

Issue brief Looting Fuel Pipelines in Mexico

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While Pemex was the sole player in Mexico's oil and gas industry, gasoline theft seemed to be something of a minor problem, a localized activity controlled by a few gangs. Fuel theft, however, has grown over time—partly due to a hands-off approach embraced by Mexican authorities for years, if not decades—and has reportedly attracted the attention of more sophisticated criminal organizations seeking to diversify their illegal activities.¹ Over the last few years, factors such as increased demand for stolen fuels, a weak rule of law, and the lack of economic opportunities in local communities have played a crucial role in reshaping the configuration of the now widespread black market in stolen fuels. Illegal trade in fuels is booming, further incentivizing new entrants into this black market. The extent of fuel theft is now so great that it is becoming a serious financial burden for Pemex and, more broadly, may pose a challenge to the implementation of policies aimed at the liberalization of the gasoline market in Mexico.

A BOURGEONING UNLAWFUL BUSINESS It has been widely documented that the black market in gasoline has grown alongside the Mexican government's crackdown on illegal drug cartels. When President Felipe Calderón launched his major assault on organized crime in late 2006, Pemex had identified 213 illegal pipeline taps; however, as cartels learned how profitable the sale of stolen gasoline could be, the number of taps climbed sharply (Figure 1). According to Pemex's latest annual report,² the number of illegal pipeline taps grew to 6,873 in 2016, a 32-fold increase over the span of a decade. Clearly, the end of the Calderón administration and the advent of the Peña Nieto administration in 2012 did nothing to slow the crisis. On the contrary, fuel theft has flourished during the presidency of Enrique Peña Nieto. Federal and state authorities appear to be overwhelmed by the scale of the problem and the capabilities of organized criminals, and the Mexican state appears too weak to address the issue head-on. The poor, and even worsening, economic condition of the communities where pipeline tapping occurs compounds the problem. The income that this illegal activity generates for the average citizen can be far more appealing than wages earned from toiling at a very low-paying

ISSUE BRIEF SOURCE El Economista, using information from Pemex. **FIGURE 1 — ILLEGAL PIPELINE TAPS IN MEXICO**³ (2006–2016)⁴ 2 RICE UNIVERSITY'S BAKER INSTITUTE FOR PUBLIC POLICY // **ISSUE BRIEF** // 06.23.17 billion (approximately US\$982 million) in 2009 to Mex\$30.8 billion (approximately US\$1.7 billion) in 2016.⁷ Failing to address this problem in the midst of a comprehensive energy reform marking the end of Pemex's monopoly on oil and gas exemplifies the weakness of the country's rule of law. It is, in fact, worth considering whether the

illegal tapping of fuel pipelines is hampering the country's prospects of attracting investment in gasoline retailing and other areas of the energy sector. That remains to be seen, but it is certain that private players will be watching closely to see how the Mexican government confronts this issue. PUEBLA AS THE EPICENTER OF GASOLINE THEFT Understanding the geography of the problem is a first step toward resolving it. Fuel pipelines, which originate at Pemex facilities located in the eastern state of Veracruz, run through the state of Puebla in close proximity to the 150D and 132D federal highways en route to Mexico City. This strategic location is what has caused the municipalities located along the 150D highway to become the epicenter of the gasoline theft industry—an argument reinforced by Figure 3, where the 2016 map illustrates the extent to which fuel smuggling has grown in the vicinity of Highway 150D and, to a lesser extent, along Highway 132D in northern Puebla.⁹ In line with Figures 1 and 2, the maps in Figure 3 demonstrate that gasoline theft has sharply increased since 2006, with the number of Puebla municipalities involved rising from seven in 2006 to 24 in 2016.¹⁰ In 2006, as Calderón began his presidential term, Pemex reported nine pipeline taps throughout the state of Puebla, a number that grew to 110 six years later. Over time, however, the problem has become even more severe, with the number of taps soaring to 815 in 2015 and 1,533 in 2016.¹¹ Of the 1,533 pipeline taps reported in 2016, 1,071—or 70% of the total—were located along Highway 150D between the border with Veracruz and Puebla's job. It has been documented, for example, that looters can make up to US\$50,000 a month, while the salary for a local policeman is around US\$270 a month. This is too astonishing an income gap for people to ignore, and it makes this a social problem.⁵ Many families now benefit from this income, which creates general popular support for the activity itself. In fact, it is one of the reasons why gangs have substantial backing and protection from local populations. Consequently, it is hardly surprising that community residents who know where the pipelines are and local gangs who know how to tap into these pipelines have teamed up with well-financed criminal organizations to make the business even more lucrative, violent, and harmful to the profits of Pemex and of the country (Figure 2). This looting puts the recent energy reform at risk, as companies seeking to invest in Mexico's infrastructure may hold their projects until they better understand how to prevent such damages from occurring. Their caution is justified. It is estimated that the market value of stolen fuel from 2013 to 2016 totaled Mex\$97.2 billion (approximately US\$6.4 billion), a figure 55% higher than the Mex\$62.8 billion (approximately US\$4.9 billion) Pemex lost from 2009 to 2012. In other words, illicit profits have risen from Mex\$13.3 The extent of the fuel theft is now so great that it is becoming a serious financial burden for Pemex and, more broadly, may pose a challenge to the implementation of policies aimed at the liberalization of the gasoline market in Mexico. SOURCE Taken from AnimalPolitico.com, using information from Pemex Logística. FIGURE 2 — PROFITS AND PRODUCTION LOSSES (2009–2016)⁶ 3 LOOTING FUEL PIPELINES IN MEXICO state capital¹² (more precisely, in the municipalities of Tepeaca, Palmar de Bravo, Acajete, Quecholac, and Acatzingo). In a certain sense, this reveals the degree to which the Mexican state has failed to address the problem: as geographically localized as it is, the government has not been able to penetrate these communities and prevent pipeline tapping. This does not mean that the Mexican government has not tried to do anything. In Quecholac, the army clashed with smugglers on May 3, 2017, in an effort to stop fuel theft. However—and as a testament to the difficulties the government is having in curtailing the problem—it was reported

that armed gangs and their supporters in the various communities attacked the military, leading to a confrontation where 10 people died (four soldiers and six civilians). The clash shows that huachicoleros, as the fuel thieves are locally known, are in a position to challenge the government and make the liberalization of the gasoline market more difficult. The Mexican government has announced that cracking down on gasoline theft will continue and that the military will be further engaged. This strategy, however, may increase the levels of violence in the region and Puebla as a whole,¹³ and may add to the already growing levels of violence throughout the country. POLICY IMPLICATIONS In the eyes of investors and trading partners, the increase in fuel theft in Mexico raises serious concerns related to the local business environment and the ability of Mexican authorities to implement effective changes within the energy sector and to guarantee investments, especially in onshore projects. Confrontation with criminal gangs seems to be as certain as the government's inability to prevent the thefts. Any public policies addressing this issue should take into consideration all three issues outlined above: enforcing the law is a necessity, but it must be accompanied by a strategy to generate better living conditions in communities where this problem is growing, and any attempt to stop tampering with the pipelines has to be accompanied with a greater capacity to strengthen the rule of law in the country as a whole. If not, criminal activities associated with fuel The income that this illegal activity generates for the average citizen can be far more appealing than wages earned from toiling at a very low-paying job. SOURCE www.gobiernofacil.com, with information from Pemex.

FIGURE 3 — MAPPING PIPELINE TAPS IN THE STATE OF PUEBLA 2006 2012 2016 150D to Mexico City Veracruz 150D Puebla's capital 132D 4 RICE UNIVERSITY'S BAKER INSTITUTE FOR PUBLIC POLICY // ISSUE BRIEF // 06.23.17 9. The 132D federal highway runs from Tuxpan in the state of Veracruz to Mexico City, passing through northern Puebla. 10. Pemex identified 27 municipalities out of 217 as being involved in fuel theft over the course of this period, although there were only 24 in 2016. 11. "Robo de combustible en Puebla 2000 al 2016," Gobierno Fácil, February 4, 2017, <http://gobiernofacil.com/herramientas/robo-de-combustible-en-puebla>. 12. Darker colors indicate greater numbers of pipeline taps. 13. Patrick J. MacDonnell, "Clashes between soldiers and gasoline smugglers leave 10 dead in Mexico," Los Angeles Times, May 4, 2017, <http://www.latimes.com/world/mexico-americas/la-fg-mexicogas-smugglers-20170504-story.html>. AUTHOR Adrian Duhalt, Ph.D., is the postdoctoral fellow in Mexico energy studies for the Mexico Center and Center for Energy Studies at the Baker Institute. His main research focus is related to energy dynamics in North America—shale gas development in the United States and Mexico's energy reform— and their effect on petrochemical value chains, agricultural productivity, and food dependency in Mexico. theft will continue, and armed conflicts surrounding the government's attempt to end it may drag on for many years to come.

ENDNOTES 1. Tania L. Montalvo, "Así evoluciona el robo de combustible en México hasta provocar pérdidas millonarias," Animal Político, February 3, 2017, <http://www.animalpolitico.com/2017/02/robocombustible-mexico/>. 2. Petroleos Mexicanos, "Reporte Annual 2016," https://www.bmv.com.mx/es/Grupo_BMV/InfoFinanciera/PEMEX-5902. 3. Refers to crude, refined products and liquefied petroleum gas. 4. Luis Carriles, "Pemex litiga para evitar

pago de daños,” El Economista, March 14, 2017, <http://eleconomista.com.mx/industrias/2017/03/14/pemex-litiga-evitar-pago-danos>. 5. Pablo Ferri, “Antes, como policía, ganaba 270 dólares al mes. Ahora, con el combustible, puedo sacar hasta 50,000,” El País, May 23, 2017, http://internacional.elpais.com/internacional/2017/05/23/mexico/1495496778_273384.html. 6. “Pemex pierde 100 mil mdp por robo de combustible y fugas en el sexenio de EPN,” Animal Político, February 2, 2017, <http://www.animalpolitico.com/2017/02/robo-combustible-ductos-pemex-gobierno-pena/>. 7. In this paragraph, figures expressed in US dollars take into account the average exchange rate of the dollar against the peso for every year observed in the aforementioned period, according to the historical exchange rate series from Mexico’s Central Bank. Data retrieved from <http://www.banxico.org.mx/SieInternet/consultarDirectorioInternetAction.do?sector=6&idCuadro=CF373&accion=consultarCuadro&locale=es>. 8. The 150D highway runs from the state of Veracruz to Mexico City, coinciding with the location of the municipalities highlighted on the 2016 map

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