Hurricane Harvey Disrupts Oil Exports to Mexico

Carlos Navarro
Hurricane Harvey Disrupts Oil Exports to Mexico

by Carlos Navarro
Category/Department: Mexico
Published: 2017-09-06

The enormous devastation that Hurricane Harvey brought to the city of Houston included financial losses resulting from the complete halt of economic activity at one of the country’s most important ports. The Houston-Galveston customs district generates about 8% of GDP in the US. A large share of the exports that originate in that city are destined for Mexico, including petroleum that has been processed in area refineries, including Houston, Corpus Christi, Galveston, and southwest Louisiana.

The hurricane affected other oil-related activities besides shipping. Because of Harvey, almost 19% of the oil production in the Gulf of Mexico had to be suspended, according to the US Department of the Interior’s Bureau of Safety and Environmental Enforcement.

The lack of access to refined gasoline had a direct impact on Mexico’s state-run oil company, PEMEX. Mexico was the primary destination for US refined products in May, with purchases totaling about 879,000 barrels per day, or 17% of the US total, said the US Energy Information Administration.

Mexican imports of gasoline are 31% higher than they were in 2012, according the industry site Monitor Energético. The US supplies two-thirds of the gasoline and 64% of the natural gas consumed in the country, so an interruption in shipments from Houston had Mexico scrambling to find alternative shipping points, which turned out to be Alabama and Bermuda.

According to PEMEX statistics cited by Monitor Energético, the state-run oil company imported an average of 519,000 barrels per day (bpd) of gasoline between January and July of this year, which represents 66% of the total average consumption of 786,000 bpd. Mexico paid US$12.9 billion for the imports in that period.

Mexico’s lack of refinery capacity has forced PEMEX to import refined gasoline, even though the country is a net exporter of crude oil (SourceMex, Oct. 26, 2005, April 13, 2011, Jan. 7, 2015).

In July, imports accounted for 72% of the gasoline that PEMEX sold at its service stations in Mexico. The large percentage was due partly to a reduction in Mexico’s own refinery capacity following the temporary shutdown of the Antonio Dovalí Jaime refinery in Salina Cruz, in the state of Oaxaca (SourceMex, July 5, 2017). The Oaxaca refinery was still undergoing maintenance in August following a deadly fire in mid-June that reduced its output to a third of its 330,000-bpd capacity.

Further reducing capacity was the scheduled downtime at the 190,000-bpd refinery in Madero, Tamaulipas, which is undergoing normal maintenance. The refinery is not scheduled to return to normal operations until the end of December.

Imports also account for a large share of the natural gas sold in Mexico. PEMEX sells nearly 2.9 billion cubic feet of this fuel, of which 1.86 billion, or nearly two-thirds of the total, are imported, primarily from plants in Texas. PEMEX lacks facilities to refine natural gas and had to spend nearly US$1.45 billion for imports in January-July.
Will NAFTA negotiations affect energy?

Some analysts noted that the strong energy interdependence between the US and Mexico could be affected if the North American Free Trade Agreement (NAFTA) is altered in any significant way. US, Mexican, and Canadian negotiators started a second round of talks in Mexico City on Sept. 1, after discussing their goals during meetings in Washington in August (SourceMex, Aug. 23, 2017).

When NAFTA went into effect in 1994, the oil sectors in the three member countries were in transition. At that time, the US depended on imports for almost one-half of its daily oil and petroleum needs. Canada was just beginning to develop its project to extract oil from sands in the province of Alberta, a process that now produces about 2.4 million barrels of crude per day. PEMEX had a monopoly on energy development in Mexico, with almost no foreign participation in the energy sector.

“Oil and gas has grown from an incidental discussion point to an enormous target of opportunity,” said Kevin Book, managing director of ClearView Energy Partners, LLC. “Because energy is such a big deal in North America—a lot has changed, not just in the US but with Canada’s oil sands as well as Mexico’s reforms—energy could become an important hostage to the negotiations.”

As NAFTA negotiations resume, said Bloomberg news service, “oil industry leaders are desperate to preserve the 23-year-old trade deal that drove a North American oil and gas renaissance and paved the way for US$34 billion worth of energy exports to Canada and Mexico last year.”

And in a joint position paper released in August, the top oil and gas trade groups from the US, Canada, and Mexico noted, “Any changes that disrupt energy trade across our North American borders, reduce investment protection, or revert to high tariffs and trade barriers that preceded NAFTA could put at risk tens of millions of jobs.”

Among other things, NAFTA is a major vehicle for the duty-free trade of gasoline and other energy products. It also serves as the legal pathway for rising gas sales to Mexico, which amounted to 4 billion cubic feet per day in 2016. Mexico’s status as a free-trade partner allows the liberalized treatment of natural gas under US law.

“Now that NAFTA negotiations are in process, it is important to know what types of agreements will be reached with the US,” a Mexican entrepreneur in the energy sector said in an interview with the daily business newspaper El Financiero. “We have a major dependence on the US, and that country has a big market in Mexico, so there is mutual interest.”

Others urged negotiators to put a priority on preserving the gains that the energy sectors in the three countries have realized via NAFTA. “You may not necessarily be in the crosshairs, but if you don’t maintain a focus on it, you could be collateral damage,” Stephen Comstock, director of tax and accounting policy at the American Petroleum Institute, said in an interview with Bloomberg.

A big change for Mexico is the opening of the energy sector to private entities to explore and extract oil and gas (SourceMex, Dec. 18, 2013, and Aug. 6, 2014), which the government views as essential to developing new supplies of crude in the face of dwindling reserves (SourceMex, March 7, 2007, and April 30, 2008). In particular, Mexico expects to boost its reserves via the deep waters of the Gulf of Mexico (SourceMex, June 29, 2016).
Because of the energy reforms and a strong US-Mexico relationship in the area of energy, US-based companies won five of the eight bids for exploration and extraction projects in the deep waters of the gulf. US companies, in fact, have been prominent in the bids for PEMEX contracts. Those bids are often placed in partnership with companies from Mexico and other countries (SourceMex, July 22, 2015, Oct. 5, 2016, July 26, 2017).

Additionally, Mexico and the US have been working closely with Cuba to draft a plan to gain access to crude oil located off the coast of the island nation (SourceMex, Nov. 16, 2016).

The energy reforms have also allowed US companies to open service stations in Mexico (SourceMex, July 13, 2016, and May 24, 2017). US-based Andeavor, for example, recently opened several facilities in northwest Mexico under the ARCO brand. Similarly, PEMEX is now operating service stations in the US, primarily in Texas (SourceMex, Dec. 9, 2015).

### Houston’s trade surplus with Mexico

While Houston should continue to be a big factor in the trade of hydrocarbons between the US and Mexico, Mexico’s business relationship with the port, and with the state of Texas, goes beyond processed fuel. In 2016, Texas exported US$92.6 billion worth of goods and services to Mexico, which represents 40% of its total exports. Of the total sales to Mexico, roughly one-third originated in the Houston-Galveston US Customs District, according to the Greater Houston Partnership (GHP).

The customs district includes Houston, which is the fourth largest city in the US and the fifth most important in terms of contributions to the US economy. Houston generates about 8% of the US GDP on an annual basis, according to GHP.

If the US withdraws from NAFTA, as US President Donald Trump has threatened, the economy of Houston could suffer losses greater than those caused by Harvey, GHP noted, as 1.2 million of the 5 million inhabitants of the metropolitan area depend on international trade.

In his threats to withdraw the US from NAFTA, Trump has alluded to the US trade deficit with Mexico, which reached an estimated US$60 billion in 2016. The reality is different for Houston, which enjoys a trade surplus of US$2.5 billion with Mexico, according to the GHP.

Conversely, a sector of the economy in Houston that is expected to pick up in the coming weeks and months is construction. According to a report from the investment bank Morgan Stanley, Harvey caused at least US$30 billion in damage.

As was the case with Hurricane Katrina in 2005, which devastated New Orleans and other parts of Louisiana and Mississippi, some Mexican companies—including cement and materials—could benefit from the reconstruction efforts (SourceMex, Sept. 14, 2005).

-- End --

©2011 The University of New Mexico, Latin American & Iberian Institute All rights reserved.