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Withdrawal Of U.S. Company Sets Back Government's Plan To Gain Foreign Investors For Electricity Projects

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The Salinas administration's efforts to increase foreign participation in Mexico's electricity generating industry received a major setback in early October when US-based Mission Energy announced its decision to withdraw from a project to build a large coal-fired power plant on the US-Mexico border. The proposed 1,400 megawatt plant, dubbed Carbon II, was to be located in Coahuila state, about 30 miles from Piedras Negras. Under the original plan, Mission Energy and Mexican partner Grupo Acerero del Norte were to buy the partially-built plant from the Federal Electricity Commission (Comision Federal de Electricidad, CFE), complete construction, and then operate the facility. Spokespersons for the CFE and Mission Energy's parent company, California-based SCEcorp, declined to comment on why the project collapsed. However, according to sources familiar with the transaction, the US investors withdrew because of disagreements over who would ultimately pay for installation of costly anti-pollution equipment. Mission Energy reportedly wanted to pay for the installation costs by increasing the price of electricity sold to the government, which would then resell it to the public. The CFE declined, saying this was a violation of new legislation covering electric utility rates (Ley del Servicio Publico de Energia Electrica). According to El Financiero International weekly business newspaper, the plant required installation of costly state-of-the-art scrubbers, which are commonly used in all new coal-fired plants built in the US. The possibility that the plant would be built without the scrubbers led to protests by several environmental groups and generated opposition to the project from the US Environmental Protection Agency (EPA) and the National Park Service. Without the scrubbers, Carbon II would have become one of the world's largest producers of carbon dioxide. In turn, the intervention of the US government led the World Bank's private-sector lender, the International Finance Corporation (IFC), to withdraw its commitment to help finance the project, which in turn created difficulties for Mission Energy to obtain private loans. In fact, a Mexican government official close to the negotiations said publicity regarding the potential for serious air pollution problems at the plant may have led the Salinas administration itself to impose stronger environmental standards for the plant than had originally been proposed. While this move may have helped foster an image of the Mexican government as becoming more serious in enforcing strict environmental protection regulations, analysts suggest that the lack of flexibility in dealing with Mission Energy has reduced the prospects for attracting foreign participation in the electricity generating industry in the future. "Developers, lenders and regulators all had hoped that the invisible chemistry of trust, risk management and legal obligation was in place in the Carbon II project," said El Financiero International columnist George Baker. "The collapse of the project undermines the credibility of Mexico as a host country for investments and non-recourse financing in private electric power generation." (Sources: Journal of Commerce, 10/13/93; El Financiero International, 10/18/93; La Jornada, 10/21/93; New York Times, 10/13/93, 10/27/93)