6-8-2006

Gasoline Refinery Set For Central America; Presidents Decline To Pick A Site

Mike Leffert

LADB Article Id: 51707
ISSN: 1089-1560

Gasoline Refinery Set For Central America; Presidents Decline To Pick A Site

by Mike Leffert
Category/Department: Central America
Published: 2006-06-08

Panama and Guatemala are in contention for the site of the most expensive project ever undertaken in Central America. Ten heads of state, representing the isthmus plus Mexico, Colombia, and the Dominican Republic, met in La Romana, the Dominican Republic, to decide whether a US$6.5 billion gasoline refinery would be built in Puerto Armuelles, Panama, or Puerto Quetzal, Guatemala.

Aiming to reduce Central America's energy costs, the refinery, with a capacity of 360,000 barrels per day, would provide the isthmus with gasoline at US$8 a barrel less than open-market prices, according to Mexico's Energy Secretary Fernando Canales. The project has the support of the Inter-American Development Bank (IDB) and the UN Economic Commission for Latin America and the Caribbean (ECLAC). The IDB kicked in US$1.5 million and ECLAC US$500,000 in March to pay for a consultant to do a two-part feasibility study.

The first part was for an analysis of hydrocarbon market integration in Mesoamerica. The second part is a study of the feasibility of the decision the governments come up with and recommendations for implementation. The donations were in response to a request from the Central American, Mexican, and Dominican Republic governments. With extras thrown in, the project would come to US$10 billion. The extras would include a regional power grid and a natural-gas pipeline.

For the refinery, Mexico's state oil monopoly PEMEX would provide 230,000 bpd of crude; Guatemala would provide 17,000 bpd and Belize 8,000 bpd. The remainder would come from market sources, most probably from Venezuela, Mexico, Ecuador, Peru, or Trinidad and Tobago, said Canales. From these inputs, the refinery would turn out about 187,000 bpd of gasoline, and Mexico would be a customer along with the rest. Although, with a current output of 3.35 million bpd, it is the world's third-largest crude producer, Mexico lacks the refining capacity to meet growing national gasoline demand.

PEMEX sends most of the 1.8 million bpd it exports to US Gulf Coast refineries. The country imports back about 180,000 bpd. When hurricanes Katrina and Rita shut down that clientele for weeks last year, Mexico began thinking diversification. Central America will likely consume about 70,000 bpd, leaving a comfortable margin for Mexican needs and open-market sales.

For Panama and Guatemala, the Programa de Integracion Energetica Mesoamericana (PIEM) meeting at La Romana carried the promise of a prize even greater than relief from crippling energy prices. The two countries had gone into the meeting with the expectation that one of them would be home to the refinery and reap the benefits of the megaproject. But the participants recognized one aspect of the overall plan that was somehow missed in the preparations for the meeting.

LADB Article Id: 51707
ISSN: 1089-1560

The refinery was to be, as Mexico's President Vicente Fox had said many times, a private affair. Fox had been adamant that not one cent of PEMEX money would be involved in the refinery.

Owners will decide

That being the case, the participants agreed that it would be the investors, the eventual owners of the project, who would determine its location. Among the private firms expressing interest were Chevron, Shell, French company Total, and Japanese company Mitsubishi. Honduras, El Salvador, and Costa Rica have all sought the plant for their territories (see NotiCen, 2005-11-10) but were thought to have little hope after the IDB-funded study by the private company KBC Advanced Technologies recommended Guatemala and Panama. Guatemala's President Oscar Berger was upset.

The final declaration mandated only a project "to constitute an integrative enterprise that will coordinate the bidding and administer the supply quotas at a preferential price" and to get that done by Aug. 31, 2006. The declaration continued, "It was agreed to instruct the ministers of energy and mines to talk to the investors, define an integrative organization, decide the most ideal basis of selection of the organization, and proceed with the contracting." This outcome clearly did not meet the terms of an agreement reached last year at the II Cumbre sobre la Iniciativa Energetica Mesoamericana in Cancun, where it was agreed that the PIEM members would decide a location for the project.

Berger complained that, with this declaration, "responsibilities are being evaded." Berger had called the selection of the site "the principal object of today," but he was contradicted by a statement from Fox that the media "speculated with the idea that there would be a decision here about that." Berger may have been asking too much of what is a complex venture. A highly profitable refinery would be good for his country's economy, but he also needs that refinery to operate at low margins in order to derive the benefit of lower-than-market prices for gasoline.

The investors will by necessity need to find the lowest-cost location to maximize returns. Estimates of the profitability of the venture are somewhere around 14%. It will be their decision to make, and it puts presidents like Berger in the position of offering the greatest concessions, rather than dreaming of treasury inflows. The consulting firm KBC picked Puerto Quetzal and Puerto Armuelles from a list of 12 possible locations.

But, said Carlos Morales Troncoso, the Dominican Republic's foreign minister, "If the investors and the studies indicate that there is another place where the operation proves better or the cost lower, that will be the place. That opens the fan, and it could be in any country." Morales' country doesn't have a dog in this fight. Better, it has its own refinery, and a deal struck with Mexico will allow PEMEX to provide technical assistance to enlarge and modernize it.

President Leonel Fernandez announced the deal at the meeting. The Refineria Dominicana de Petroleo (REFIDOMSA) is run by the state in association with Shell Petroleum Company. Fernando called the deal "a generosity of the government of Mexico." Berger remained hopeful. "Puerto Quetzal has a score of 82%, Puerto Armuelles in Panama has 66%. If we stick to the terms [KBC's

LADB Article Id: 51707
ISSN: 1089-1560

criteria], Guatemala's possibilities are very significant," he said. Panama's Vice President and Foreign Minister Samuel Lewis Navarro took a less provincial view. "The possibilities of a refinery in the region are all-important, and what we want is that it be the most viable possible," he said.

Colombian President Alvaro Uribe said that, regardless of who ends up with the refinery, each of the countries ought to start immediately to develop its own alternative energy program. He said that all the countries have ideal conditions for alternative energy, and, "I think that with the support of the multilateral lenders we can succeed with alternative-energy projects to make a practical agenda that more and more stimulates projects of this kind."

-- End --