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Blog Post

Mexico Midstream Booms (and Blues)

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Despite a recent slowdown over the last year in the broader Mexican energy and infrastructure sectors, the pace of development and financing of refined products import, storage and transport infrastructure has remained strong. According to Platt's, 16 new private refined product terminals are expected to come online in 2020, more than double the number operating in mid-2019. By the end of the year, total combined private terminal capacity is projected to quintuple 2019 levels to 19.8 million barrels. Overall, an estimated 38 privately sponsored projects representing 25 million barrels are in some stage of development.

This investment concentration in refined products import, storage and transport projects addresses a key infrastructure issue for Mexico. The Mexican economy is fueled by a razor-thin margin of refined product storage (not to mention storage for natural gas and crude oil). Cut off gasoline imports and domestic refining, and filling stations across Mexico will shut down in 12 hours, according to a January report from Alcaldes de México. (Other, slightly older reports place reserve capacity at between 1.5 and three days.) In contrast, refined product reserves would be projected to last 27 days in the U.S. and 56 days in parts of Europe. Compounding this lack of storage is the dependence upon foreign supply. In 2019, Mexico imported 75% of its refined product needs (gasoline, diesel and jet fuel). Domestic refined production capacity, meanwhile, has dwindled, and the government's efforts to initiate the required refinery new build and overhauls of existing facilities have not yet materialized, mainly due to a lack of financing. Existing refineries at Cadereyta, Madero, Minatitlán, Salamanca, Salina Cruz and Tula require between $500 million and $3.5 billion each in order to overhaul their operations to process domestically produced heavy crude, a crucial step in augmenting domestic supply. Overall, existing refineries are producing at roughly 40% of capacity, according to a recent report, and funding for the new $8 billion Dos Bocas refinery has not yet been secured despite a January commitment of $600 million from the Bank of China and the Industrial and Commercial Bank of China.

Private entities have jumped into the market on the back of the hydrocarbon reforms initiated in 2013 to satisfy the tightness of refined product supply and reserves relative to domestic demand. Around 65 midstream storage licenses authorized by Mexican energy regulator CRE (Comisión Reguladora de Energía) have been issued to privately owned facilities in some stage of development since permits began to be to be issued in 2016. The new import facilities are largely privately owned, and some have been financed through project finance, mezzanine and securitized debt.

However, in a shift from the policies of the administration of the previous president, Enrique Peña Nieto, the issuance of fuel import permits to new entrants over the past year has slowed significantly during the first year of the Andrés Manuel López Obrador administration, according to an industry analyst. There are also reports of stalled storage facility development due to delays in issuances of key permits. While these issues may benefit private incumbents with increased market share, it could slow the expansion of new capacity.

The CRE is also rolling back regulations enacted during the hydrocarbons reform designed to limit the market power of Petróleos Mexicanos ("Pemex"), the Mexican state-owned petroleum company. Until January 1, 2020, Pemex — which has a more than 80% market share of domestic gasoline sales — was subject to price regulation and cost and discount transparency rules issued by the CRE in connection with its domestic marketing and storage of fuels. Pemex had to offer the same price discounts to third parties that it offered to affiliated parties, limit sales and storage price volatility in accordance with regulated procedure, and, daily, publicly report the prices at which it sold storage capacity and fuel.

At the end of 2019 (and as published in January by acuerdo A/043/2019), however, the CRE eliminated the price restrictions and transparency rules that applied to Pemex. Pemex will now be permitted to sell fuels, storage capacity and transportation without disclosing its pricing or operating costs.

We expect the effects of this change in the fuels market, and on fuel terminal development and financing, will play out over the coming year.

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