Mexico, Russia Reach Energy-Related Agreements

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by LADB Staff
Category/Department: Mexico
Published: 2004-06-16

Mexico and Russia have reached a historic agreement that heavily emphasizes cooperation in the energy sector and opens the door to Russian investment in important manufacturing ventures. The two sides announced the agreement during a visit by Russian President Vladimir Putin to Mexico City in early June.

Putin, the first Russian leader in modern times to visit Mexico, said he and President Vicente Fox developed a framework for Russia to invest in energy-related infrastructure in Mexico, including possible participation in major hydroelectric and natural-gas projects. "[Energy] is a very important aspect of cooperation between our two countries," said Putin, who also raised the possibility that Russian companies could become involved in expanding Mexico's system of oil and gas pipelines in many areas of the country.

Russia is one of the world's leading suppliers of steel-based materials for pipelines. Russian engineers have already been involved in the construction of the huge El Cajon hydroelectric plant in Nayarit, and Putin said his country is interested in expanding this participation as well as in taking part in future electricity-generation projects in Mexico.

No public mention was made of Russian participation in the Mexican government's controversial program offering multiple-services contracts (contratos de servicios multiples, CSMs) to private companies to explore and develop natural-gas reserves in the Burgos Basin in northeastern Mexico. Russian participation remains a possibility, as long as the contracts are not ultimately ruled illegal.

The Fox administration developed the CSM program on the premise that the state-run oil company PEMEX does not have the funds to extract the natural gas located deep underground in the region. Under the program, all natural gas extracted from the region remains the property of PEMEX. But critics contend that the mere participation of private entities in the process is a violation of the Mexican Constitution (see SourceMex, 2003-10-29 and 2004-01-28).

Russia seen as possible source of natural gas

Fox sees Russia as a key player in Mexico's goal of reducing dependence on imports of expensive US natural gas. The Mexican president said Russia has expressed interest in constructing a liquefied natural-gas plant somewhere on the Baja California peninsula. The plant would provide another alternative to supply the domestic market.

The Russian plant would be similar to facilities proposed by Shell Oil Company near Altamira, Tamaulipas state, and ChevronTexaco on the Coronado Islands in Baja California. The plants, however, face growing opposition from environmental groups, which feel they could degrade the environment. The Fox government got into hot water for approving concessions on the
ChevronTexaco facility without the participation of the Congress and the environmental community (see SourceMex, 2004-03-03).

Fox took advantage of the meeting with Putin to continue his push for Mexico to ease its restrictive investment rules in the energy sector. He said many countries, including Cuba, allow fairly open participation by private companies in energy-related projects while maintaining ownership of the extracted natural resources. "Really, Mexico is the exception in this area, as Chile, Brazil, Argentina, Cuba, Russia, the US, Canada, all of Europe, and all the other countries operate under a system of total openness to investment, always maintaining control and sovereignty over resources," said Fox.

Putin expressed interest in Russian participation in oil exploration, which is primarily the responsibility of PEMEX. Sources said, however, that the discussions on the oil market centered primarily on joint strategies to ensure stability for global oil prices. As major producers of crude oil, Mexico and Russia have some history of cooperating on the global oil market. In 1997, the two countries discussed the possibility of banding independent producing countries together to create an alternative to OPEC, the Organization of Petroleum Exporting Countries (see SourceMex, 1997-12-10). Still, the two countries have generally tended to fall in line with OPEC decisions regarding supply and demand. Hidalgo state factory to assemble Russian military helicopters Fox and

Putin also highlighted a Russian agreement to invest in a factory in Ciudad Sahagun, Hidalgo state, to produce heavy machinery. Among other things, the facility would assemble transport equipment for Russian military and civilian uses, including construction vehicles. But the prospect that a Mexican factory would produce military equipment for Russia has made some Mexicans nervous. This prompted Fox to issue a statement offering assurances that no Russian weapons would be assembled at the Ciudad Sahagun facility.

As a side project to the Hidalgo plant, Fox is considering constructing a separate facility to service these helicopters. An alternative to constructing a new plant would be to expand an existing facility in Campeche state that would serve this purpose. This facility, currently managed by the Lithuanian consortium Avia Baltika, has been providing and maintaining aerial equipment to the Secretaria de Defensa Nacional (SEDENA) and the Policia Federal Preventiva (PFP).

The two leaders also reached a series of minor agreements dealing with double taxation, extradition, cooperation among financial institutions, cultural exchanges, and expansion of trade. The commitment to expand commercial relations is particularly important because Mexican-Russian trade totaled less than US$300 million in 2003. This is a fraction of Russia's total annual trade of more than US$6 billion with all of Latin America. "The reality is that we could do much more," Fox said, referring to the low balance. Mexico primarily imported chemicals from Russia and exported tobacco, coffee, and tequila to that country.

The two leaders also discussed their countries' role in global affairs, including their recent opposition to the US occupation of Iraq. In 2003, Russia and Mexico joined France, Germany, and a handful of other countries in the UN Security Council in opposing a US resolution prior to the invasion of Iraq in March 2003 (see SourceMex, 2003-02-26). Mexico has since completed its two-year
term on the Security Council but is asking Russia to support its campaign to gain permanent status on the UN body. "We want to contribute to the solution of conflicts with the experience our country has gained in international relations," said Fox.

The Mexican president said he and Putin discussed ways in which their countries could continue cooperating on the international front, including in the ongoing conflicts in the Middle East. "We agreed to coordinate our efforts with the ultimate goal of creating conditions for a peaceful solution in Iraq, the Middle East, Afghanistan, and other regions of the world where the UN and the Security Council are playing a mediating role," said Fox.

After the meetings in Mexico City, Putin extended an invitation to Fox to visit Russia, which the Mexican president readily accepted. An exact date for the visit has not been scheduled, said Luciano Eduardo Joublanc Montano, Mexico's ambassador to Russia.

Meeting follows European-Latin American summit in Mexico

The meeting between Putin and Fox came just a few days after leaders of the European Union (EU) and Latin American and Caribbean countries concluded a summit in Guadalajara in late May. At the summit, Fox held 14 bilateral meetings with counterparts from Latin America and Europe. In contrast to the optimism emanating from the Russia-Mexico summit, mixed results were reported from the EU-Latin American summit.

The strongest source of tension between the two regions was the export and production subsidies provided by EU governments to their agriculture sectors. A report released by the Organization for Economic Development and Cooperation (OECD) shortly after the summit said agriculture producers, exporters, and consumers in wealthy countries received US$257 billion in subsidies last year. Producers in these countries receive about one-third of their annual income via government supports, the OECD said.

Mexican agriculture producers joined counterparts from other countries to call attention to the issue at the summit. "We were not only seeking a space to air our grievances, but to point out in the strongest terms to the various chiefs of state that we are not happy with the current global structure of agriculture," said Carlos Chavez Quevedo, a leader in the Mexican organization Alianza Nacional de Productores Agropecuarios y Pesqueros (ANPAP). European and Latin American leaders did agree on some issues, particularly those not involving trade and finance.

The final declaration signed by the leaders of the 57 participating countries called for respect for human, political, and civil rights at all levels. The statement, which will be sent to UN Secretary-General Kofi Annan, made particular mention of the rights of emigrants. Participants in the summit were also united in their condemnation of the abuse of Iraqi prisoners by US soldiers.

Lourdes Dieck, Mexico's deputy foreign relations secretary of economic relations and international cooperation, said that the final declaration includes a paragraph that "condemns and expresses the consternation of the region with respect to the torture of human beings and prisoners of war, and there is a specific mention of the recent events in Iraq." Participants had mixed reactions to
the summit. "From the standpoint of the leaders, we can qualify this summit as positive," said Jose Ignacio Salafranca, a Spanish representative to the European Parliament.

Salafranca said the summit addressed topics that were important to both regions, but failed to establish mechanisms to promote new associations between the EU and Central American and Andean countries. Marta Barcenas, technical secretary at the conference, had a similar reaction. She said the two regions "are condemned to continue to exist in a climate of good intentions," unless they create the mechanisms to follow up on the discussions that took place. She expressed hope that the next summit, scheduled for May 2006 in Vienna, would result in more specific agreements.

Repression of demonstrators

Overshadowing the conference were charges that Guadalajara and state police violated the rights of several dozen demonstrators arrested during protests at the summit. Demonstrators were taken into custody after throwing rocks and other objects at police guarding the summit. Witnesses said some detainees were threatened and beaten once in custody. Legislators from the center-left Partido de la Revolucion Democratica (PRD) blamed the violations on overreaction by the police.

Federal Deputy Inti Munoz acknowledged that "a group of provocateurs" created the confrontation with police, but she said authorities responded with "indiscriminate, impulsive, and authoritarian" actions. "There is testimony that women were stripped," said Munoz. "Those who wanted to sleep were not allowed to do so, they were beaten all during the night. They did not give them food and medicine."

A preliminary investigation by the Comision Nacional de Derechos Humanos (CNDH) said 22 of the 49 detained demonstrators suffered some injury. The CNDH has agreed to conduct a deeper investigation into the matter, focusing on the actions of the Secretaria de Seguridad Publica de Jalisco, Guadalajara municipal and transit police, the Policía Federal Preventiva (PFP), and the Instituto Nacional de Migracion (INM). The detainees included eight foreigners, four from Spain and one each from Italy, Canada, Australia, and the US. They were facing deportation for violating Mexican law, which forbids citizens of other countries from becoming involved in domestic politics. (Sources: El Sol de Mexico, 05/27/04; Associated Press, 05/27/04, 05/28/04, 06/01/04, 06/02/04; Russian news agency Novosti, Reuters, 06/07/04; Milenio Diario, 05/28/04, 06/08/04; The Herald-Mexico City, 05/28/04, 06/01/04, 06/07/04, 06/08/04; Agencia de noticias Proceso, 05/31/04, 06/01/04, 06/02/04, 06/07/04, 06/08/04; Notimex, 06/03/04, 06/07/04, 06/08/04; La Cronica de Hoy, 06/07/04, 06/08/04; The Financial Times-London, 06/08/04; La Jornada, 05/26/04, 06/02/04, 06/03/04, 06/08/04, 06/10/04; Spanish news service EFE, 06/02/04, 06/03/04, 06/07/04, 06/08/04, 06/10/04; El Universal, 05/26/04, 05/27/04, 05/30/04, 06/02/04, 06/03/04, 06/07/04, 06/08/04, 06/11/04)

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