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Multinational Energy Companies Making Plans to Open Service Stations in Mexico

by Carlos Navarro
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Concerns about widespread fuel theft in Mexico have not deterred foreign energy companies from moving forward with plans to open service stations to compete with the state-run oil company PEMEX. The energy companies, however, are proceeding cautiously, in light of the government's failure to curb the pilfering of fuel from PEMEX pipelines, which has created conflict and instability in some areas.

In recent weeks, three large multinational energy companies—ExxonMobil Corp., BP, and Shell—confirmed plans to open service stations around the country. Those companies and others, including Gulf and the Mexican convenience store chain OXXO, had announced their plans to open private service stations over the next several years (SourceMex, July 13, 2016). The move to allow private stations to operate in Mexico is the result of energy reforms approved in 2013 and enacted in 2014 (SourceMex, Dec. 18, 2013, and Aug. 6, 2014).

The new service stations would create competition for the approximately 11,400 service stations in Mexico. According to the Secretaría de Energía (SENER), Mexico is the world's fourth largest gasoline market.

New stations on the horizon

The US-based multinational ExxonMobil Corp. said in mid-May that it would start importing its own gasoline into Mexico before the end of the year to supply the Mobil-brand gas stations it will be opening soon. The company plans to invest US$300 million over the next 10 years to fund its expansion into Mexico.

Earlier this year, the British-based energy company BP announced plans to open about 1,500 service stations in Mexico within five years. BP will offer a gasoline with special features, produced with the company's unique technology. According to Álvaro Granada, director general of Downstream México, a BP unit, the company has worked with gasoline supplied by PEMEX to develop the BP product that will be eventually sold in the Mexican market. BP has then incorporated an additive to create its own unique product. "This is fuel that can only be acquired at a BP station," Granada said in an interview with the online site Huffington Post México.

In addition to carving out a share of the gasoline retail market in Mexico, BP has taken other steps to expand its presence in the Mexican energy sector. Among other things, the company has invested funds in three offshore projects: two deepwater wells in the Gulf of Mexico and another operation in shallow waters.

BP officials said the company's entry into the Mexican market has been encouraging, and that the company was likely to allocate more capital into different aspects of the energy market in Mexico, from exploration to sales of gas and diesel at the retail level.

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The British-Dutch conglomerate Royal Dutch Shell has also announced its intention to open its first gas station in the country this year. "Mexico is a very important market for gasoline sales," said Andres Cavallari, a Shell official in Mexico. "This is a market that is growing each year and will continue to grow over the next several decades."

Glencore, a Swiss-based mining and commodities trading company, also recently announced plans to enter Mexico's gasoline retail market as a support company. Glencore has formed a partnership with the Mexican energy entity Corporación G500 SAPI (G500). The two companies will operate in Mexico as a joint venture called the G500 Network, which will provide fuel, branding and ancillary retail services to 1,400 fuel stations.

"Our partnership with G500 expands our presence into downstream and retail businesses, a natural fit with our global supply capabilities," said Alex Beard, an executive with Glencore.

Fuel theft, violence raise concerns

Many of the foreign energy companies entering the Mexican market would be importing a large share of their fuel rather than relying on pipelines. However, there is concern that the criminal organizations that are behind the pilfering of fuel might find a way to tap into the supplies brought in by the foreign companies, perhaps by targeting fuel tankers en route to distribution centers or service stations.

Fuel thefts escalated this year in Mexico following the government's decision to remove a subsidy at the start of 2017. The decision, known as the gasolinazo, raised the price of gasoline at the pump by as much as 20%. (Gasoline in Mexico is selling for US$3.39-US$3.76 per gallon.) The move attracted massive protests around the country in the first part of the year (SourceMex, Jan. 4, 2017, and Feb. 8, 2017).

The Mexican government has taken new measures to discourage pilfering of oil from its pipelines, not only by going after the thieves but also by imposing sanctions on businesses and individuals who buy the stolen fuel. However, authorities have found that cracking down on an enterprise that is run by criminal organizations like the Zetas, the Cártel Jalisco Nueva Generación (CJNG), the Gulf cartel, and others is extremely difficult. Some of the crackdowns have led to violence. A fatal confrontation between the Army and local members of a criminal organization in Puebla in early May attracted headlines around the world (SourceMex, May 10, 2017).

PEMEX has suffered a major financial hit because of the fuel thefts, which are said to cost the state-run oil company about 27,000 barrels per day, or the equivalent of more than US$1 billion per year (SourceMex, March 15, 2017).

The violence has raised concerns among potential investors in the Mexican energy sector, particularly those companies interested in importing fuel into Mexico. According to some news reports, US companies like Howard Energy Partners and BioUrja Trading LLC have raised concerns about the growing violence related to fuel thefts.

"Fuel theft is a significant concern for many companies going into Mexico, and we don't know that the government is doing anything in order to help alleviate that risk," Rajan Vig, BioUrja's head of Origination for Mexico, told the Bloomberg news service.

According to Vig, BioUrja is seeking to import fuel into Mexico and is in talks with the government and banks to address the fuel-theft issue. "We need the government to be on our side," he said.

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Dwight Dyer, an analyst of the Mexican energy sector, told Bloomberg that the problem boils down to the fact that the rule of law is weak in Mexico. “This is a part of the market where the rule of law really needs to work for the private sector to say, ‘I really want to invest,’” he said.

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