12-7-2005

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Arizona Firm Receives Permission to Build Oil Pipeline Through Mexico

by LADB Staff
Category/Department: Mexico
Published: 2005-12-07

The Secretaria de Energia (SENER) has granted permission to US-based Arizona Clean Fuels (ACF) to construct and own a pipeline on Mexican territory to carry crude oil from a port terminal in Sonora or Baja California to the planned Wellton refinery near Yuma, Arizona. The decision could raise some constitutional questions because foreign entities are not allowed to participate directly in Mexico's oil-industry operations.

But ACF officials say the company and SENER negotiated an agreement in such a way that the project would not violate the Mexican Constitution. Under the accord, ACF would purchase heavy crude oil in southern Mexico and transport it in a tanker to a port in northwestern Mexico, said ACF vice president David Treanor. Any oil that reaches the terminal in northern Mexico would no longer be the property of the state-run oil company PEMEX, but of ACF, which eliminates any constitutional violations, Treanor told Reuters.

ACF said SENER gave the company permission to use the pipeline to transport crude oil from Canada and other countries to the Wellton refinery. Still, Treanor said his company expected to acquire the majority of its crude oil from PEMEX.

There have been no protests about the project in the Mexican Congress, which has staunchly opposed efforts by President Vicente Fox to bring private investment into the Mexican energy industry, including the use of multiple services contracts (CSM) in the extraction of natural gas in northwestern Mexico (see SourceMex, 2003-02-19, 2003-07-23 and 2004-04-21).

Officials in the Sonora state government, who have held meetings on the matter with ACF officials and spoken with Arizona Gov. Janet Napolitano, said the pipeline would bring very little benefit to Sonora while creating major environmental risks for the state. "We have determined that this project would bring no development benefits for the communities located along the length of the pipeline," said Sonora Gov. Eduardo Bours Castelo.

Sonora would especially miss out on any economic benefits if the company follows through with its preferred option of locating the oil terminal in a port on the Pacific coast of Baja California, a move endorsed by the Mexican government.

In contrast, any terminal in Sonora would have to be located in the shallower waters of the Gulf of California, which would be less able to accommodate the large oil tankers. One of the more viable locations in Sonora for the terminal had been Puerto Libertad, which is still 300 km south of Yuma. Libertad is 250 km northwest of Hermosillo.
A terminal in Baja California would mean that the pipeline would traverse through a much smaller area of Sonora. ACF scrapped earlier proposals to offload the crude oil in the northern sections of the Gulf of California, which is an environmentally sensitive area. The pipeline, which awaits approval from the Comision Reguladora de Energia (CRE), is scheduled for completion sometime in 2010.

ACF and its partner Wespac Pipelines are negotiating with Mexican contractor Techint to participate in the project. The pipeline would carry the crude oil to a soon-to-be-constructed refinery in Yuma, which would have capacity to process 150,000 barrels of crude per day. "It's going to bring on a reliable supply route now, in-state, where we're not going to have to worry about antiquated pipelines...and it can displace imports and create a fuel supply within our own boundaries of high-quality fuel," said Treanor.

Construction of the new refinery, the first since 1976, is part of a US government effort to diversify the US refining facilities, particularly in the aftermath of Hurricanes Katrina and Rita, which hit the Gulf of Mexico this year, said ACF officials. At present, nearly half the US refining capacity is in Texas, Louisiana, and Mississippi. (Sources: Notimex, 11/22/05; Reuters, 11/22/05, 11/23/05; La Cronica de Hoy, The Arizona Republic, The Arizona Daily Star, Associated Press, 11/23/05; The Arizona Capitol Times, 11/28/05; La Jornada, 11/29/05)

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