

Proposal to Create a Logistics Center for the Distribution and Transportation of Oil Products

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Background

In recent years, the hydrocarbons theft practice in Mexico has had significant growth. This crime is committed, primarily, by the tapping of the oil-transporting pipelines in order to extract gasoline and diesel products for their sale at a price lower than the market price. According to *Petróleos Mexicanos* ("PEMEX"), between January and October of 2018, more than 12,500 illegal extraction punctures were in the pipeline network operated by said entity.

These past few days, the Federal Executive administration has implemented several actions to confront this crime. Among them, by privileging the transportation and distribution of oil products from the refineries and storage terminals up to the service stations by means other than pipelines, such as tank trucks or by railroad.

These actions have caused a shortage in the supply of gasoline and diesel products in certain areas of the country. Therefore, in order to guarantee the supply and access to oil products, the Federal Executive administration has proposed the possibility of creating an entity within the Mexican energy sector in charge of oil distribution, transportation and storage activities, through cooperation efforts with PEMEX and the private sector.

The Logistics Center for Distribution and Transportation of Oil Products

In days recent, the Federal Executive administration submitted before the Federal Commission of Regulatory Improvement a draft on the creation of the "Logistics Center for the Distribution and Transportation of Oil Products" (the "Center"). This draft proposes the creation of a decentralized administrative entity of the Ministry of Energy with technical, operational and administrative autonomy. Such an entity would have the purpose of establishing, implementing and executing measures and strategies in the distribution, transportation and storage of oil products, in order to guarantee and supervise their adequate supply throughout national territory.

Faculties and structure of the Center

Among the faculties vested in the Center, the following must be noted:

- a. Establish, coordinate, supervise, lead and execute operational and logistics strategies for the efficient distribution, transportation and storage oil services.
- b. Implement and supervise flow, quality and automated control measurement systems, as well as to monitor and evaluate the management and operational performance of the storage rooms and inventory control.

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- c. Coordinate and supervise the measurement, control and volumetric dimension of the received and delivered oil products.
 - d. Establish strategies and operational reliability guidelines for the storage, dispatch and maintenance management infrastructure, and their execution, evaluation and compliance.
 - e. Establish coordination mechanisms for potential contingencies and emergencies arising from the distribution, transportation and storage of oil products.

The Center will be managed by a General Director, who will be appointed and could be removed by the President, upon a proposal by the head of the Ministry of Energy. The General Director's primary function will be to lead the operation and functioning of the Center.

Consequences of the Center Creation

Once the regulatory improvement process of the draft has been concluded, it will be clear whether the Center will undertake the transportation, distribution and/or storage activities through its own infrastructure or through a permit holder; or if it will be an operator for the transportation, distribution and/or oil storage infrastructure owned by PEMEX and third parties, in a similar role as the one performed by the National Gas Control Center in the natural gas sector.

Additionally, it will also clarify the way in which the Center will: (i) cooperate with PEMEX in the transportation, distribution and/or storage activities of petroleum products; as well as (ii) its interaction with the Energy Regulatory Commission, which is the authority in charge of the supervision and regulation of the referred activities.

As was previously pointed out, given that it is still a draft in the process of regulatory improvement, the faculties and structure of the Center may be modified before its publication in Mexico's *Official Federal Gazette*.

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