11-6-2013

President Enrique Peñaâ€™s Administration Apparently Cancels Construction of New Refinery in Hidalgo State

Carlos Navarro

Follow this and additional works at: https://digitalrepository.unm.edu/sourcemex

Recommended Citation


This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in SourceMex by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.
President Enrique Peña Nieto’s Administration Apparently Cancels Construction of New Refinery in Hidalgo State

by Carlos Navarro

Category/Department: Mexico

Published: 2013-11-06

Without much fanfare, President Enrique Peña Nieto’s administration appears to have put the brakes on an ambitious project to construct the Bicentenario refinery in Tula, Hidalgo state. The facility—one of the largest investment projects launched during former President Felipe Calderón’s administration—was to be constructed next to an existing refinery in Tula. The project was intended to boost Mexico’s capacity to refine crude oil and reduce reliance on imports of gasoline and other fuels. Mexico at present imports about 50% of the gasoline consumed domestically, even though the country is a major producer of crude oil.

In contrast to Calderón’s grand announcement in 2009 that the Hidalgo site had been selected over other locations for Mexico’s new refining facility (SourceMex, Dec. 3, 2008, and April 22, 2009), there was no public pronouncement by the Peña Nieto government that the project would not proceed. Instead, the fate of the project became apparent with the release of the 2014-2018 business plan for the state-run oil company PEMEX, which left out the facility.

The absence of the project from PEMEX’s business plan raised some concerns in Congress. On Nov. 5, the political coordinating committee (Junta de Coordinación Política, JUCOPO) of the Chamber of Deputies approved a resolution to summon Emilio Lozoya Austin, director of PEMEX, to testify before Congress about the omission of the project from the 2014-2018 plan.

Deputy Ricardo Mejía Berdeja of the Movimiento Ciudadano (MC) said there is some concern among members of some of the center-left parties that abandoning the project is related to Peña Nieto’s proposals to reform the energy sector, including opening some activities to private companies (SourceMex, Aug. 28, 2013). "For that reason, we believe that it is urgent for this chamber to gain clarity about what is happening," said Mejía Berdeja. "We perceive what appears to be a deliberate strategy to dismantle some parts of Petróleos Mexicanos in the face of an imminent effort to push for a privatizing-oriented energy reform."

"What happened that resulted in the cancellation of the project?" asked Deputy Silvano Aureoles, chair of JUCOPO and a member of the center-left Partido de la Revolución Democrática (PRD). "This is what we want to know."

Project not cost-effective

Sen. David Penchyna Grub, chair of the energy committee (Comisión de Energía) in the upper house, defended the decision. "Petróleos Mexicanos lacks sufficient resources to invest in refining, specifically in constructing a new refinery in Tula," said Penchyna, a member of Peña Nieto’s Partido Revolucionario Institucional (PRI).

Penchyna went on to explain that PEMEX has the legal obligation to maximize resources obtained from petroleum earnings and any revenues should be used for activities that provide the best return, such as exploration and production.
Officials said that the project has not been officially discarded and that plans are currently under review. Fluvio Ruiz Alarcón, a consultant whose job is to analyze and offer advice on all of PEMEX’s decisions, confirmed that the economic viability of the project remains under review by the Secretaría de Energía (SENER) and PEMEX. "What is clear is that there is a review underway, and we hope to have a formal decision soon," said Ruiz Alarcón. "We have to review this plan in comparison to other options."

Still, private experts agreed with Penchyna that constructing the new refinery in Tula would have greater costs than benefits. They noted that the international market now offers very favorable prices for gasoline, more than compensating for the debt that the state-run oil company would incur in constructing the refinery.

Mario Gabriel Budebo, special advisor to PEMEX subsidiary Pemex Gas y Petroquímica Básica, acknowledged that initial assessments taken at the time the project was conceived showed a certain profitability that allowed the government to decide to launch the project. "The variables can change in two or three years, which means that [project] is no longer viable," said Budebo.

**Private analysts concur**

Other private experts interviewed by the Mexico City daily business newspaper El Financiero suggested that the project should be cancelled.

Gilberto Alfaro, an energy expert at the Mexico City branch of the international professional services company KPMG, pointed out that the best move for PEMEX would be to improve and upgrade its existing infrastructure rather than build new facilities. In September, PEMEX announced a US$3.5 billion expansion of the existing refinery at Tula, the country’s second biggest, near the planned location for the new refinery. The existing Tula refinery can process 325,000 bpd.

Furthermore, cancelling the project at this time would not set back the Mexican government financially, since the only construction that had been completed was a wall enclosing the perimeter of the project.

Miriam Grunstein, a researcher at the Centro de Investigación y Docencia Económicas (CIDE), pointed out that the proposed new refinery, announced on the 70th anniversary of the nationalization of Mexico’s oil industry, was more a political move than an economic decision by former President Calderón.

Ironically, one of the strongest supporters of the project was former Hidalgo Gov. Miguel Ángel Osorio Chong, who as interior secretary is one of Peña Nieto’s closest advisors. Under Osorio, Hidalgo state incurred a huge debt to acquire the lands adjacent to the existing Tula facility, which factored heavily in the decision by the Calderón government to place the new refinery in that state.

Conversely, PEMEX director Lozoya—who worked as an investment manager at the time the new refinery was announced—was always on record as opposing the US$11 billion project. "Refining is no longer a viable business," Lozoya recently said. "It is cheaper to import fuel."

--- End ---