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11-19-2010

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Inter-American Dialogue's Latin American Energy Advisor

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Recommended Citation

Inter-American Dialogue's Latin American Energy Advisor. "How Widespread Is Oil and Electricity Theft in Latin America?." (2010). https://digitalrepository.unm.edu/la_energy_dialog/33

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INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR ▸ ENERGY

Q and A: How Widespread Is Oil and Electricity Theft in Latin America?

Citation: Inter-American Dialogue's Latin American Energy Advisor, November 19, 2010; pp. 1, 3, 4. Also online at **www.thedialogue.org**.

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Last month, a ruptured pipeline in northern Colombia spilled 20,000 gallons of fuel into the Caribbean Sea and created a localized environmental emergency. Authorities allege that the spill was caused by a failed criminal attempt to siphon oil from the pipeline. How big of a problem is the theft of oil, fuels and electricity in Latin American and Caribbean countries? In which countries is the situation most critical? What types of entities are behind the theft, and what policies and practices should be implemented to stop this type of criminal activity?

A: RoseAnne Franco, Latin America upstream research analyst at Wood Mackenzie:

"Crude and oil product theft is a serious problem that robs Latin America's major hydrocarbon producers of millions in lost revenues. Foremost, the level of oil and fuel product theft tends to correlate with the level of state capacity and the reach of organized crime. The recent fuel spill in offshore Colombia belies the substantial progress the Colombian government has registered in recent years in reducing stolen fuel, with the theft of refined products dropping by 88 percent to 196 barrels per day in 2009 from 2005 levels. As part of efforts to boost state presence under the previous administration, the government established a hydrocarbon division within the security forces to reduce attacks on vulnerable pipeline infrastructure and rein in product theft. In Mexico, worsening organized crime has exacerbated oil and product smuggling; aided by drug networks and cartel funding, criminals are better able to connect the stolen fuel with receptive oil traders abroad. Pemex's losses stemming from smuggling are substantial, with the company reporting at least $1 billion in lost revenues in 2008 and 2009. Crude and fuel product theft, particularly at border areas, also reflect the market forces as subsidized prices in one country create incentives for smuggling into higher-price markets. This is particularly true in Bolivia and Venezuela. La Paz reported losses of $55 million in 2008 due to smuggled diesel into neighboring countries, while Venezuelan industry sources say 100,000 barrels per day end up across the border. While Caracas has enacted policies to reduce illicit sales, the market incentives continue to be much too overwhelming."

A: Carlos Herrera Descalzi, former minister of energy and mines in Peru:

"Oil theft has historical precedents. There are tampering cases of warming to increase the volume through expansion. The difference of prices between neighboring zones encourages smuggling. Everything from electricity and electric power lines to water pipelines gets stolen. The theft of electricity is higher in remote, poor areas where preventing it can be very costly, even higher than the harm, which is why regulators consider it a business cost and tolerate a small quantity. Filling the tank in a zone where it is cheaper is common. The major price differentials in neighboring regions are caused by illegal businesses that buy and sell while avoiding controls. Stealing from oil pipelines is something on another scale. The news refers to growing instances in North America, China and Africa; it also that shows that in Mexico it is a function of organized crime, which is challenging authorities. South America is far from this extreme. The price of oil has almost quadrupled in the last decade. A medium-sized pipeline, capable of transporting 10,000 barrels a day, is carrying $8 million a day. A large pipeline, capable of transporting 10 times that amount is also earning 10 times that amount. The bad examples tend to be emulated. They prosper to the extent that the risk is small and profit is high. The necessary countermeasures (making it difficult to steal, raising the cost) and the risks (punishment to the perpetrator) should involve the buyer, who is more susceptible to caution."

A: Jed Bailey, independent energy analyst and consultant:

"Fuel and electricity theft is a significant problem across Latin America. Fuel theft is most acute in Colombia and Mexico with their large scale oil production and active criminal cartels. Pemex estimated it lost over $700 million of oil products in 2008, through nearly 400 illegal taps into the company's pipelines. Criminal organizations are able to steal oil at a much greater scale and present a much more difficult problem to resolve than the petty theft that affects most countries. Governments must treat it as another front in stamping out corruption and organized crime. Electricity theft is also widespread, but driven more by poverty than by criminal intent. In the Dominican Republic, as much as 40 percent of electricity is lost through illegal connections and customers refusing to pay. These 'nontechnical' losses reach 25 percent in Paraguay and 10 percent in Ecuador and Venezuela. Even in Mexico and Brazil, nontechnical losses average between 5 and 7 percent. Most theft is carried out by poor individuals who are less able to pay, abetted to some degree by a social view that electricity is a basic right and so stealing electricity is not the same as stealing someone's property. Unfortunately, this theft reduces the ability to invest in generation equipment or pay for fuel, creating a vicious circle of poor investment leading to poor electricity service leading to consumers' further reluctance to pay. Programs to change perceptions and support electricity services to the poor can help avoid this downward spiral."

A: David Shields, independent energy consultant based in Mexico City:

"These are difficult times in Mexico, with organized crime and drug-related violence affecting all aspects of life. The oil industry is no exception, with widespread fuel theft occurring from pipelines, refineries and storage facilities. There have also been incidents of top officials at state-owned Pemex being kidnapped and even oil wells being taken over by armed commandos. Just as worrying are the signs that drug cartels are increasingly threatening Pemex's suppliers and contractors, with a view to using their companies as channels for money laundering in exchange for financing their business. All of these aspects appear to be interrelated and the Calderón government spends about 70 percent of its energies on what has been a losing battle against crime, leaving only 30 percent of its efforts for other priorities, such as all kinds of reforms the country badly needs. Pemex is showing little ability to apply reforms and eradicate crime elements within the company's structure, especially in its refinery division. Governments in Latin

American countries most affected by such phenomena must apply more decisive, effective policies against organized crime, but citizens are despairing because it is not clear that they will do so. Indeed, it is suspected that politics and governments are infiltrated to some degree by organized crime. Should we be thinking of a massive anti-drug, anti-crime drive in the region? This would require leadership from the United States, which so far has not been forthcoming."

The Energy Advisor *welcomes responses to this Q&A. Readers can write editor Gene Kuleta at kuleta@thedialogue.org with comments.*