

Fuel Shortage Crisis Affecting Mexico

Fuel Theft Crisis In Mexico: Problem Diagnostics and Solution Strategies

In Mexico, fuel theft – locally known as ‘huachicoleo’ – has been a common practice for decades; however, in recent years they have seen the steady increase of this crime across its territory. What initially started as a way of obtaining fuel for the fleets of organized crime bands, has now evolved into a more complex problem. Presently, due to the ongoing combat against drug trafficking organizations in the country, criminal gangs have made fuel theft a complementary source of income, especially since the escalation of prices in 2017 made it more profitable. Moreover, this activity has drawn the attention of other actors. Authorities have witnessed the creation of local and regional organizations fully dedicated to illegally extracting fuel from Mexican Petroleum’s (PEMEX) pipelines. Nowadays, entire communities are involved in this criminal activity; not participating in the extraction and distribution on the black market, but also acting as human shields during the confrontations with the authorities.

The multiplicity of actors entails a difference in modus operandi, this mainly substantiated in the dissimilar capabilities and resources of each criminal enterprise. Consequently, the fuel theft in Mexico usually is carried out in two ways; the first is by stealing the trucks in which the resource is transported, and the second by drilling and milking PEMEX’s pipelines extended throughout the national territory. Official figures indicate that approximately 600 vehicles with 15,000L (3962.5GL) were stolen daily. Occasionally, these criminal gangs have operated close to the premises of the state-owned company. The latter led the authorities to suspect that employees of the company had colluded with or formed part of the criminal organizations. Even though PEMEX lost in 2017 approximately MXN 60 billion (USD 3.1 billion), no major investigation was conducted out in past years.

The newly appointed Mexican President Andrés Manuel López Obrador, decided to change the strategy to combat the fuel theft. On December 27, 2018, López Obrador publicly presented a new plan to fight against the criminal gangs dedicated to stealing fuel from PEMEX pipelines. The strategy would involve 15 governmental ministries and agencies, among them the Ministry of Interior, National Defense, Navy, Labor, and Finance. The core of the strategy rests upon the armed forces vigilance of

refineries, pipelines, refueling stations, and storage or dispatch terminals in all the territory. For that, the Mexican president stated that over 4,000 soldiers and marines would be gradually deployed at the mentioned premises.

One of the first steps that were taken was to close the most vulnerable pipelines. For example, the one located in Salamanca, Guanajuato, was not only closed but saw its premises secured by armed forces. They took control over the facilities and conducted thorough inspections (be it of the personnel working there or the daily operations). However, with this approach, the authorities also considered a major change in distribution logistics. As such, the petroleum company started to give priority to land-transportation of fuel over the usage of pipelines – a method that is considered to be cheaper and faster. The authorities decision caused significant delays in fuel distribution, particularly in the central states of Mexico; thus, the population and media outlets started to report shortages late-December to mid-January.

Fuel Shortages: Affected States

Since the first reports of shortages were made public, the Mexican president, as well as the authorities under his command, reiterated in press conferences and public appearances that the situation did not derive from a lack of reserves to meet the demands. They continue to emphasize that the change in the way in which the fuel is transported was the primary cause of the deficit. (However, they have given an exact date on when the distribution would be regularized.) Additionally, the authorities discouraged the population of buying more fuel than they needed for their regular commutes. Despite the entreaties to avoid panic shopping, in most of the affected states, such practices were seen, along with illegal reselling schemes.

Critical voices have emerged, pointing out that the new strategy was launched without a backup plan to avoid or mitigate the impacts such measures would have on the region. Furthermore, some reports suggested there had been a reduction in Mexico's imports of fuel from the United States; however, a correlation between a possible reduction

and the shortages could not be proven with the available information. Nonetheless, President López Obrador clarified on January 14, 2019 during his daily conference, that those reports were not accurate and stated that the number of imported barrels in January 2019 was higher than the one reported in December 2018.

It is important to mention that even though the problem gained even more notoriety with the closure of Salamanca's pipelines – which made evident the expansion of shortages –, the issues with the distribution started in late-December in states like Hidalgo, Jalisco, and Michoacán. In the last one, at first, it was believed that pipeline theft and speculation could also be factors in the shortages, it was later confirmed that the new strategy also had a role. It was reported that of 113 municipalities in the state, more than half did not have enough fuel since December 26, 2018. Therefore, the governor expressed his concern on a possible increase of violent acts or quarrels. Furthermore, on January 14, 2019 he announced the creation of mechanisms to counteract impacts of the shortage, which he defined as critical because it was already affecting 60% of the public transport in the state.

Other states that also presented shortages early on were Morelos and Querétaro. In the second, the most affected municipalities were Corregidora, El Marqués, and Santiago de Querétaro, which are part of the metropolitan zone. However, it was reported that Mobil gas stations had fuel because they do not rely on PEMEX to import and commercialize the product in the state like most of the other foreign companies that operate in the country. Querétaro also reported clashes among citizens waiting to buy gasoline. On January 13, 2019, the National Chamber of Commerce (CANACO) declared that the issue caused cancelations of hotel reservations within the metropolitan area and an approximately 10% fall on sales.

In the Valley of Mexico, there were significant shortages. In the State of Mexico the most affected municipalities were San Mateo Atenco, Tenango, Tenancingo, Tianguistengo, Toluca, and Valle de Bravo. In this state, authorities reported a four-hour blockage and several violent confrontations between residents; in most of the cases, police officers had

to intervene to dissipate the tension or disperse the masses gathered at gas stations. Moreover, on January 14, 2019 a report was filed over an illegal fuel feed that was exploited by inhabitants of the Acambay municipality.

Mexico City's inhabitants have experienced shortages since January 8, 2019, although the local authorities at first did not recognize the situation. However, residents reported on social media platforms about the long lines at the gas stations that have fuel. There were also reports of some residents that were buying fuel in Morelos and Puebla. On January 13, 2019, the head of government issued a release on the subject, where it was stated that public transport was guaranteed for the population's usage. Furthermore, the communication considered some measures focused on aiding the distribution operations in the city. Among them was a suggested calendar, providing dates for citizens to follow by which, in accordance with their car number plate and verification registry, to buy fuel. The opinions on this recommended schedule were divided.

The Office of the Federal Prosecutor for the Consumer (PROFECO) – an agency that is also participating in the strategy implementation – has reported that for inspections conducted on January 11-13, 2019, in the affected states, at least 953 out of 2,809 visited gas stations did not have fuel. Also, it stated that consumers had filed complaints against service stations because the employees demand cash payments and sometimes the sale is conditioned.

Strategic Analysis*

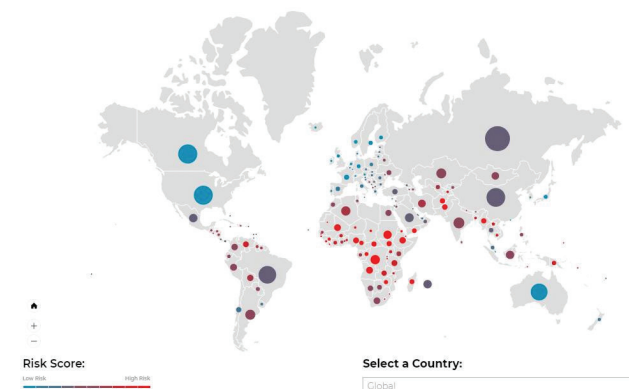
Pinkerton assesses that there is an even chance that states that reported fuel shortages between December 2018 and January 2019 will have impacts on their economy. The government has declared that with the implementation of the new strategy, the quantity of stolen fuel diminished significantly and, with it, the losses of the country. However, some of the states impacted by the shortages have already alluded to the possibility of reporting economic losses. If the fuel deficit is covered in the short term, the negative impact will likely be manageable. At present, the states that still report shortages are

Aguascalientes, Guanajuato, Hidalgo, Jalisco, México City, Michoacán, Nayarit, Querétaro, State of Mexico, Tlaxcala, and Zacatecas. Pinkerton recommended that our client remain attentive to the reports issued by the states to assess possible impacts on business interest.

These actions have had a grave impact in several supply chains throughout multiple industries, such as food and agriculture, where the timely delivery of products is crucial. Merchants in Mexico City's Central de Abasto (Supply Center) have reported that their sales have plummeted by up to 60% due to their customers not being able to arrive; about 50% of their suppliers have also been unable to complete their scheduled deliveries due to the difficulty of acquiring fuel.

The Mexican government informed citizens on, January 14, 2019, that six pipelines would be opened in the near to short term, thereby stabilizing the distribution in the affected region. The pipelines that the government intends to open are Tuxpan-Tula; Brownsville-Cadereyta, San Martín Texmelucan-Valle de México; Salamanca-Guadalajara; and Tula-Salamanca. If the government does open the mentioned pipelines, Pinkerton assesses that the fuel deficit in the impacted states will likely be covered in the short term; thus, it is unlikely that the effects of this measure will be quickly evident. Pinkerton recommended that our client follow mentions on media outlets or official sources about the possible opening of the pipeline, so to ascertain the date of which operations could be regularized.

Pinkerton World Risk Index



The Pinkerton Risk Index draws from a large number of distinct information sources, including proprietary and publicly available sources to analyze business risk around the world. Pinkerton calculates risk through the unique formula of Threat x Probability x Business Impact. This formula provides a holistic examination of risk, safeguarding companies from disruptions to business objectives. The goal of this report is to enable clients to mitigate risk through in-depth analysis of risk-factors. Through Pinkerton's risk analysis, clients are able to move beyond cost risks to see the totality of business impact.

Using this definition, historical data, and forward-looking expert judgment, we devised an aggregation strategy that accounts for the most important considerations of multi-national firms.

These considerations and risks are calculated to produce a set of 11 identifiers that are averaged to produce a country's overall risk. The Pinkerton Risk Index findings can be found in our detailed report titled, [The Pinkerton Risk Index: A World Ranking of Business Risk](#).

The risk levels are easily decoded using the simplified color indicator, with blue representing countries with lower overall risk and red representing countries with higher levels of overall risk. [Pinkerton Risk Index Map](#)

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Intelligence Director: David Valenzuela
+52 1 553 920 4261 david.valenzuela@pinkerton.com

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