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## **Pemex To Locate New Refinery In Hidalgo State**

*by LADB Staff*

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After months of speculation, the federal government finally decided to locate the new refinery for the state-run oil company PEMEX in Tula, Hidalgo state, but the announcement left a few ruffled feathers on a couple of governors who wanted the facility in their state. Some critics said the decision was motivated by political considerations, but President Felipe Calderon's administration disputed those charges by pointing to a comprehensive study indicating that Tula was the best option for the facility from the standpoint of safety and cost. The refinery is one of the major infrastructure projects in the economic-stimulus package announced by Calderon late last year (SourceMex, October 15, 2008).

The facility, targeted for completion in 2015, would be the first refinery constructed in Mexico in three decades. It would be built alongside the existing Miguel Hidalgo Refinery in Tula. PEMEX officials hope the new facility, which would boost the oil company's refining capacity by 19%, will help reduce Mexico's reliance on gasoline imports. At present, Mexico imports about 40% of the gasoline consumed domestically. In announcing the selection of Tula, PEMEX director Jesus Reyes Heroles cited the low cost of construction relative to several other proposed sites. PEMEX plans to invest about US\$9.12 billion in the facility, with construction scheduled to begin sometime in 2011. Other potential locations were in the states of Campeche, Guanajuato, Michoacan, Oaxaca, Puebla, Tabasco, Nuevo Leon, Tamaulipas, Tlaxcala, and Veracruz (SourceMex, 2008-12-03).

A federal-government study pointed to other advantages of Tula, including the lower transportation costs associated with moving refined product to Mexico City and the west-central industrial corridor, which includes the cities of Pachuca and Queretaro. Tula is also relatively close to the Gulf of Mexico, where the majority of Mexico's crude oil is extracted. Another advantage of Tula, said the study, was its high security on pipelines and other infrastructure, which would make gasoline theft difficult. Gasoline stolen from PEMEX pipelines has often ended up on the black market (SourceMex, March 10, 2004).

Even though Tula is the preferred site, PEMEX officials say the selection is not final until the state completes the purchase of 700 hectares required to build the facility. PEMEX gave Hidalgo Gov. Miguel Osorio's administration until the end of July to acquire the land. "In other words, the project will not be finalized unless Hidalgo state is able to donate the necessary lands to PEMEX within a period of 100 days following this announcement," Reyes Heroles told reporters. State needs to acquire land Osorio acknowledged that negotiations on land acquisition would not be easy. Local landowners have told the Hidalgo government that they are willing to sell, but only if they receive a fair price. "The negotiation process is going to be complex," said Osorio, citing the state's difficult position in having to meet a deadline to acquire the land and the hype surrounding the project. PEMEX and the state will also have to contend with objections from environmental advocates, who want authorities to conduct a more thorough environmental-impact study.

The Tula region, about 100 km south of the Hidalgo capital of Pachuca, is considered one of the most polluted areas of Mexico. There are problems with water, air, and soil contamination, in large part because of the presence of large cement plants, a thermoelectric facility, and the Miguel Hidalgo Refinery. The contamination has been linked to the prevalence of health conditions such as asthma, dermatitis, and gastrointestinal illnesses. "We have frequently argued that current environmental conditions in the zone [where the refinery is targeted] would preclude installing new industrial facilities," said Marco Antonio Moreno Gaytan, president of the local environmental organization Sociedad Ecologista Hidalguense (SEHI).

The Tula site barely edged out Salamanca in Guanajuato state, which also has an existing refinery. But Salamanca got a consolation prize of sorts. In the Tula concession announcement, PEMEX officials said they would also allocate about US\$3 billion to expand and modernize the Salamanca facility. And, in the event that Tula is not able to acquire the necessary land by the 100-day deadline, the concession would be shifted to Salamanca. Reyes Heróles said PEMEX officials also gave strong consideration to Salina Cruz in Oaxaca state. That location also has an existing refinery, as do three other sites on the list: Cadereyta in Nuevo Leon state, Ciudad Madero in Tamaulipas state, and Minatitlan in Veracruz state. Critics call decision politically motivated Federal legislators and governors had mixed reactions to the selection of Tula.

The strongest protests came from Govs. Andres Granier of Tabasco state and Leonel Godoy of Michoacan state and the congressional delegation from the center-left Partido de la Revolucion Democratica (PRD), some of whom accused PEMEX and the Calderon administration of playing politics with the decision. Granier, in particular, was said to be furious that PEMEX bypassed Tabasco. "This is a matter of justice," said the Tabasco governor. "We have provided crude oil and gas for years, and we deserve something in return." Granier did not play the political-favoritism card, however, since he and Hidalgo Gov. Osorio are both members of the Partido Revolucionario Institucional (PRI). In fact, most states that were competing for the facility are governed by the PRI.

Godoy's protests were not as strong as those of Granier, but the Michoacan governor, who is a member of the PRD, asked for PEMEX and the Secretaria de Energia (SENER) to make public all technical considerations related to the selection of Tula. PRD Sen. Graco Ramirez took issue with Calderon's efforts since the beginning of the year to portray the refinery decision as one of consensus. The Mexican president had said he would consult with all governors before making the final choice, when in reality the decision had already been made in favor of Tula. "To pretend to bring the governors into the process is absurd," said Ramirez, who called Calderon's move a charade. "Which of the governors wouldn't want the refinery in his state?" PRI legislative leaders such as Sen. Francisco Labastida, chair of the energy committee (Comision de Energeticos) in the upper house, came out strongly in support of the Tula location.

Labastida's criticism was that the Calderon administration should have made the selection much earlier, since PEMEX studies in recent years had pointed to Tula as the best location for the refinery. Deputy Emilio Gamboa Patron, PRI floor leader in the Chamber of Deputies, also strongly endorsed the selection of the site in Hidalgo state. "We have to support the government and begin constructing this new refinery as soon as possible," said Gamboa. There were other criticisms of the decision in Michoacan, with some attacks directed at Calderon, a native of that state. "For many

Michoacan citizens, among them state legislators, the decision represented Calderon's betrayal of his home state," said the Mexico City daily newspaper El Universal.

The decision to award the Salamanca refinery US\$3 billion for expansion and modernization, and make it the fallback option in case Tula does not come through, might be construed as favoritism toward Gov. Juan Manuel Oliva, a member of the governing Partido Accion Nacional (PAN). None of the other locations received the concessions given Salamanca. Without directly criticizing the allocation to Salamanca, Oaxaca Gov. Ulises Ruiz called on the federal government to also set aside money to refurbish the Salina Cruz refinery to boost production of unleaded gasoline.

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