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Fox Under Fire for Secret Concession to U.S. Company to Build Gas Plant

by LADB Staff
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President Vicente Fox's administration has come under fire for entering into secret negotiations with US-based multinational company ChevronTexaco to construct a storage and processing facility for liquified natural gas (LNG) in the Coronado Islands off the coast of Baja California. The company, which would receive a 30-year concession, has proposed investing US$500 million in the project.

The Fox administration has not yet made any public announcements regarding the gasification-plant project, but the private organization Mexico Energy Intelligence says the Secretaria de Comunicaciones y Transportes (SCT) already endorsed the plan in early December.

The project is expected to gain easy approval from the government's energy regulator (Comision Reguladora de Energia, CRE), but it faces closer scrutiny from the Secretaria del Medio Ambiente y Recursos Naturales (SEMARNAT). The construction of the facility in Baja California is part of a global scheme by ChevronTexaco to link the operation with similar ones off the coast of Louisiana and in Australia. The ultimate goal would be to bring natural gas from Australia to sell in the US market via the Baja California facility, said the Mexico City daily newspaper La Jornada.

Administration bypassed Senate

The secret nature of the concession negotiations has angered opposition parties and environmental groups, each for different reasons. Opposition legislators, led by Sen. Oscar Canton Zetina of the former governing Partido Revolucionario Institucional (PRI), said the Fox government may be violating the Constitution by surrendering control over Mexican territory to a foreign entity and entering into the transaction without consulting the Senate.

"This is not only an extremely bad business decision for Mexico, but it also implies a loss of sovereignty," said Canton Zetina, who sits on the Senate energy committee (Comision de Energeticos). Critics say the Fox government may have also violated the country's transparency code (Ley Federal de Transparencia y Acceso a la Informacion) by failing to post the transaction in either the federal register (Diario Oficial de la Federacion) or on the Web sites of the SCT and the Secretaria de Gobernacion (SEGOB).

Some nongovernmental organizations said the secrecy was intended to avoid public criticism of the project's environmental shortcomings. ChevronTexaco had originally proposed a similar plant on the mainland near Tijuana in October 2002, but withdrew the proposal because of strong protests about similar facilities proposed by multinational companies Sempra Energy, Royal Dutch Shell, and Marathon Oil near Mexicali, Rosarito, and Ensenada in northern Baja California. After withdrawing its original proposal, ChevronTexaco secretly submitted a separate application for the Coronado Islands.
At least one of the three other companies, Marathon Oil Co., is having second thoughts about its project. In early March, the company said it was abandoning plans to construct its complex because of a dispute over land with the government of Baja California state. Marathon Oil, which envisioned the gas-processing plant as part of a larger energy complex, abandoned the project after the state government expropriated some land that the company had planned to acquire for the facility. "We were surprised and disappointed by the decision," said company spokesman Paul Weeditz. "It's obviously a signal that the government will not support the project. That being the case, it's clear the energy center will not be built."

The state government is planning to use the land for housing, retail centers, and an ecological preserve. Environmental groups raise concerns Greenpeace Mexico has strongly criticized the construction of these facilities, which would be used primarily to serve the needs of the US market while causing significant levels of air pollution. The environmental organization said the pollution caused by these types of plants would make it difficult for Mexico to meet its commitments under the 1998 Kyoto Protocol to reduce emissions that have contributed to global warming.

Greenpeace said Mexico targeted a reduction of 67 million tons of carbon dioxide by 2005, which would require the country to cut emissions by 13% during the next two years. Luis Arturo Moreno Vega, Greenpeace Mexico's coordinator of the energy and climactic-change campaign, said the Mexican government should consider other environmental concerns in addition to air pollution, including measures to protect the flora and fauna in the vicinity of the plant. The area is home to diverse populations of marine elephants and sea wolves, and hundreds of species of sea birds.

Ultimately, said Greenpeace Mexico, authorities will also have to weigh the risks to the population to prevent explosions such as the one at a similar gas plant in Algeria in January of this year, which left 27 dead. The Fox administration, meanwhile, is offering reassurances that extreme precautions are being taken to protect the environment and the local population. Cesar Reyes Rol, the SCT's coordinator of ports and merchant marine, said a permit will not be issued for the project without a comprehensive environmental-impact study endorsed by SEMARNAT. "Our concessions will not proceed without the appropriate environmental permits," said Reyes Rol. He noted that ChevronTexaco had already submitted a wide range of studies relating to the project, including studies on marine biology, aquatic mammals, the socioeconomic impact on the local population, air quality, noise, and water usage.

While most of the proposed gasification projects are envisioned for northern Baja California, one major facility has been proposed for Michoacan state. That facility would be constructed by Spanish energy company Repsol at the port of Lazaro Cardenas. Repsol has already acquired the land needed for the project at a cost of US$101 million, sources told the Mexico City daily newspaper La Cronica de Hoy. The Repsol project would boost Mexico's natural-gas production capabilities and reduce the need to acquire natural gas from Bolivia, the sources said. Bolivia has made overtures to the Fox administration during the past year to convince Mexico to meet its energy needs by importing Bolivian natural gas (see SourceMex, 2003-10-29 and 2004-01-28).

**Foreigners said to illegally operate Mexican gas stations**

The concerns about hidden foreign participation in Mexico's energy sector have also appeared at the retail level. Widespread rumors were circulating in late January that the state-run oil company
PEMEX had allowed British Petroleum Amoco to construct and operate at least 22 PEMEX gas stations in Mexican territory. The rumors suggested that the British-US consortium avoided scrutiny by obtaining the concessions through a Mexican subsidiary known as Servicios de Operacion Integral (SOI). SOI operates several service stations through its affiliate company Estaciones de Servicio Energia Red de Servicios, SA de CV.

One report said BP Amoco, through SOI, provided financing of US$20 million to Mexican entrepreneurs Abraham de la Torre and Rutilio Flores to open the service stations. The two men received the loan while they were in the employ of BP Amoco and did not report the transaction to the Secretaria de Hacienda y Credito Publico (SHCP), thus violating Mexican investment laws, said the daily newspaper Milenio Diario. Critics said the participation of BP Amoco in the operation of Mexican gas stations would violate Mexico's foreign investment law (Ley de Inversion Extranjera).

The law prohibits foreigners from participating in the distribution of gasoline and diesel. Officials from PEMEX and BP Amoco denied the rumors that the British-US consortium was directly involved in operating Mexican service stations. PEMEX officials, however, promised to look into the situation to further clarify the matter. "We will conduct a thorough investigation of all the parties operating our gas stations," said PEMEX.

The reports of BP Amoco participation in the distribution of gasoline in Mexico spawned rumors that other foreign entities such as Royal Dutch Shell, ExxonMobil, and ChevronTexaco have also initiated operations in the domestic market. This led Mexican legislators to summon Energy Secretary Felipe Calderon Hinojosa and PEMEX director Raul Munoz Leos to testify before the Senate energy committee (Comision de Energeticos). "We are looking at the possibility of sanctioning any official who would have allowed such permits," said committee member Sen. Oscar Canton Zetina. (Sources: Milenio Diario, 01/20/04, 02/20/04; El Financiero, 03/02/04; La Cronica de Hoy, 02/20/04, 03/01/04; El Sol de Mexico, El Universal, 02/20/04, 03/02/04; La Jornada, 01/21/04, 01/23/04, 02/20/04, 02/23/04, 02/24/04, 02/26/04, 03/02/04, 03/03/03; The Herald-Mexico City, 03/03/03)

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