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LADB Staff

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by LADB Staff
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Government said to spend too little on infrastructure

Mexico's deteriorating infrastructure is in danger of crumbling even further because of the small amount of money the government devotes to construct bridges, roads, and other public thoroughfares. In a report published in late May, the Consejo Coordinador Empresarial (CCE) said President Ernesto Zedillo's administration allocated only about US$5 billion on infrastructure projects annually in 1998 and 1999, or about US$50 billion short of the amount needed to carry out improvements required by the country.

Under ideal conditions, said CCE president Eduardo Bours Castelo, the government should be spending about US$30 billion per year in 1998 and 1999 to meet the country's infrastructure needs. But Bours acknowledged that this target has been difficult to meet because of austere budgets the last two years brought about by sharp declines in oil-export revenues. In its budget proposal for 1999, the Zedillo administration instructed state-run oil company PEMEX to reduce expenditures by US$1 billion for major projects for this year (see SourceMex, 1998-12-09).

The Zedillo administration has attempted to solve some infrastructure problems through privatizations. This policy appears to have worked to a certain extent in the case of railroads and seaports. This year, private rail companies Transportacion Ferroviarria Mexicana SA and Grupo Ferroviario Mexicano announced plans to invest US$275 million in their operations, including new tracks and signaling equipment. But the government's scheme to pass on responsibility for construction and maintenance of highways failed because the engineering companies that won the concessions ran into financial difficulties.

In a controversial move, the Zedillo administration was forced to acquire 23 financially troubled highways from three engineering companies in late 1997 (see SourceMex, 1997-09-03). But Communications and Transportation Secretary Carlos Ruiz Sacristan said the government is planning to announce a new plan later this year to encourage private investment in roads and highways.

Ruiz Sacristan also called on private companies to become more involved in financing infrastructure. "Development of infrastructure should not have to depend so heavily on the availability of government credit," said Ruiz Sacristan. Because of budget constraints, the government's own expenditures on infrastructure are expected to total only about US$4.5 billion this year, Ruiz Sacristan told reporters.

PEMEX reopens bids for remodeling two refineries

PEMEX has reopened bids for the expansion and remodeling of refineries in Tula, Hidalgo state, and Salamanca, Guanajuato state. The government suspended the original bidding process for the two

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refineries in mid-March to reconfigure the financial terms of the projects. Under the original plans, the government stood to lose about US$122.5 million (see SourceMex, 1999-03-17).

Pemex-Refinacion, a PEMEX subsidiary, has set deadlines of late July for interested consortia to submit bids to gain the concession for either the Tula or Salamanca refineries. Under a revised timetable, the winning consortium would begin the expansion project for Salamanca in December 1999 and conclude in the same month in 2001. The work on the Tula refinery is also scheduled to begin in December 1999, but completion is not targeted until January 2002. Tula and Salamanca are two of five refineries slated for remodeling this year. The government awarded the concession for remodeling the Francisco I. Madero refinery in Tamaulipas state in February and is expected to open bids for similar projects at the PEMEX refineries in Minatitlan, Veracruz state, and Salina Cruz, Oaxaca state, later this year.

Meanwhile, Pemex-Refinacion director Jaime Mario Willars said the remodeling and expansion of the Cadereyta refinery in Nuevo Leon state is advancing rapidly and is about 75% complete. PEMEX awarded the contract for this refinery to a consortium comprising the Mexican engineering company Triturados y Basalticos (Tribasa), South Korea's Sunkyong, and Germany's Siemens AG in September 1998 (see SourceMex, 1998- 09-16). Willars said the project, which will cost about US $1.62 billion, will increase Cadereyta's refining capacity to 248,000 barrels per day of crude oil once the project is completed in 2000.

The plant processed about 167,000 bpd in 1998. The expansion and remodeling of the six refineries could increase Mexico's capacity to produce unleaded gasoline by about 46,000 bpd. The increased output, in turn, would allow Mexico to cut imports by about 40,000 bpd, PEMEX officials said recently.

US company to construct power plant in Guanajuato

The Comision Federal de Electricidad (CFE) has awarded a contract to US-based Intergen Aztec Energy to construct a thermoelectric plant in San Luis de la Paz, Guanajuato state. The concession was awarded under the Produccion Externa de Energia (PEE).

Under this plan, the constructing company operates the facility for a specific period while selling electricity to the CFE. After several years, ownership of the plant is transferred to the government. Construction of the plant, scheduled to begin operations in 2001, is expected to cost about US$250 million.

The plant will have a generating capacity of 495 megawatts. Intergen has participated in consortia that won three similar concessions under the PEE program in recent years, including the Samalayuca II project on the outskirts of Ciudad Juarez, Chihuhua state. Intergen participated in that consortium under its former name of Bechtel (see SourceMex, 1998-08-19).

The government is also promoting construction of power plants in Michoacan, Veracruz, Tamaulipas, and Durango states under the PEE program this year (see SourceMex, 1999-01-20). NAFIN issues first Europeso-denominated bond In mid-May, government lender Nacional Financiera (NAFIN) successfully placed Mexico's first bond issue denominated in europesos.

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Europesos are peso-denominated financial instruments linked to the European Union's common currency, the euro. In recent years, bonds placed by Mexico in international markets have been denominated in US dollars, Japanese yen, or the currencies of individual European countries.

A spokesperson for US-based financial services company J.P. Morgan, which handled the placement of the 1-billion europeso bond, said the issue attracted "strong interest" from investors. The bond was attractive because of a recent strengthening of the peso versus the US dollar and the flexible policies adopted by the Banco de Mexico (central bank) and federal government, which should keep the inflation rate under control, the spokesperson said.

A NAFIN spokesperson said the bond, which carries a maturity of three-years, will help the agency raise funds to expand its loan program for small and medium-sized businesses and microenterprises. (Sources: Reuters, 05/12/99, 05/13/99; Spanish news service EFE, 05/13/99; Excelsior, 05/14/99; Novedades, 05/14/99, 05/25/99; Bloomberg news service, La Jornada, 05/25/99; El Economista, 05/25/99, 05/26/99; El Universal, 05/26/99)

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