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Explosion at Chiapas Processing Plant Forces PEMEX to Import Gas from U.S.

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In early August, the state-run oil company PEMEX initiated emergency imports of US natural gas to compensate for the loss of output following an explosion at the Cactus Refinery in Reforma, Chiapas state. The refinery is located near the Chiapas-Tabasco state border, about 32 km from the Tabasco state capital of Villahermosa. The explosion, which occurred in late July, destroyed two processing facilities at the refinery, causing as much as US$300 million in damage. The explosion killed seven workers and injured several others. As an additional step to ensure that the Mexican natural- gas market remains supplied in the near term, PEMEX also halted all exports of natural gas, which are shipped mostly from the terminal at Pajaritos, Veracruz state.

The destruction of the two processing plants at the refinery had widespread implications for the Mexican energy sector. For example, a shortage of natural gas in the southeastern areas forced PEMEX to shut down the ammonia- producing plants at the petrochemical complex at Cosoleacaque, Veracruz. To compensate for the loss of output from Cactus, PEMEX plans to import 350 million cubic feet of natural gas from the US per day, reportedly at a cost of US$700,000 daily. The imports, originating mostly from southern Texas, would help offset the lost production of more than 1 billion cubic feet per day at the Cactus plant.

The two damaged plants each with a processing capacity of about 500 million cubic feet per day account for 25% to 30% of all the natural gas produced in Mexico. PEMEX statistics show that Mexico's total production of natural gas approached 4.3 billion cubic feet in 1995, an increase of 17% from 1994. PEMEX was relying on the Cactus Refinery to supply an increasing share of the needs of the Mexican market. The refinery increased its output by 10% in 1996.

Deputy Luis Rico Samaniego, a member of the energy committee (Comision de Energeticos) in the Chamber of Deputies, said the explosion had left PEMEX in the extremely difficult situation of having to pay market prices to import natural gas to ensure an adequate supply for the Mexican market. "Suppliers in Texas, aware that Mexico needs to import natural gas, will raise their prices to obtain the most profits possible," Samaniego said. According to a PEMEX announcement, the company expects to restore enough natural-gas production capacity in Mexico in the coming weeks to reduce imports from the Texas refineries to 11 million cubic feet by late August. PEMEX expects to discontinue such imports by March of 1997, when the new natural-gas processing facility in Nuevo Pemex, Tabasco, is scheduled to start operations.

At a press conferences a few days after the explosion, PEMEX director Adrian Lajous Vargas responded to concerns that the loss of output from the Cactus Refinery would leave PEMEX in a very difficult financial situation. "The explosion is not going to cause a collapse of PEMEX," Lajous reassured reporters. "On the contrary, we will increase our production, we will increase our profits and we will continue to show positive results." Still, the Cactus explosion brought

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to light complaints that the PEMEX budget sacrificed safety for profits by providing too little money for maintenance and improvement. One of the strongest criticisms came from Grupo de los Cien, a group of intellectuals who focus on environmental issues. A few days after the explosion, the organization held a press conference to criticize PEMEX for placing insufficient funds into maintenance and upkeep of its plants to increase its profits.

A similar charge came from members of the opposition National Action Party (PAN) and Democratic Revolution Party (PRD) in the Chamber of Deputies and the Senate. According to members of the two opposition parties, PEMEX has been following a practice probably started in the early 1980s of diverting funds allocated for maintenance into other accounts. At a recent session of the Chamber of Deputies, PRD legislator Alejandro Encinas accused PEMEX of "criminal negligence," and demanded a rigorous investigation of the explosions at the Cactus Refinery.

Furthermore, Deputy Encinas who was speaking on behalf of the entire PRD delegation in the Chamber of Deputies raised concerns about the possibility that such incidents could be repeated elsewhere in Mexico. For example, Encinas noted that PEMEX has failed to adequately maintain 24 km of gas pipelines under Mexico City, creating a potentially dangerous situation in the capital. Responding to these criticisms, PEMEX director Lajous denied that the explosion at Cactus was the result of poor maintenance. In fact, he pointed out the PEMEX had allocated 78 million pesos (US$10.34 million) in additional funds this year for maintenance purposes. "We cannot under any circumstances attribute the explosion to a lack of maintenance, since 28% of the total budget at the plant is allocated for safety and upkeep," Encinas said.

At a follow-up press conference in early August, Lajous reiterated that PEMEX's initial investigation showed no evidence that the explosion was the result of either poor maintenance or sabotage. According to Lajous, PEMEX has hired the US-based engineering company Fluor Daniel to conduct a thorough investigation of the explosion. Two days earlier, in an interview with the daily newspaper La Jornada, Lajous raised the possibility that the blast may have been caused by some sort of "human error," although he did not elaborate.

Despite denials from Lajous and other PEMEX officials, La Jornada reported that employees at the Cactus plants have frequently raised concerns about the insufficient maintenance at the facility. According to the newspaper, five separate explosions have occurred at the plant since 1976, resulting in the death of several workers. "These accidents were all caused by the lack of maintenance," sources at the plant told La Jornada. In fact, a joint study conducted by British- and Japanese-based consulting firms in May of this year showed a total of 309 safety violations at Cactus and similar facilities at nearby Ciudad Pemex and Ciudad Pemex-La Isla. The study classified 25 of those as "serious."

According to internal PEMEX statistics, the oil company has increased expenditures for maintenance of natural gas and petrochemical facilities by more than 200% since 1994. As a percentage of its total budget, the amount spent by PEMEX on maintenance is expected to fall to 23% this year, compared with 25% in 1994. The effort to boost production at Cactus and other refineries in southeastern Mexico is part of a master plan by PEMEX to boost supplies of natural gas in Mexico to replace other fuels that cause greater levels of pollution. According to PEMEX targets, natural gas is expected to

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account for 53% of all the energy sources in Mexico by the year 2005, compared with only a 37% in 1994.

Roughly one-half the natural gas produced in Mexico is extracted from the Tabasco-Chiapas area, while another one- third of the supply is extracted from the Gulf of Mexico or other areas of the southeast. PEMEX has gained relatively easy access to the supplies in the southeast and the Gulf of Mexico, since this natural gas is often located alongside reserves of crude oil. According to recommendations by private energy consultants, PEMEX should consider the possibility of extracting natural gas from reserves in northern states such as Tamaulipas and Coahuila. The reports acknowledged that extraction of these reserves would require a significant commitment of capital, since the natural gas is located deep in the ground.

In an interview with the daily newspaper Excelsior, energy consultant George Baker pointed out that these supplies, which are located in the same rich basin as Texas, could provide a reliable source of natural gas. A report from the US-based firm Stone & Webster Management Consultants reached the same conclusion. "This region has the greatest potential for development of natural gas," said Vince Esposito, author of the report. "But exploitation of these supplies has become secondary for PEMEX."

Changes to the Mexican Constitution enacted in 1995 allowed foreign and domestic companies to participate in energy-related activities previously reserved for domestic companies. These include storage and transportation of natural gas and construction of gas pipelines. Esposito noted that PEMEX was applying funds obtained from concessions of these activities toward development of the natural-gas infrastructure in southeastern Mexico. Instead, he suggested that PEMEX should consider investing in development of the natural gas sector in northern Mexico. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Aug. 5, reported at 7.54 pesos per US$1.00] (Sources: Agence France-Presse, 07/27/96, 07/29/96, 08/01/96; Excelsior, Novedades, 07/25/96, 07/30/96, 08/02/96; ;La Jornada, 07/29-31/96, 08/02/96; New York Times, The News, 08/02/96)

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