3-30-2006

Honduran Government Sidesteps Transnationals To Seek Single Source Of Fuel

Mike Leffert

LADB Article Id: 51771
ISSN: 1089-1560

Honduran Government Sidesteps Transnationals To Seek Single Source Of Fuel

by Mike Leffert
Category/Department: Honduras
Published: 2006-03-30

Fed up with fuel prices said to be the highest in Central America, Honduran President Manuel Zelaya is sidestepping the companies that control the importation and distribution of fuels and putting the business out to international bid. The companies are Esso, Texaco, Shell, and Dippsa, a Honduran consortium. Zelaya made the decision on Feb. 6, eleven days after taking office, as a first step in making good on a campaign promise (see NotiCen, 2006-02-02). He also sent the legislature a bill to lower the import tax on fuels and moved to start building storage facilities for a strategic fuel reserve.

A month later, on March 8, the Cabinet adopted the decision at a Casa Presidencial meeting at which representatives of the transnationals and members of the Coalicion Patriotica de los Combustibles (CPC) were present. The CPC is an organization seeking to change the country's energy policy. Minister of the Presidency Yani Rosenthal said the transnationals that monopolize the business were in fierce opposition to the measure and had threatened to halt supplies into the local market.

Coordinator of the Industria Hondurena del Petroleo Mario del Cid replied with a conditional denial of a threat. "The importers guarantee the continuous supply to the country as long as the import license is maintained and we are allowed to import freely," he said. Del Cid had previously been quoted as saying there could be a scarcity of fuel if the government persisted in its plans. He warned, "An international bid does not guarantee lower prices to the consumer." He said the new plan amounts to a state monopoly in the fuel-supply process.

Soon after the decision, US Ambassador Charles Ford criticized it. He rounded up local reporters to complain that Zelaya "has changed overnight the rules of the game of international investment." Conveying the suggestion that he had some say in the matter, he added, "We have to evaluate these determinations, to ascertain if this is the best way to treat investors who have been in a country for 80 years with certain investments and under certain rules of the game." The government was not swayed. Zelaya confronted the suggestion of a supply interruption, saying that anyone who tried the tactic in an effort to derail his plan would be committing "a serious error and a crime." In fact, he emphasized, even to threaten to do so "is a serious error and offensive to the Honduran consumer and is a crime that can be punished by the law."

The president recalled, "We have been practically a permanent source of income in services and in business for these companies for a very long time," and suggested that the companies ought to be grateful to Honduras for all the country has given them, not desire vengeance.

Government records and statements indicate that the oil business in Honduras, from ship to pump, is nearly a US$1 billion affair, upon which the state collected US$263.9 million in taxes in 2005. To get

LADB Article Id: 51771
ISSN: 1089-1560

the bidding process under way, the government hired oil consultant Robert Meyeringh, whom the former government hired to audit a congressional commission investigating fuel prices. His position is controversial because he is a stockholder in at least four transnational oil companies.

He has said this is not an issue, however, because "the bidding process will be totally public and transparent, and the winner will be whichever company puts forward the best offer." Meyeringh has estimated a savings on imports of US$66 million by going to the new system. Once the process is completed, Honduras will join Costa Rica, Chile, Peru, the Dominican Republic, and Jamaica, all of which use a bidding system, and none of which, according to Meyeringh, has been left without fuel supplies.

But there was the hint of a caveat. "Unless the companies deliberately block supplies as a form of blackmail, I see no reason why a country would have its energy cut off," said the consultant. Government may have it wrong Government economic consultant Nelson Avila does not discount the potential for a downside. "The risks of putting the contract out to tender cannot be ignored, but it is also important to recognize the potential benefits. Honduras has taken a historic decision based on a rational analysis of the congressional commission."

The commission he referred to was the one Meyeringh audited. It is now defunct. Avila said there have been no problems with this kind of contracting. In January 2006, three of Zelaya's supporters visited Costa Rica to consult with Refinadora Costarricense de Petroleo (RECOPE) officials on how to benefit from their experience. The three are now government officials, Vice President Elvin Santos, Rosenthal, and Edwin Araque, vice president of Honduras' central bank.

At the time, Santos said Costa Rica was buying oil from 25 companies for around US$.46 a gallon, "something," said Santos, "that Honduras needs to learn from." But a Costa Rican official disputes that claim. RECOPE managing director Ali Riazi denied those prices and said the company buys based on prices on the international market. He said RECOPE buys 40% of its fuel from state companies, which include Venezuela's PDVSA, Brazil's Petrobras, and Colombia's ECOPETROL, and another 40% comes from the same companies that supply Honduras, Shell, Texaco, and Esso. Less than 7% comes direct from refineries and does so only in emergencies. Riazi said that, unlike Honduras' single-source plan, RECOPE spreads its business among a number of suppliers to avoid unforeseen contingencies.

Beyond del Cid's veiled threats, the private sector has produced some counterarguments to the state plan. Spokesperson for the sector Eduardo del Valle said, "There could be no valid comparison with Costa Rica's experience, because RECOPE owns a refinery and huge storage terminals and buys lower grade fuel, which it blends on site, all of which combine to reduce the company's overall costs. Honduras, however, lacks such an infrastructure." Del Valle does not believe the government can be more efficient than private business. "The government has taken a decision based on the short-term future that will have a significant long-term impact," he said. "It's the worst thing a country can do, trying to resolve a problem that has arisen out of the current energy crisis by launching a complicated and risky endeavor."

LADB Article Id: 51771
ISSN: 1089-1560

Del Valle said that the government also risks putting itself at a disadvantage with the existing contract holders in the case that something goes wrong with the bidding process and it is forced to deal again with the same companies with which it terminated prior contracts. "Furthermore," he said, "obtaining 13 million barrels of oil isn't something that can be done in 90 days because of the complex logistical process involved." He did not mention that, in all likelihood, the bidding companies would include those now holding contracts with the state.

Perhaps chastened by Zelaya's distaste for threats, del Cid, meanwhile, has said the private industry would cooperate with the government plan, even while lobbying the state to reconsider. The companies are not without leverage; use of their terminals, for instance, has yet to be negotiated.

Full details of the plan have not been released, and it is not clear that a fully articulated program even exists. Zelaya has said he would reveal the government's plans in June during an official visit to the US. Raul Valladares, Zelaya's private secretary, said Zelaya would first discuss it with US President George W. Bush.

-- End --