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Mexico Rejects U.S. Requests to Expedite Phase-Out of Natural Gas Tariffs

by LADB Staff

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According to sources in the Energy Secretariat (SE), the Mexican government has all but rejected a request from the US and Canadian governments for a faster phase-out of tariffs on imports of US and Canadian natural gas. The Mexican government currently charges a tariff of 6% on imports of US natural gas. Under terms of the North American Free Trade Agreement (NAFTA), the tariff will be gradually reduced by one percentage point annually until reaching a zero tariff by the year 2002.

At the urging of Illinois-based MidCon Corporation and other US companies, US President Bill Clinton's administration had asked for a faster phase out of the tariff. MidCon, a subsidiary of Occidental Petroleum Corporation, has complained that the 6% tariff is impeding progress of its pipeline, now under construction in Monterrey.

Responding to the request, in early May Mexican Trade Secretary Herminio Blanco raised the possibility that President Ernesto Zedillo's administration might be willing to consider a faster phase-out of the tariff in exchange for other tariff concessions from the US. "Mexico is willing to study a proposal to accelerate the tariff reductions on natural gas as part of continuing NAFTA discussions," Blanco told reporters.

Blanco hinted that the issue might become a major topic of discussion in meetings between Energy Secretaries Federico Pena of the US and Jesus Reyes Heroles of Mexico. The Pena- Reyes meeting was one of several consultations between US and Mexican cabinet ministers during Clinton's recent trip to Mexico. According to SE spokespersons, Pena and Reyes Heroles informally addressed the request for a faster phase-out of natural gas tariffs, but did not make any formal decisions on the matter. Instead, the two officials focused their discussions on recent opportunities for sales of electrical power across the US-Mexico border, particularly from Texas to states in northern Mexico (see SourceMex, 02/19/97).

Mexico fears faster phase-out would unfairly benefit US

Separately, spokespersons for the state-run oil company PEMEX said a faster phase-out of the 6% tariff on US natural gas could disproportionately favor the US. PEMEX officials expressed concern that the US would not be able to reciprocate because refineries in Texas lack the physical resources and infrastructure to adequately handle any increase in imports from Mexico. On a related matter, energy consultant Antonio Gershenson of the Universidad Nacional Autonoma de Mexico (UNAM) urged the government to boost development of natural gas resources in northwestern Mexico, particularly near the Gulf of California. He made the comments in testimony before the Energy Committee (Comision de Energeticos) of the Chamber of Deputies in early May.

According to Gershenson, unless the Mexican government gains access to natural gas reserves in this region, northwestern states will become increasingly dependent on imports from the US.

He said imports will be necessary to meet the region's growing demand because Mexico lacks the necessary pipeline infrastructure to bring natural gas to the region from other parts of Mexico.

US-Mexico venture receives pipeline concession in Sonora state

In fact, in early May, the Energy Regulatory Commission (CRE) announced a concession to US-based KN Energy Inc. and Mexican partner Marhnos to supply natural gas to Hermosillo and Guaymas areas in Sonora. The project includes the construction of distribution pipelines to serve more than 26,000 residential, commercial, and industrial customers. The concession also gives KN Energy the distribution rights for a wide area linking Hermosillo and Guaymas in Sonora state to the north-central cities of Monterrey, Nuevo Laredo, and Saltillo. The Hermosillo-Guaymas area is an important economic region for Mexico, which includes a Ford plant and several food processing and mineral operations.

According to the weekly business newspaper El Financiero International, a pipeline constructed by the KN-Marhnos partnership is likely to supply a large amount of gas to a CFE plant in Sonora state. The KN Energy-Marhnos is the third US-Mexico partnership to receive a concession to supply natural gas in Mexico. The SE has awarded similar contracts for Mexicali, Baja California state, in 1996 (see SourceMex, 08/28/96) and central Chihuahua earlier this year. The Chihuahua concession was awarded in early April to a consortium composed of Enova International, Pacific Enterprises International, and Proxima Gas.

According to SE estimates, Mexico will require investments of US\$1.4 billion through the year 2000 to develop the country's natural gas sectors. The government also plans to offer seven other natural gas concessions for the Altamira-Tampico Madero region in Tamaulipas state, Mexico City, the Laguna region in Coahuila- Durango states, Queretaro, Cuernavaca, Pachuca, and Guanajuato. (Sources: Spanish news service EFE, 04/10/97; El Universal, 03/20/97, 04/10/97, 04/11/97; El Economista, 04/09/97, 04/15/97, 04/16/97, 04/18/97, 04/24/97 05/07/97, 05/08/97; La Jornada, 05/06/97, 05/08/97; Associated Press-Dow Jones news service, 05/08/97; El Financiero International, 04/14/97, 05/12/97; The News, 05/07/97, 05/12/97)

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