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Central America stands to become the beneficiary of an oil-fueled imbroglio between Mexico's President Vicente Fox and President Hugo Chavez of Venezuela. Both are seeking, for reasons economic, philosophical, and political, to ease the strain on non-oil-blessed countries. The two presidents represented opposing sides regarding free trade at the IV Summit of the Americas in Mar del Plata, Argentina, but it was Fox who, on Nov. 5, signed an accord worth US$7 billion with the Central Americans to ease their energy woes.

"With this we will have abundant energy in the region, competitive and made into a platform for development," said Fox before a meeting with the presidents of Guatemala, Nicaragua, Costa Rica, El Salvador, and the Dominican Republic, and the vice president of Honduras. The deal includes constructing a refinery somewhere in Central America, presumably with the technical resources of Mexico's state oil monopoly PEMEX. It is part of a larger scheme within Plan Puebla-Panama (PPP), integrating the refinery, construction of a hydroelectric project, a gas pipeline, and plants for the conversion of liquefied natural gas (LNG) (see NotiCen, 2005-06-16).

Fox's offer was consistent with an October recommendation of the Economic Commission for Latin America and the Caribbean (ECLAC) for the creation of a regional energy market in Central America.

The head of ECLAC's energy and natural-resources department, Fernando Cuevas, said at the presentation of a report on the petroleum industry, Istmo centroamericano: diagnostico de la industria petrolera, that the isthmus is in urgent need of competition in energy-products distribution and that PEMEX would "do the region a great service" if it authorized distribution franchises to Central America. "One important measure Mexico could adopt to help Central America would be to allow PEMEX to come in with its service stations," he said.

Competition for the refinery

One day before signing the deal, Fox met with Costa Rica's President Abel Pacheco to discuss joint investments in energy projects and a Costa Rican request for technical assistance from Mexico for establishing a refinery as a project within the PPP framework. Fox stopped off in Costa Rica on his way to Mar del Plata for the talks. Guatemala and Panama have also shown interest in building the regional refinery, and the appearance of a competition for the project has emerged.

Guatemalan President Oscar Berger surely wants the project. "We have good prospects for the PEMEX refinery," he said, "but if that doesn't happen, we have proposed that the shares become

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the property of all the countries, to compensate those that don't get it." Berger counted Guatemala's proximity to Mexico among his country's advantages.

Panama's President Martin Torrijos also expressed interest in building a refinery in early October on an official two-day visit to Mexico. He said at that time, "We want Panama to be the refining center, not only because of the important capacity we have to store fuels, but because we have oil and port facilities well along in development." He also pointed to the country's geography, which would allow deliveries to and from both coasts. Who will build it, PEMEX or some kind of consortium, has not been decided, but the project has drawn comment in Mexico.

Director of the Instituto para la Competitividad (IMCO) Juan Antonio Barges Mestre said the project did not make sense. "It has no logic, because a US$2.5 billion refinery gives you 300,000 barrels of gasoline a day, more or less, and in all of Central America there is no 300,000-bpd market. It's not right that Mexico invest abroad when the country lacks investments; we lack refineries in this country because we are importing 30% of our petroleum products." Mestre's figures were approximate; other estimates have projected that the operation would produce 250,000 bpd at a construction cost of US$3.2 billion, or 150,000 bpd at US$3 billion.

The idea did make sense to Mexican undersecretary of energy Hector Moreira, even though he, too, was short on details. He said he did not have any information on the size, cost, ownership, or output of the refinery, but thought it would benefit both Central America and Mexico. He said that, if gasoline were overproduced in Central America, it could be imported back to Mexico, and if the country owned part of the operation, it could be a good business deal. Moreira also noted that the new deal effectively breaks the Pacto de San Jose, under which Mexico and Venezuela together supply Central America with 160,000 bpd of oil, 80,000 barrels each, at reduced prices.

Mexico has invested in an arrangement like this in the past. PEMEX is a 50-50 partner with Shell in Deer Park, the sixth-largest refinery in the US, in Texas. For Mexico, it is a maquila operation that exports Maya crude and imports gasoline, diesel, and other products. Deer Park has reportedly been a highly profitable enterprise for Mexico. In the absence of concrete information, there has been speculation that Shell, which has a presence in Central America, will be a player in the new plan.

In Costa Rica, the Mexican newspaper El Economista reported that sources in the Costa Rican Foreign Relations Ministry have said the refinery would be built either at the Refineria Costarricense de Petroleo (RECOPE) or at Puerto Barrios in Guatemala with the investment of US $500 million from PEMEX, an equal amount from Shell, US$100 million from the Central American governments, and the rest from international sources like the Inter-American Development Bank (IDB). Their estimate is that the total cost would reach US$3.5 billion.

In that same report, El Economista said a separate distribution company would be formed, with franchises, similar to the PEMEX system. For that company, the Mexican government would put up 40% of the cost, 40% would come from the private sector, and the Central American governments would have a 20% stake. The story quoted Fox as explaining, "It's not about putting up a refinery to see if it makes money, it's about putting up a refinery and a distribution network through gas stations to have competitive prices and avoid the impact of sudden increases in oil prices."

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The plan is also not about a direct confrontation, Fox insisted earlier at the summit, with President Chavez's Petrocaribe plan, which would give Central America reduced prices on crude and set up a distribution system that would eliminate the intermediary and pass savings on to consumers. Fox's scheme establishes a reference price range for crude such that, when market prices exceed the range, PEMEX would extend long-term, low-interest credit to buffer the kind of shocks that have so far caused Central America more than US$600 million in unexpected energy expenditures. Mexico would guarantee supplies, but it is not certain how the plan would change in the event that market prices fell below the range.

It has been speculated that the Central Americans have recommended a reference price of US$38 a barrel. While the Fox plan easily stands on its own, many analysts doubt that the sharp division between Chavez and Fox regarding their visions for the hemisphere's economy does not come into play here.

From Mexico to Panama on PEMEX all the way

In a separate arrangement, PEMEX announced in October that it would establish 200 gas-station franchises in Guatemala, Belize, and Honduras in the coming three or four months as a first step toward an isthmuswide presence. The franchises would be Mexican or Central American owned. There are some logistical problems with this plan because Mexico imports gasoline and is looking for a way of delivering product to Central America without paying double taxes.

A solution under study would be to purchase the gasoline somewhere in the Caribbean and deliver it directly to Central America so that it never passes through Mexico. By keeping prices under control, PEMEX would be able to introduce competition into a market now tightly controlled by ExxonMobil, Shell, and ChevronTexaco. ECLAC says that Mexico accounted for just a tiny fraction, 1.2%, of the 94.7 million barrels of hydrocarbons imported to the isthmus last year. Venezuela provided 43.7%; the US, 16.7%; Ecuador, 6.1%; Chile, 5.6%; and Trinidad and Tobago, 3.5%.

Jorge Mattar, deputy director of ECLAC in Mexico, explained that it is not the governments but the large multinationals that buy and sell oil in Central America. Therefore, vertically integrated PEMEX is the only company capable of introducing competition into the market. This the kind of plan that Cuevas called for at the presentation of the ECLAC study, when he said, "If there is one important measure Mexico could adopt to help Central America, it is that PEMEX come in with service stations in those countries in order to increase the number of actors and foment competition." He called the Fox initiative "fabulous." As for the refinery, he said that this is a propitious moment to build one outside the US and that it has been discussed for the last fifty years.

For Fox, it could be the straw that breaks the back of popular resistance to PPP (see NotiCen, 2002-10-17). The massive program has been set back by popular opposition to a plan that many see as a ruinous private-sector intrusion into the ecology and culture of the region.

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