

Increased renewable energy penetration mexico city

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When Mexican president Andr s Manuel L pez Obrador met his US counterpart Joe Biden in Washington for bilateral talks earlier this month, there was one major energy-related breakthrough: L pez Obrador at last publicly recognised the inevitability of the coming energy transition.

For a politician long devoted to the centrality of fossil fuels in Mexico's national energy matrix, this is a very important shift. The president dreams of a return to the 1970s, when a huge oil find translated into energy sovereignty and significant income. The collapse in petroleum production over a generation has increased Mexico's reliance on energy imports from the US, and prompted reforms to promote private investment in energy. L pez Obrador's policies are designed to reverse both these trends.

Even though the president has acknowledged the need to plan for a greener future, this turnaround has its limits. It does not mean he will change his determination to rebuild Mexico's state-owned petroleum and electricity companies, Pemex and the Federal Electricity Commission. Nor does it mean he is backing down from his demand that private energy investment should only take place in association with Pemex and the commission and that the state-owned firms control any such strategic alliance.

However, L pez Obrador's new view on clean energy should open the door to more investment in renewables. It should also help Mexico to attract investment from foreign firms with commitments that require them to source an increasing percentage of their electricity from renewables.

This increased opportunity for renewables in Mexico may not extend to energy companies worldwide, however. L pez Obrador's call in Washington for increased North American economic integration will deepen Mexico's already overwhelming economic reliance on the US. This, alongside nationalist energy policies that directly contravene the terms of the United States-Mexico-Canada free trade agreement, helps explain his decision to negotiate directly with US energy firms.

No similar logic holds for European firms. Even as L pez Obrador is meeting the heads of US firms to resolve the operational challenges of Mexico's energy nationalism, the country's energy regulator continues to deny operating permits for European wind and solar facilities. This nationalism combined with the free trade agreement seem to be creating favouritism for US energy firms and, in the process, a deepening of North American regionalism.

At the same time, L pez Obrador's mere acceptance that an energy transition is under way is unlikely to resolve Mexico's electricity bottleneck by itself. Any increase in clean energy investment will inevitably be



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limited by the requirement that private investors operate with the Federal Electricity Commission. It will also be constrained by a profound lack of confidence in the broad investment climate in Mexico.

The president's repeated rhetorical excesses, and history of changing the terms of private contracts -- such as the cancelled \$13bn Texcoco airport, after construction had started -- will continue to undermine investor enthusiasm.

López Obrador's revised approach to renewable investment may allow him to avoid direct US challenges to his energy strategy under the provisions of the free trade agreement. But it will not translate into enough investment to produce a sufficient supply of reliable, cheap and clean electricity to meet the needs of a growing economy.

The US-Mexico meeting generated some hope: for better bilateral relations and increased investment opportunities for American renewables. Implications for European energy companies and for Mexico's broad economic future, however, are far less bright.

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