworks exist. What remains is execution—and a shared recognition that the future of North American competitiveness runs through the grid.



Policy Recommendations

United States

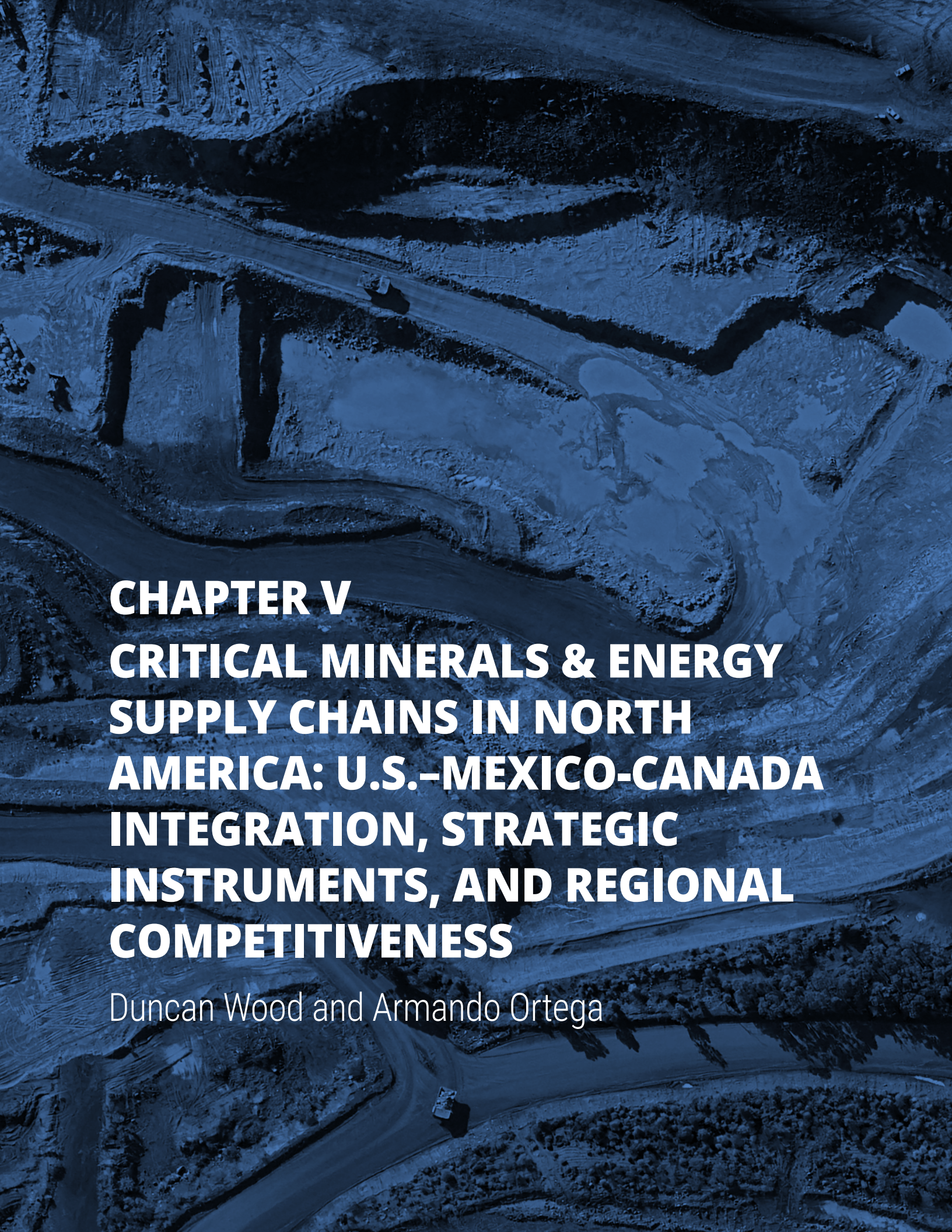
- Accelerate interstate and interregional transmission permitting to reduce delivery timelines.
- Expand demand side flexibility programs for large industrial and data center loads.
- Support technical cooperation on grid planning through USMCA institutions.

Mexico

- Prioritize execution of CFE's 2025–2030 Transmission Expansion Plan in high growth regions.
- Reduce permitting and right of way delays through inter agency coordination.
- Expand structured mechanisms (e.g., Fibra E) to mobilize private capital.

United States and Mexico

- Establish a structured dialogue on electricity reliability under the USMCA Energy Subcommittee.
- Coordinate transmission planning and reliability standards for shared industrial corridors.
- Develop frameworks for emergency support and flexibility sharing across borders.

An aerial photograph of a large-scale mining or construction site, showing deep pits, winding roads, and heavy machinery. The image is overlaid with a dark blue filter.

CHAPTER V

CRITICAL MINERALS & ENERGY SUPPLY CHAINS IN NORTH AMERICA: U.S.-MEXICO-CANADA INTEGRATION, STRATEGIC INSTRUMENTS, AND REGIONAL COMPETITIVENESS

Duncan Wood and Armando Ortega

Introduction

For three decades, North American economic integration was built on efficiency and mutual interdependence. Supply chains stretched across borders to reduce costs and accelerate production. Today, they are being re-engineered around resilience, security, and strategic control. Nowhere is this transformation more consequential than in critical minerals and clean energy supply chains. Indeed, in the last two years, the trade “cold war” between the United States and China has completely reshaped the global minerals and refining landscape: the United States has increasingly recognized that its main supplier of critical minerals (vital for technological advancement, green energy, and national security) holds the key to a potential economic attrition. The U.S. is 100 percent net import-reliant for 13 critical minerals and 50 percent net import-reliant for an additional 20 critical commodities (e.g., 67-70 percent of U.S. rare-earth consumption comes from China).

To reduce this dependence, the North American partners must build an integrated mineral-to-manufacturing ecosystem capable of supporting electrification, advanced industry, and defense production in a more fragmented global environment.

This requires a shift in perspective. The debate can no longer focus solely on what lies underground and its development challenges, including long-term maturity for every project. It must encompass the entire value chain and the underlying legal framework: exploration, extraction, processing, refining, upgrading, manufacturing integration, recycling, traceability, infrastructure, and financing. The strategic issue is not simply mineral availability; it is whether North America’s supply chain relationship under USMCA can capture more value across the chain rather than exporting raw materials and importing vulnerability.

Mexico’s Mineral Endowment: Breadth and Opportunity

Mexico’s mineral wealth is broader than many U.S. policy discussions acknowledge. While copper, lithium, zinc, silver, and graphite dominate the current debate, Mexico hosts or produces a much wider array of minerals that appear on the U.S. Critical Minerals List or are

indispensable to advanced manufacturing. This breadth matters not only for Mexico’s mining profile but also for U.S. efforts to secure inputs for advanced manufacturing, clean energy, and strategic sectors such as defense.

These include copper, graphite, zinc, silver, fluorspar, manganese, magnesium, bismuth, antimony, strontium, barite, cadmium, carbon, molybdenum, lead, phosphorite, and geologically prospective rare earth elements. Mexico is the world’s leading producer of silver, one of the top producers of zinc, a major source of copper, and among the leading suppliers of fluorspar, an essential input for steel, aluminum, and chemical processes. The key point is not simply the breadth of Mexico’s reserves, but the extent to which they can support a more resilient regional production base.

This diversity matters because clean energy systems are mineral-intensive and mineral-diverse. Solar panels rely heavily on silver. Wind turbines depend on copper (e.g., 5 tons per turbine on average) and, in certain designs, rare-earth elements. Electric vehicles require lithium, graphite, cobalt, manganese, copper, aluminum, and other specialty inputs. Grid expansion demands large volumes of copper and galvanized steel. Mexico’s mineral profile is therefore directly relevant to industrial priorities on both sides of the border.

Mexico is therefore not peripheral to North America’s energy transition at all. It is integral to it and remains a major mining player in its own right. The question is whether its role remains concentrated in upstream extraction or evolves toward midstream processing and downstream integration within the region. Investor protection has become a vital element for promoting foreign direct investment in the sector, particularly following the 2023⁵ reform of Mexico’s mining rules of engagement. The USMCA excluded the sector from such protections (it was not designated as a covered sector under USMCA Annex 14-D - Mexico-United States Investment Disputes), an omission that needs to be swiftly redressed to unlock much-needed regional projects, both for the expansion of ongoing operations and the development of new ones.

From Dialogue to Delivery

Critical minerals have been on the North American agenda for years. The United States and Canada signed a Joint Action Plan on Critical Minerals in 2020, recognizing supply-chain security as a strategic priority. That initiative catalyzed dialogue and investment but did not fundamentally transform continental processing capacity. China remains dominant in graphite refining, rare earth processing, and battery precursor production.

The recently announced U.S.–Mexico Joint Action Plan on critical minerals offers similar promise, but with no concrete implementation details. It signals recognition in both capitals that mineral supply chains sit at the intersection of industrial competitiveness and national security. It creates a framework for cooperation. Yet without aligned financing, regulatory modernization, infrastructure investment, and industry coordination, it risks becoming another high-level statement with limited implementation.

Execution, not rhetoric, will determine whether North America strengthens its mineral position and mitigates China's growing unfair trade practices and restrictive export controls. The sectoral business organizations in North America, the Mexican Mining Chamber (CAMIMEX), the National Mining Association (NMA), and the Mining Association of Canada (MAC) have recognized these rising challenges. They timely filed concrete proposals during the respective consultation processes undertaken by the three countries to upgrade the USMCA framework upon its announced revision this year, to include either a new chapter or an annex to secure the reliable supply and value chain for critical minerals. The core objective is to support domestic industries and sustained economic growth in the region. The proposals aspire to:

- ensure tariff-free access (export, import, and reciprocal taxes, including bans on minerals and natural resources);
- address legal, regulatory, and permitting streamlining in all three USMCA jurisdictions (through a trilateral framework for permitting standards); and
- facilitate trade logistics and facilitate the free movement of skilled labor.

Structural Vulnerabilities Across the Value Chain

North America's vulnerabilities are less geological than structural. Upstream, the three countries face permitting constraints. In Canada and the United States, lengthy environmental reviews and litigation risk slow project development (the newly enacted United States Investment Accelerator for projects surpassing US\$1 billion might be a game-changer in that jurisdiction). In Mexico, regulatory uncertainty, plus systematic, widespread, and often unjustified delays or outright denials in obtaining essential permits from Mexican environmental authorities (and other regulators), have created unsustainable conditions for continued production, organic growth, and the launch of new projects. Neither country benefits from this environment. All would gain from exchanging best practices in environmental review, strengthening community engagement, and incorporating artificial intelligence into baseline assessments and impact modeling.

Midstream processing is the most acute weakness. Even when minerals are mined in North America, they are frequently exported for refining and then re-imported as higher-value materials. The reason for this has been the longstanding subsidization of refining facilities in China, which has made treatment costs fully unaffordable in North America (and most other regions). This hollowing-out of the value chain creates strategic exposure and forfeits industrial opportunity. Without regional processing capacity in copper, lithium, graphite, battery precursors, and other materials, North America remains dependent on external actors.

Downstream, however, the United States, Canada, and Mexico possess strong complementarities. Mexico's automotive and electronics sectors are deeply integrated with U.S. and Canadian manufacturing. Electric vehicles assembled in Mexico are supplied to U.S. and Canadian consumers. Tier-1 and Tier-2 suppliers operate seamlessly across borders. The logistical architecture already exists; what remains incomplete is the integration of mineral inputs into the region's manufacturing base.

Financing Integration

Expanding midstream capacity requires capital and risk-sharing mechanisms. Here, U.S. policy tools provide underutilized potential. The U.S. International Development Finance Corporation (DFC) can deploy equity, debt, and political risk insurance to support mineral processing projects that strengthen supply-chain security. The U.S. Export-Import Bank (EXIM) has recently launched the Supply Chain Initiative to finance critical minerals projects abroad (mining, processing, etc.), provided they support U.S. supply chains. Mexico, given its resource base and industrial integration, represents a natural deployment environment for these instruments.

Recent U.S. willingness to take equity stakes in Canadian mining ventures reflects a more assertive industrial posture. Whether similar approaches emerge in Mexico will depend on political and legal conditions. Direct state participation in mining may be sensitive, particularly where national sovereignty concerns are involved. Yet structured minority stakes, joint ventures, and blended finance models could align strategic objectives while respecting domestic frameworks. The essential shift is conceptual: mineral supply security is no longer solely a private-sector concern. It is a matter of industrial strategy.

Infrastructure and the Border Region

Mineral processing is energy- and water-intensive. Infrastructure constraints can therefore bind competitiveness. In the U.S.–Mexico border region, the bilateral financing mechanisms could support renewable energy projects powering processing facilities, water treatment systems in mining regions, cross-border transportation upgrades, and logistics modernization.

By linking mineral development with environmental infrastructure, the U.S. and Mexico can ensure expansion occurs within sustainable parameters, reducing social resistance and enhancing long-term viability. This linkage matters in a binational context where industrial expansion will depend not only on capital and demand, but also on social license, water management, and reliable cross-border infrastructure.

Standards and Traceability as Competitive Assets

The next phase of global competition will hinge not only on cost but on standards and traceability, which have become central to supply-chain credibility. Firms must demonstrate origin to meet rules-of-origin thresholds and comply with industrial incentives. They must verify environmental and labor standards to satisfy investors and consumers. Digital tracking systems—blockchain offers rich options—can verify the origin of minerals from the mine to the finished component.

For the United States, Canada, and Mexico, interoperable traceability systems would strengthen regional identity and simplify compliance. A joint North American responsible minerals certification framework could differentiate production from opaque supply chains elsewhere. Properly designed, standards become a source of competitive advantage rather than regulatory friction.

USMCA as Strategic Platform

The United States-Mexico-Canada Agreement provides the institutional foundation for deeper integration. Yet it must evolve beyond tariff management into a platform for industrial coordination.

Clear guidance on how processed minerals count toward regional value content would incentivize midstream investment. A formal mechanism within USMCA governance dedicated to critical minerals could align policy across trade, energy, and industrial portfolios. Regular engagement with industry associations would reduce regulatory blind spots and accelerate problem-solving. Most importantly, stability through the 2026 review is essential. Mining and processing investments require long horizons. Policy volatility deters capital more effectively than tariffs.

From Strategy to Construction

If the United States, Canada, and Mexico intend to strengthen the critical minerals landscape through USMCA, several priorities follow. Institutional coordination must be formalized so that mineral cooperation survives political cycles. Rules of origin should be modernized to reward value-added processing within North America rather than merely extraction. Financing tools—particularly DFC, EXIM, the NADBank, and Export Development Canada (EDC)—should prioritize cross-border projects that integrate Mexican resources with regional manufacturing.

Traceability systems must be harmonized so that North American origin and responsible sourcing can be demonstrated seamlessly. Permitting modernization should become a shared project, with both countries integrating artificial intelligence and best practices to reduce delays while preserving environmental integrity.

Finally, stakeholder engagement must be systematic rather than episodic. Mining firms, processors, automakers, utilities, financial institutions, and industry associations should be integrated into structured consultation processes under the USMCA framework. Industrial ecosystems succeed when policy design reflects operational realities.

Conclusion: The Strategic Choice

The United States, Canada, and Mexico possess complementary mineral endowments, integrated manufacturing sectors, financing instruments, and a trade agreement framework that can support deeper cooperation. They have acknowledged the importance of critical minerals through respective bilateral dialogue and joint announcements.

What remains uncertain is whether they will build a coherent mineral ecosystem or continue to operate in fragmented segments of the value chain while relying on external processing hubs.

North America has the geological resources, industrial base, and institutional architecture to support electrification, defense production, and long-term competitiveness. But geology alone does not determine outcomes. Strategy does.

If USMCA evolves into a platform for coordinated industrial policy, linking financing, infrastructure, standards, and regulatory reform, the region can transform mineral wealth into a durable strategic advantage, reducing supply chain vulnerabilities and strengthening the regional economy. If not, it risks exporting raw materials and importing dependence in an increasingly contested global economy. The choice is not geological. It is strategic.

Policy Recommendations

If the United States, Mexico, and Canada intend to strengthen the critical minerals landscape through the USMCA, they must move from dialogue to implementation.

United States

- Public financing tools such as DFC and EXIM should prioritize cross-border projects that integrate Mexican extraction with North American processing and manufacturing. Public finance should help de-risk projects that serve continental supply security.

Mexico

- Mexico should evaluate how water, energy, transport, and environmental mitigation systems are affected by the expansion of mineral value chains, with the goal of improving sustainability and project viability.

Trilateral

- The three governments should establish a permanent USMCA-based mechanism dedicated to critical minerals, linked to measurable implementation milestones to ensure continuity beyond political cycles.
- The USMCA framework should better recognize and reward value-added processing within North America, including mineral upgrading and battery precursor production, by ensuring these activities count meaningfully toward regional value content thresholds.
- The three countries should work toward interoperable traceability systems and a joint certification framework for responsibly sourced North American minerals. This would enhance global competitiveness and simplify compliance for firms operating across the region.
- The United States, Mexico, and Canada should deepen cooperation on permitting modernization by exchanging best practices, digital tools, and more efficient review processes, while maintaining strong environmental and social standards.
- Critical minerals policy should be linked to grid expansion, clean-energy deployment, recycling capacity, and long-term regional competitiveness.
- Mining firms, automakers, processors, utilities, and financial institutions should be engaged systematically under the USMCA umbrella, rather than only on an episodic basis.

NOTES

1. On April 8, 2026, President Sheinbaum, Energy Minister Luz Elena Gonzalez, and Pemex CEO Victor Rodriguez said in a press conference that Mexico consumes around 9 billion cubic feet (Bcfs) of natural gas per day, with 75 percent of that supply—around 6.8 billion cubic feet per day—imported from the U.S. In 2010, Mexico imported 1.3 billion cubic feet of natural gas per day from the U.S. In 2025, Mexico imported 6.8 billion cubic feet of natural gas per day from the U.S., a 42 percent increase compared to 2010.
2. The total value of cross-border energy trade reached \$57 billion in 2024. The U.S. exported \$37 billion in petroleum products to Mexico in 2024. The decline was largely driven by lower petroleum product prices, which account for most of the bilateral energy exchange, and by reduced crude oil production in Mexico. U.S. energy exports to Mexico fell 1 percent year to year to \$41 billion, while energy imports from Mexico dropped by 34 percent to \$16 billion in inflation-adjusted terms. Most U.S. imports consist of crude oil, while refined product exports dominate the opposite flow, the report noted.
3. FERC Order 1920 strengthens long term, forward looking transmission planning requirements across U.S. regional grids, while FERC Order 2023 reforms interconnection processes to reduce delays and backlogs for new generation and storage resources.
4. Including the 2022 dispute initiated by the U.S. Trade Representative against Mexico, alleging that changes in Mexico's energy policies, which prioritize CFE-generated power over renewables operated by private companies and constrain U.S. companies' ability to operate in Mexico, undermine their commitment under the USMCA.
5. The reform fundamentally tightened state control and regulation of the sector by shortening concessions (from 50 to 30 years), requiring public bidding, and conditioning projects on water availability and stricter environmental and social rules. It eliminated mining's preferential status over land use, mandated community consultation and impact assessments, and expanded grounds for revoking concessions, shifting the model toward greater environmental protection, community rights, and state oversight at the expense of investor flexibility.

REFERENCES

- [i] Secretaría de Energía (SENER). (n.d.). Sistema de Información Energética (SIE). Gobierno de México. <https://sie.energia.gob.mx/inicio/#/registro>
- [ii] U.S. Energy Information Administration (EIA). (n.d.). U.S. Petroleum and Other Liquids: Exports by Destination. https://www.eia.gov/dnav/pet/pet_move_expc_a_ep00_eex_mbb1_m.htm
- [iii] U.S. Energy Information Administration (EIA). (n.d.). U.S. Imports of Crude Oil and Petroleum Products. https://www.eia.gov/dnav/pet/pet_move_impcus_a2_nus_ep00_im0_mbb1_m.htm
- [iv] U.S. Energy Information Administration (EIA). (n.d.). U.S. Petroleum and Other Liquids: Exports by Destination. https://www.eia.gov/dnav/pet/pet_move_expc_a_ep00_eex_mbb1_m.htm
- [v] The White House. (2025, February 1st). Fact Sheet: President Donald J. Trump Imposes Tariffs on Imports from Canada, Mexico and China. <https://www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-imposes-tariffs-on-imports-from-canada-mexico-and-china/>
- [vi] Secretaría de Energía (SENER). (n.d.). Balance de Energía. Gobierno de México. <https://www.gob.mx/sener/articulos/balance-nacional-de-energia-296106>
- [vii] Petróleos Mexicanos (Pemex). (n.d.). Base de Datos Institucional (BDI). <https://ebdi.pemex.com/bdi/bdiController.do?action=cuadro&subAction=applyOptions>
- [viii] Joseph, I. & Rivera Rivota, D. (2023). Lucrative Reward or Mounting Risk? Mexico's Growing Reliance on US Gas. Commentary. Center on Global Energy Policy, Columbia University SIPA. <https://www.energypolicy.columbia.edu/publications/lucrative-reward-or-mounting-risk-mexicos-growing-reliance-on-us-gas/> and World Bank (2025) Global Gas Flaring Reduction Partnership (GFMR): Global Flaring Data <https://www.worldbank.org/en/programs/gasflaringreduction/global-flaring-data>
- [ix] U.S. Energy Information Administration (EIA). (n.d.). U.S. Natural Gas Exports and Re-Exports by Country https://www.eia.gov/dnav/ng/ng_move_expc_s1_a.htm
- [x] Secretaría de Energía (SENER). (n.d.). Balance de Energía. Gobierno de México. <https://www.gob.mx/sener/articulos/balance-nacional-de-energia-296106>
- [xi] Petróleos Mexicanos (Pemex). (n.d.). Base de Datos Institucional (BDI). <https://ebdi.pemex.com/bdi/bdiController.do?action=cuadro&subAction=applyOptions>

[xii] Joseph, I. & Rivera Rivota, D. (2023). Lucrative Reward or Mounting Risk? Mexico's Growing Reliance on US Gas. Commentary. Center on Global Energy Policy, Columbia University SIPA. <https://www.energypolicy.columbia.edu/publications/lucrative-reward-or-mounting-risk-mexicos-growing-reliance-on-us-gas/>

[xiii] International Energy Agency (IEA). (2022). Energy Security in Energy Transitions. In World Energy Outlook 2022. IEA, Paris. <https://www.iea.org/reports/world-energy-outlook-2022/energy-security-in-energy-transitions>

[xiv] Office of the United States Trade Representative (USTR). (2022). United States Requests Consultations Under the USMCA Over Mexico's Energy Policies. Press Release. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2022/july/united-states-requests-consultations-under-usmca-over-mexicos-energy-policies>

[xv] Global Affairs Canada. (2022, July 20). Request for Consultations – Certain Measures in the Electricity Sector. Government of Canada. <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cusma-aceum/electricity-sector-secteur-electricite.aspx?lang=eng>

[xvi] Office of the United States Trade Representative (USTR). (2026, March 31). USTR Releases 2026 National Trade Estimate Report. Press Release. <https://ustr.gov/about/policy-offices/press-office/press-releases/2026/march/ustr-releases-2026-national-trade-estimate-report>

[xvii] Bracho, R., Alvarez, J., Aznar, A., Brancucci, C., Brinkman, G., Cooperman, A., Flores-Espino, F., Frazier, W., Gearhart, C., Guerra Fernández, O.J., Hurlbut, D., Kolker, A., Kroposki, B., Lantz, E., Maclaurin, G., Roberts, B., Romero Lankao, P., Saur, G., Stark, G. & Sky, H. (2022). Mexico Clean Energy Report. National Renewable Energy Laboratory (NREL), U.S. Department of Energy. <https://docs.nrel.gov/docs/fy22osti/82580.pdf>



thedialogue.org

**Inter-American Dialogue
1155 15th Street NW, Suite 800
Washington, DC 20005
Tel: +1 202-822-9002
thedialogue.org/programs-mexico
[X.com/MexicoProgram](https://twitter.com/MexicoProgram)**