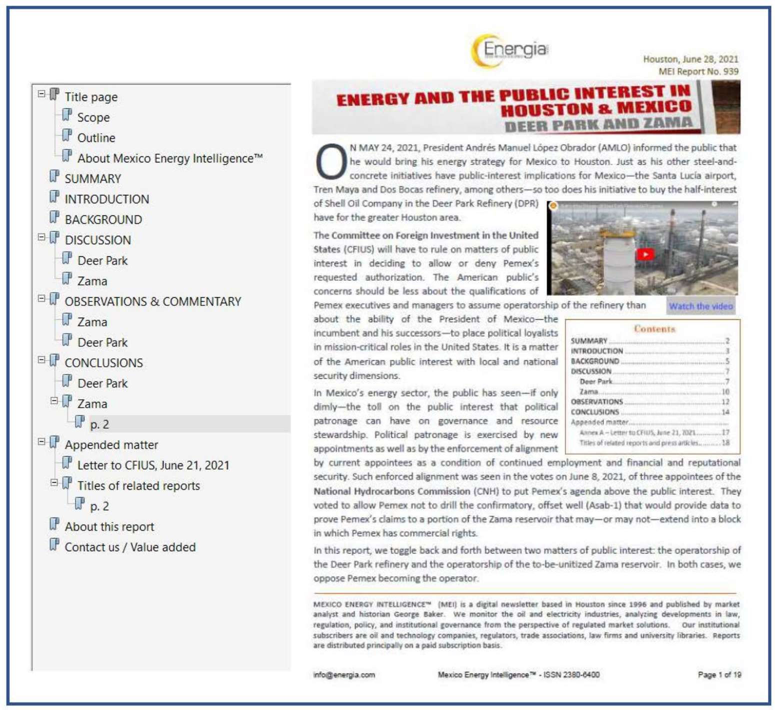
Stop the Pemex buyout of the Deer Park refinery, advises Mexico Energy Intelligence™, citing risks (bilingual text)

Safety, environmental and economic risks from ceding operational control to Pemex



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Energia

Houston, June 28, 2021
MEI Report No. 939

ENERGY AND THE PUBLIC INTEREST IN HOUSTON & MEXICO
DEER PARK AND ZAMA

ON MAY 24, 2021, President Andrés Manuel López Obrador (AMLO) informed the public that he would bring his energy strategy for Mexico to Houston. Just as his other steel-and-concrete initiatives have public-interest implications for Mexico—the Santa Lucía airport, Tren Maya and Dos Bocas refinery, among others—so too does his initiative to buy the half-interest of Shell Oil Company in the Deer Park Refinery (DPR) have for the greater Houston area.

The Committee on Foreign Investment in the United States (CFIUS) will have to rule on matters of public interest in deciding to allow or deny Pemex's requested authorization. The American public's concerns should be less about the qualifications of Pemex executives and managers to assume operatorship of the refinery than about the ability of the President of Mexico—the incumbent and his successors—to place political loyalists in mission-critical roles in the United States. It is a matter of the American public interest with local and national security dimensions.

Watch the video

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In Mexico's energy sector, the public has seen—if only dimly—the toll on the public interest that political patronage can have on governance and resource stewardship. Political patronage is exercised by new appointments as well as by the enforcement of alignment by current appointees as a condition of continued employment and financial and reputational security. Such enforced alignment was seen in the votes on June 8, 2021, of three appointees of the **National Hydrocarbons Commission** (CNH) to put Pemex's agenda above the public interest. They voted to allow Pemex not to drill the confirmatory, offset well (Asab-1) that would provide data to prove Pemex's claims to a portion of the Zama reservoir that may—or may not—extend into a block in which Pemex has commercial rights.

In this report, we toggle back and forth between two matters of public interest: the operatorship of the Deer Park refinery and the operatorship of the to-be-unitized Zama reservoir. In both cases, we oppose Pemex becoming the operator.

MEXICO ENERGY INTELLIGENCE™ (MEI) is a digital newsletter based in Houston since 1996 and published by market analyst and historian George Baker. We monitor the oil and electricity industries, analyzing developments in law, regulation, policy, and institutional governance from the perspective of regulated market solutions. Our institutional subscribers are oil and technology companies, regulators, trade associations, law firms and university libraries. Reports are distributed principally on a paid subscription basis.

info@energia.com Mexico Energy Intelligence™ - ISSN 2380-6400 Page 1 of 19

Title page and bookmarks of the report

HOUSTON, TX, USA, June 30, 2021 /EINPresswire.com/ -- On March 24, Mexico's president, Andrés Manuel López Obrador (AMLO) announced that Pemex had bought out Shell Oil Company's 50% ownership in the refinery in Deer Park, Texas.

If approved, the operatorship of the Deer Park refinery by Petróleos Mexicanos (Pemex) or one of its subsidiaries would pose new safety, environmental and economic risks to the Deer Park community and the greater Houston area. According to a report issued by Houston-based Mexico Energy Intelligence™ (MEI 939), Pemex is not yet prepared to assume the operatorship of the refinery, which had been exercised by Shell Oil Company for 28 years.

"Pemex is not yet ready," insists George Baker, the principal author of the report, "for three reasons."

The first reason concerns the present qualifications of the buyer. According to the report, Pemex has not yet invested in the recruitment of bilingual executive and technical talent with experience in compliance with American safety, environmental, and labor codes. Ceding operational control to an unqualified buyer brings brings new risks to the refinery infrastructure, employees, and the local economy and environment.

The second reason concerns the company's institutional governance: By law, the President of

Mexico has the right to name and remove the director-general of Pemex. "What the law doesn't say but what everyone in Mexico knows is that the President has the informal authority to name, remove or force to resign any civil servant he chooses, including those who are Pemex employees."

Should the sale go through, the President of Mexico would have the ability to name loyalists to key positions of plant manager and directors of Human Relations, Finance and Health-Safety-and-Environmental Compliance.

The third reason concerns the buyer's motives. The purchase of the refinery is advocated solely by Mexico's current president but without a business rationale, that is, a commercial agenda. AMLO's strategy is about achieving better political optics back home.

For the President, buying or building a refinery is an easy way to increase the barrels of daily refinery capacity that are legally controlled by Pemex—by 170,000 with Deer Park and another 340,000 with a greenfield refinery at Dos Bocas, Tabasco.

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Public marker of Deer Park Refining Venture

Pemex would send more of its heavy-grade crude oil to the Deer Park refinery and return additional barrels of refined products to Mexico by boat, train, or pipeline. The president's agenda of achieving "self-sufficiency" in petroleum products would thereby advance.

Baker discerns, however, that there is no economic rationale for seeking self-sufficiency in refined products when Mexico sits across from the U.S. Gulf Coast where there are dozens of refineries. "There would be opportunity costs and additional maintenance expense by increasing the intake of Pemex's heavy crude oil," Baker observes. "Likewise, prioritizing Mexico's domestic market for refined products would forego higher margins in other markets."

The report concludes that Pemex's acquiring operatorship should be deferred until the company has made adequate preparation, including the recruitment of bilingual executives, and until there were to come into force a governance structure that would be feature irreversible electrical isolation from the President of Mexico.

> Ceding operational control to an unqualified buyer brings new risks to the refinery infrastructure, employees, and the local economy and environment”
>
> *George Baker*

Baker believes that “city officials in Deer Park and the greater Houston area, and the region’s Members of Congress, should alert the Biden administration that the safety and environment of the Houston region should not be put at risk by a transfer of refinery operations to a yet-to-be qualified buyer that is under the control of a foreign sovereign.” He adds, "geopolitical goodwill toward Mexico must not compromise safety at home."

Detener la compra de Pemex a la refinería de Deer Park, informa MEXICO ENERGY INTELLIGENCE™ en un nuevo informe, citando riesgos de seguridad, ambientales y económicos

(traducción parcial del boletín)

El 24 de marzo, el presidente de México, Andrés Manuel López Obrador (AMLO) anunció que Pemex había comprado la refinería en Deer Park.

De ser aprobado por las autoridades federales estadounidenses, la explotación de la refinería de Deer Park por Pemex o una de sus subsidiarias plantearía nuevos riesgos de seguridad, ambientales y económicos para el área metropolitana de Houston. De acuerdo con un informe emitido por Mexico Energy Intelligence™, un boletín digital publicado en Houston, Pemex aún no está preparado para asumir la operación de la refinería, que había sido ejercida por Shell Oil Company durante 28 años.

"Pemex aún no está listo", insiste George Baker, autor principal del informe, "por tres razones".

La primera razón se refiere a las cualificaciones actuales del comprador. De acuerdo con el informe, Pemex aún no ha invertido en el reclutamiento de talento ejecutivo y técnico bilingüe con experiencia en el cumplimiento de los códigos de seguridad, ambientales y laborales estadounidenses. Ceder el control operativo a un comprador que no está calificado trae riesgos para la seguridad de la infraestructura de la refinería, los empleados y la economía y el medio ambiente locales.

La segunda razón tiene que ver con el gobierno institucional de la empresa: Por ley, el Presidente de México tiene el derecho de nombrar y destituir al director general de Pemex. "Lo que la ley no dice, pero lo que todo el mundo en México sabe es que el Presidente tiene la autoridad informal para nombrar, remover u obligar a renunciar a cualquier funcionario que elija, incluidos los que son empleados de Pemex".

. . . .

Baker insiste que no hay una justificación económica para buscar la autosuficiencia en productos refinados cuando México se encuentra frente a la costa del Golfo de Estados Unidos, donde hay docenas de refinerías. "Habría costos de oportunidad y gastos de mantenimiento adicionales al aumentar la ingesta de crudo pesado de Pemex", observa Baker. "Del mismo modo, priorizar el mercado interno de México para los productos refinados renunciaría a márgenes más altos en otros mercados".

El informe concluye que la adquisición por parte de Pemex de la refinería Deer Park debe ser aplazada hasta que la compañía haya hecho la preparación adecuada, incluyendo la contratación de ejecutivos bilingües, y hasta que entre en vigor una estructura de gobierno que cuente con un aislamiento eléctrico irreversible del Presidente de México.

George Baker
Baker & Associates
+1 832-434-3928
email us here
