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FEATURED Q&A

How Has Mexico's Fuel Theft Problem Become a Crisis?



Federal troops in Mexico last week said they were outnumbered and unable to prevent local citizens from rushing to collect gas from a reportedly illegal pipeline tap when it exploded in a giant fireball, killing nearly 100 people. // Photo: Mexican Government.

Q After Mexican President-elect Andrés Manuel López Obrador in early January deployed troops to protect the country's oil pipeline networks from theft, several states faced fuel shortages. State oil company Pemex urged Mexicans to remain patient and avoid "panic purchases," adding that the shortages were caused by logistical adjustments and that supply would be restored soon. Last week, nearly 100 people were killed when an allegedly illegal pipeline tap exploded. How big of a problem is fuel theft in Mexico? Does López Obrador have the best policies to address the issue? What's behind the shortages in supply at gas stations, and how long will the disruptions last?

A Fluvio Ruíz Alarcón, Mexican oil sector analyst: "The criminal phenomenon of fuel theft, known colloquially as 'huachicoleo,' has been growing in complexity since the beginning of the century. During former President Vicente Fox's government, clandestine intakes were a few hundred a year; basically one tapping per day, on average. During the last year of former President Felipe Calderón's administration, in 2012, the number of illegal tappings was 1,744. In former President Enrique Peña Nieto's first year in office, in 2013, there were 3,052 clandestine tappings. By the end of 2018, the number of intakes exceeded 12,000. Fuel theft amounts to approximately 7 percent of country's national fuel consumption. In the last three years, incidents have been highest in the Bajío area, one of the regions in the country that has registered greater economic growth. Now, in other regions, such as the one located at the crossing of Puebla and Tlaxcala States, factors such as extreme poverty, huge inequality, generalized cor-

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TODAY'S NEWS

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Protests Leave Seven Dead, Maduro Isolated

At least seven people were killed in Venezuela Wednesday as hundreds of thousands of people took to the streets in cities across the country to protest the presidency of Nicolás Maduro.

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Advent Invests \$725 Million in Argentina

Private equity firm Advent International said Wednesday it has bought a 51 percent stake in the Argentine operator of Visa cards for about \$725 million.

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Calleja Promises to Create New Jobs If Elected Pres.

Salvadoran presidential candidate Carlos Calleja unveiled new details of his economic plan ahead of the country's elections on Feb. 3. Calleja was polling second in a voter survey released last week, about 9 percentage points behind rival Nayib Bukele.

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Calleja // File Photo: @jccalleja via Twitter.

POLITICAL NEWS

Venezuela: Protests Leave Seven Dead, Maduro Isolated

At least seven people were killed in Venezuela Wednesday as hundreds of thousands of people took to the streets in cities across the country to protest the presidency of Nicolás Maduro, CNN reported. Juan Guaidó, the newly installed head of the National Assembly who was relatively unknown internationally just a few months ago, declared himself interim president and took the oath of office in front of supporters at an outdoor podium. The United States and Canada swiftly endorsed Guaidó, 35, followed by most of Latin America's countries later in the day, leaving Maduro increasingly isolated, Reuters reported. Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Panama, Paraguay and Peru have backed Guaidó, as has the Organization of American States. Leftist allies Bolivia and Cuba were the only countries in the region



Guaidó // Photo: @jguaido via Twitter.

to explicitly voice support for Maduro, according to the report. However, under left-leaning President Andrés Manuel López Obrador, Mexico refused to take sides on the matter, and Jamaica and several other Caribbean countries that have been traditional allies of Venezuela took a similar position. Global powers also weighed in. The Kremlin dismissed the street protests as an attempted coup and expressed concern over suggestions of possible foreign military intervention, the Associated Press reported. Iran and Turkey made similar statements backing Maduro. Meanwhile, China

today called on the United States to stay out of Venezuela's domestic affairs. "We hope that Venezuela and the United States can respect and treat each other on an equal footing, and deal with their relations based on non-interference in each other's internal affairs," foreign ministry spokeswoman Hua Chunying said Thursday. Maduro on Wednesday broke off relations with the United States over its endorsement of Guaidó and gave U.S. diplomatic personnel 72 hours to leave the country. The break raises the prospect that energy trade between the countries could be disrupted and eventually swing international oil markets, CNBC reported. Venezuela relies on imports of "super light" oil from the United States, while U.S. refiners purchase heavy crude from the Maduro regime. The administration of U.S. President Donald Trump has drafted a set of energy-related sanctions but has not yet decided whether to deploy them, Bloomberg News reported today. [Editor's note: See related [Q&A](#) in the Jan. 17 issue of the Advisor.]

ECONOMIC NEWS

Calleja Promises to Create New Jobs If Elected President

Salvadoran presidential candidate Carlos Calleja on Wednesday unveiled new details of his economic plan ahead of the country's elections on Feb. 3, El Diario de Hoy reported. In his plan, Calleja, a member of the Nationalist Republican Alliance Party, or ARENA, promises to create 300,000 jobs over the next five years. At a press event, he also highlighted insecurity and violence as El Salvador's biggest challenges, calling them "a cancer." Calleja was polling second in a survey released last week by Centro de Opinión Pública, or COP, with 27.3 percent of support, behind rival Nayib Bukele of the Grand Alliance for National Unity party, or GANA, who had 36.1 percent. Bukele had enjoyed a relatively strong lead since the beginning of the campaign, but support for the former San Salvador mayor has recently dropped. "Bukele's

NEWS BRIEFS

Bolsonaro to Push Economic Reforms in First 100 Days

Brazilian President Jair Bolsonaro will work to establish the formal independence of the country's central bank in his first 100 days in office, his chief of staff, Onyx Lorenzoni, said on Wednesday, Reuters reported. Brazil remains one of the few major economies in the world that does not have formal institutional independence. Lorenzoni also said Bolsonaro aims to obtain approval for state oil company Petrobras to sell stakes in the Santos Basin's pre-salt areas by the third quarter of this year.

Peru's Alberto Fujimori Returns to Prison

Peruvian authorities on Wednesday took former President Alberto Fujimori back to prison to finish the remaining 13 years of his 25-year sentence for human rights crimes and graft, Reuters reported. A court-appointed medical panel found last week that the 80-year-old Fujimori is healthy enough to leave a local hospital where he was sent for treatment last October soon after a judge annulled a pardon granted to him in 2017.

Mexican Senate Plans to Take Up Bank Fee Bill Sooner Than Expected

Mexican Senate leader Ricardo Monreal told Bloomberg News Wednesday that he will push a vote on his bill compelling banks to cut fees in the spring session starting next month. "The bill will advance," Monreal said in an interview with the news service. "This is a social demand, a social necessity," he said. Last November, market reaction to Monreal's bill sent Mexico's benchmark stock index to its lowest level in more than two years, leading President-elect Andrés Manuel López Obrador to promise to delay the bill. The measure eliminates as many as 15 separate fees.

image has been falling mainly because of his absence in debates and lies uncovered in relation to the presentation of his government plan," Carlos Araujo, the director of COP, told local newspaper El Mundo. Critics say Bukele's government plan contains sections that are plagiarized, La Página reported. Bukele denies wrongdoing. Polling data shows that if current trends continue, a runoff between Calleja and Bukele is likely, since neither candidate is expected to win an outright majority on Feb. 3. A second-round vote would be scheduled for March. [Editor's note: See related [Q&A](#) in the Oct. 18 issue of the Advisor.]

BUSINESS NEWS

Advent International Invests \$725 Million in Argentina's Prisma

Boston-based private equity firm Advent International Capital said Wednesday it has bought a 51 percent stake in the Argentine operator of Visa cards for about \$725 million from a group of 14 local banks and Visa International, Bloomberg News reported. Prisma Medios de Pago's existing shareholders will retain a 49 percent stake in the company. In 2017, Argentina's consumer watchdog accepted a divestment plan, proposed by Prisma, after the company was investigated for monopolizing the market for credit cards and electronic payments, according to the report. The transaction values the company at \$1.42 billion, which makes it one of the largest private equity transactions in Argentina over the last 30 years, executives said. Within Argentina, Prisma is the market leader in merchant acquiring, as well as processing services and electronic bill payments. The company is also the second-largest ATM operator nationally. Outside Argentina, Prisma offers issuer and merchant acquiring processing services to clients in 14 countries across Latin America. The deal marks Advent International's sixth investment in Argentina and eighth investment in the payments sector globally since 2008.

CAPITOL HILL WATCH

A Look at U.S. Congressional Activity on Latin America

Immigration: Senators to Vote on Proposals to Reopen Government

U.S. Senators are likely to vote today on two competing proposals that seek to reopen the federal government after more than 30 days since it was partially shut down, CNN reported. The Republican-backed proposal would grant the \$5.7 billion President Donald Trump has asked for extending wall-like barriers along the U.S.-Mexico border and would offer temporary protections for some immigrants. The other vote, on a Democrat-backed proposal that has already passed in the House of Representatives, would reopen the government without providing money for the border wall. Democrats contend that the shutdown must end before debate on border security legislation continues. Neither proposal is expected to pass, CNN reported.

47 Democrats Ask Trump to Sanction Guatemala's Government

A group of 47 members of the U.S. Congress from the Democratic Party sent a letter last week asking President Donald Trump to sanction allegedly corrupt members of Guatemalan President Jimmy Morales' government and suspend assistance to the Central American country, the Associated Press reported. "We are deeply concerned that, absent a strong U.S. response, the current government's pattern of anti-democratic behavior will continue to escalate, and that Guatemala will descend into lawlessness," the group, led by Representatives Norma Torres (D-Cal.) and Jim McGovern (D-Mass.), wrote in the letter. The legislators called on Trump to impose sanctions similar to those it has slapped on government officials in Venezuela and Nicaragua. Morales recently expelled a United Nations-backed anti-corruption agency, the Commission Against Impunity in Guatemala, or CICIG, from the country.

U.S. Lawmakers Draft New Bills on Venezuelan Aid, Restrictions

Four U.S. representatives on Wednesday announced plans to introduce several bills in support of the "people of Venezuela," according to a video posted on the Twitter account of the House of Foreign Affairs Committee. Representatives Eliot Engel (D-N.Y.), who chairs the committee, Debbie Wasserman Schultz (D-Fla.), Donna Shalala (D-Fla.) and Debbie Mucarsel-Powell (D-Fla.) in the coming weeks will be presenting legislation that includes increasing humanitarian aid to Venezuelans, restricting the exports of arms and other items such as tear gas and riot gear to Venezuela, and requiring the State Department to provide a threat assessment of Russia's influence in the South American country, the lawmakers said in the video. The video's release coincided with massive street protests held across Venezuela on Wednesday against the Maduro regime.

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ruption and resulting impunity exist, which have ended up giving some sort of social legitimacy to this type of criminal activity. Because of this, the measures the government has taken in the last weeks should be seen as just the beginning of what will be a large, difficult and complex fight that will require more intelligence work and better planning in its execution.”

A **Lourdes Melgar, Mexico City-based nonresident fellow at the Baker Institute:** “In December, López Obrador announced a comprehensive national strategy to fight gasoline theft in Mexico. According to the government, fuel theft amounts to a \$3 billion yearly loss for Pemex. Despite previous efforts to curtail the problem, thefts tripled since 2013, due to the involvement of organized crime. Curbing robbery entails attacking different sources of illegal activity: from within Pemex to gas stations that sell stolen fuel, to local ‘huachicoleros’ (people who steal fuel by tapping pipelines) to cartels that profit from it. On Jan. 5, the government shut down pipelines that transport fuel to main consumption centers. The measure rapidly generated a supply shortage in key regions. In total, it affected 10 states. This drastic measure raised questions about the soundness of the strategy and the real causes behind the unexpected action. Did the government shut down the pipelines because Pemex reduced the imports of gasoline from the United States? Did the government cancel the import of light crude needed to run the Tula and Salamanca refineries? Were inventories to the top prior to turning off the valves? As the shortage continued and concern about availability of supply began to mount, more questions surged: why wasn’t the government publishing reliable data? What would be the cost of tankers waiting in the Gulf of Mexico to deliver their supply? When would supply be normalized? Many of these questions remain unanswered. Tanker trucks are replacing pipelines to bring fuel to consumption

centers. The option of supplying fuel using tanker trucks is 14 times more expensive than using pipelines and a major security risk, as trucks can be more prone to accidents and are easier to rob. Security costs to avoid theft are estimated at \$11 million per day. This raises questions on the strategy’s efficiency and sustainability over the medium run, but López Obrador has enough political support and leverage to make the needed adjustment to a strategy that will need to be implemented over the long haul, to end huachicoleo once and for all.”

A **Greg Ahlgren, partner at Diaz, Reus & Targ:** “Having taken the oath of office last month, AMLO is now poised to spend his enormous political capital on some of the most serious maladies afflicting Mexican society, and this project began in earnest with AMLO’s effort to rid the country of ‘huachicoleo’—the illicit trade in stolen fuels (fuel extracted from the pipelines is known colloquially as huachicol). By disrupting the established logistical networks for Pemex’s fuel distribution, many parts of the country have been hit with a fuel shortage that, at times, has made AMLO’s efforts seem improvised. While the fuel shortage at Pemex stations has been severe in Mexico City and certain major metropolitan areas, other key cities such as Monterrey have dodged significant disruptions and ensuing panic. One thing, however, is now abundantly clear throughout the Mexican Republic, as organized crime has brazenly struck back at federal forces carrying out AMLO’s initiative: huachicoleo is an enormous problem that should have been addressed decades ago. AMLO has announced that the Mexican government is purchasing a large fleet of tanker trucks to alleviate the problem in the relatively near term, which should help ease the shortages in Mexico City and elsewhere. This will increase transport costs, which hopefully will be offset by greater efficiency at Pemex when industrial-scale fuel theft is vastly reduced.”

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