Region's Refinery Deal with Mexico in Doubt, but Venezuela May Be Waiting in the Wings

Mike Leffert

Follow this and additional works at: https://digitalrepository.unm.edu/noticen

Recommended Citation
Leffert, Mike. "Region's Refinery Deal with Mexico in Doubt, but Venezuela May Be Waiting in the Wings." (2007).
https://digitalrepository.unm.edu/noticen/9488

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in NotiCen by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.
Region's Refinery Deal with Mexico in Doubt, but Venezuela May Be Waiting in the Wings

by Mike Leffert
Category/Department: Central America
Published: 2007-03-01

A planned gasoline refinery that would go a long way toward solving Central America's high energy costs may never be built. All the countries of the isthmus will suffer from the loss of the plant but the suffering will be distributed unevenly, depending on the deals they have been able to make on their own to drive down gasoline prices. The biggest potential losers are Panama and Guatemala, which led the pack in the bidding to have the refinery located on their turf. Guatemala was the front-runner in this contest, receiving highest marks in a feasibility study that found Puerto Quetzal on the Pacific coast to be the most advantageous location (see Noticen, 2006-06-08). The reason for the reversal: Mexico is hedging on its part in the deal.

Mexico's participation is crucial. In the original plan, the country's state-run oil company Petroleos de Mexico (PEMEX) committed to supplying 230,000 barrels per day of crude for 20 years. Plans also called for PEMEX, through PMI Comercio Internacional, to open a bidding process for building a refinery with a capacity of 360,000 bpd. Profitability was predicated on the understanding that 59% of the output, products including gasoline and diesel, would be exported outside the countries of the Mesoamerican Energy Integration Project (MEIP) and therefore not subject to the discounts guaranteed the region.

By August 2006, the bidding plan evaporated. Instead, said an announcement from the MEIP, the countries, Belize, Colombia, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Dominican Republic, and Mexico, would meet in September to approve the terms and conditions of the tender. Not until October did Guatemala's presidential commissioner for the project, Victor Suarez, announce the bidding would be put off until June or July 2007. But in early February, it started to become clear that the project was in doubt. PEMEX director Jesus Reyes Heroles said there was no agreement between the Central American countries concerning the consumption of the produced fuels, and that put the project at risk. He said that, if the countries did not agree to consume the fuels, then the amount should be reduced and the supply contract should also be reduced.

The statement contradicted the former idea, that oversupply and export would increase profits and sweeten the incentives to bidders. What underlay the contradiction was a statement from Venezuela's President Hugo Chavez in January that he might build a refinery in Nicaragua to supply the region as part of the Alternativa Bolivariana para las Americas (ALBA). To avoid the competition, the PEMEX president wanted to see firm commitments. In the meantime, news concerning PEMEX's financial condition circulated in the press.

"PEMEX is a broken company," said chairman of the Energy Committee of Mexico's Senate Francisco Labastida Ochoa. "It is hard to find a disaster as big as the one that has led it to take on too much debt and to lose the entirety of its net worth." Labastida charged further, "It seems that the financial disaster is not accidental but rather results from a deliberate intention to break PEMEX to
propose selling the company as the only way out." Labastida lobbies for changes in the way PEMEX does business and for changes in its relationship to the government, which, he says, takes too much of the company's income to satisfy its budgetary needs and leaves the company unable to struggle with its own development (see SourceMex, 2005-10-26). Higher oil prices have not helped, he says. The company's income has increased 100% in real terms in five years, but its net worth has gone from a strong positive to a troublesome negative during the same period.

The problem for Central America in this is that the company is in a poor financial position to increase its proven reserves, the pool of crude from which would come the daily dose of 230,000 barrels. From 2001 to 2006, the proven reserves have fallen from 23.7 billion to 11.8 billion barrels (see SourceMex, 2006-03-22). At current and projected rates of extraction, that means a supply that would last 9.8 years, less than half the period to which the company promised deliveries to Central America. The production of 3.3 million bpd is rapidly exhausting reserves. This accelerated depletion led Mexico's deputy economy secretary Manuel Jose Paredes to announce that the decision on who would build the refinery and where it would be built would be put off another year, with a possible date of March 2008.

Victor Suarez confirmed that this was not an official announcement and that none had been made. He downplayed the reserves problem, saying that production is falling, but PEMEX's recent explorations have led to the belief that it is possible to recover and to anticipate larger reserves. "We continue to be optimistic, we trust in the commitment the Mexican government made with us," said the hopeful Guatemalan official.

**Reforms would kill the deal**

That hope is not universally shared. The presidents of Honduras, Guatemala, and El Salvador met in Mexico a few days after Suarez's statement and came away from a meeting with oil executives talking about finding another supplier and guarantor for the refinery. More problematic still, Mexico's President Felipe Calderon warned Guatemala's President Oscar Berger that pending legislative reform concerning PEMEX could prevent the state-run company from investing resources outside Mexico. There have been warnings in past months from Mexican analysts that Calderon would have a hard time meeting the terms of the agreement his predecessor ex-President Vicente Fox made with the Central Americans.

But the isthmus' presidents deny the plan is headed for oblivion. Said El Salvador's President Antonio Saca, "I told President Berger that in 30 days they are going to review the subject of the refinery." Saca reportedly believes that a refinery will be built, but in Mexico and not in Guatemala or Panama. Calderon would only venture, "Everything went very well, very well." Berger was sobered. "PEMEX is at the point of achieving tax reductions and the change in the law that allows it to invest in refineries that are on Mexican soil, this leaves us without many possibilities, because without supply, there is no reason to build a refinery," he said, adding, "We are seeking other options."

The only other option in sight at the moment is the Venezuelan refinery in Nicaragua, not something Berger is seeking. That outcome would cost him the largest construction project in the
history of the isthmus, substantially larger even than the upcoming US$5 billion plus Panama Canal expansion. The refinery could, according to estimates, cost from US$7 billion to as high as US$10 billion. Once done, a total of US$12 billion in business could flow through the facility annually.

In the same time frame that Central America's other presidents were visiting Mexico, Nicaragua's President Daniel Ortega was visiting Chavez in Venezuela. They met for two hours, discussing and revising bilateral contracts signed in January. Among those agreements was a commitment for Venezuela to supply the Central American country with diesel, gasoline, and gas at reduced prices. The director of the state-owned Petroleos de Nicaragua (Petronic) said Nicaragua would receive 4 million barrels of petroleum this year and the figure could go to 10 million, which would be the total demand for the country. More importantly, the refinery idea is still very much in play.

-- End --