LADB Article Id: 78632
ISSN: 1054-8890

Mexico Sells Large Shipment of Heavy Crude to Indian State-Run Refining Company

by Carlos Navarro
Category/Department: Mexico
Published: 2012-06-06

When the state-run oil company PEMEX made its first-ever sale of crude oil to India's state-run refining company in early May, Mexico became a minor participant in the geopolitical conflict between Western nations and Iran. On May 10, the Indian Oil Corp. (IOC), the largest refinery in India, announced the purchase of an undetermined amount of heavy crude (Maya) for processing at its facility in Panipat in the northern state of Punjab. That refinery has the capacity to process about 300,000 barrels per day.

No amounts were mentioned, but the crude was to be shipped on the Suezmax vessel, and the cargo had an approximate weight of between 120,000 and 200,000 tons, which is about 1 million barrels.

The crude purchase, scheduled to reach India by the end of May, represents the first-ever acquisition by an Indian state-run energy company from PEMEX. Private refiners Reliance Industries and Essar Oil have previously acquired small amounts of Maya crude from the Mexican oil company.

But the timing of the purchase suggested that this was more than a mere transaction between two new business partners. IOC announced the purchase just days after US Secretary of State Hillary Rodham Clinton met in Calcutta with India's Prime Minister Manmohan Singh. A report from the official news agency Notimex, which cited The Press Trust of India, said Clinton urged India to stop purchases of Iranian oil. The US request to India to reduce purchases of Iranian oil is part of a joint effort with the European Union (EU) to pressure Iran to scale back its nuclear program, which they claim is aimed at developing nuclear weapons. Iran disputes those claims, saying its nuclear activities are intended for peaceful purposes, namely to produce nuclear energy.

Purchase might have displaced Iranian crude

The US and EU have imposed economic sanctions that prohibit US and European companies from selling certain products to Iran. But they are also encouraging Iran's traditional crude-oil customers —including India, China, Japan, and South Korea—to seek alternate sources. "There is an ample market for India to meet its needs," Clinton reportedly told Singh.

The EU has done its part to tighten the de-facto embargo on imports of Iranian crude oil by refusing to insure sales of Iranian crude to Asia. Most of the international-trade-insurance companies are based in Europe.

A few days after the Clinton-Singh meeting, IOC announced its agreement to acquire crude oil from PEMEX. While IOC officials did not comment on the decision, which was likely encouraged by the Indian government, there were other reasons for the Indian company to acquire crude from Mexico. IOC, which controls about 30% of India's refining capacity along with subsidiary Chennai Petroleum Corp., is seeking to diversify its sources of crude. Last January, the Indian refinery acquired 20,000 bpd of light crude from Azerbaijan under a newly signed annual agreement.

LADB Article Id: 78632
ISSN: 1054-8890

Additionally, IOC is seeking to expand its capacity and is planning to construct new refineries in India. The company recently upgraded some of its processing units, which enables it to refine tough and heavy crudes.

"If Maya suits IOC's system and gives a better yield the refiner may look at buying oil from Mexico on a regular basis," an industry source told Reuters.

PEMEX officials did not comment on the transaction, but the media speculated that Mexico could find a growing market for its crude in India and other Asian countries, including China and South Korea, which are also affected by the sanctions against Iran. "Mexico could position itself as an important source of oil in the Asian continent, diversifying its global customer base," said the daily newspaper Sexenio.

The potential also exists for PEMEX to boost its sales of Maya-grade crude oil to India's private refiners. Essar Oil, which acquired its first cargo of heavy crude from Mexico in March, recently upgraded its Vadinar refinery to accommodate more purchases. Reliance already buys heavy grades from Latin American countries on a regular basis.

The upgrades by the public and private refineries are part of India's plan to boost its refining capacity from the current 4.3 million bpd to about 6.22 million bpd by 2016-2017.

The sanctions against Iran appear to be working. Reuters reported that Iran was selling two-thirds of its crude exports, about 1.45 million bpd, to China, Japan, India, and South Korea a year ago. The exports, which provide a valuable source of foreign exchange, had fallen by one-fifth by June of this year.

Until now, Iran has been India's second-most-important source of crude oil, surpassed only by Saudi Arabia.

Mexico Falls Behind Saudi Arabia in crude-oil sales to US

Ironically, while the US is promoting Mexico as an alternative source of crude oil, US purchases of Mexican crude oil are lagging. In March, Saudi Arabia displaced PEMEX as the second-most-important source of US crude imports, surpassed only by Canada. The US Commerce Department says that Canada provides the US with 2.3 million bpd, Saudi Arabia with 1.4 million bpd, and Mexico with 1 million bpd.

Some analysts suggested that the drop in ranking affects Mexico's clout with the US government. "México loses relevance as an exporter of crude, which translates to a decline in political clout," analyst Luis Miguel Labardini of Marcos y Asociados told the Mexico City daily newspaper Reforma.

-- End --