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FEATURED Q&A

Can a Mexican Railway Compete With the Canal?

Mexico's government is seeking to revive a railway to compete with the Panama Canal. A railway bridge in the municipality of Jesús Carranza, in Mexico's Veracruz state, is pictured. // File Photo: Gerardolagunes via Creative Commons.

Q Mexico's government wants to revive a century-old railway line that would link the Gulf of Mexico and the Pacific Ocean in an effort to take container traffic away from the Panama Canal, the Financial Times reported Oct. 2. The plan comes as the Panama Canal has had to reduce the number of ships allowed through the waterway amid a drought and low water levels. Is the revival of the railway line cost-effective and a good idea for Mexico? Would it successfully take business away from the Panama Canal? How lucrative would the plan be for Mexico in the long term, and is Mexico's next president, to be elected in June, likely to continue it?

A Nicolás Mariscal, member of the Advisor board and chairman of Grupo Marhnos in Mexico City: "Since the 19th century, Mexican statesmen have aspired to connect the Pacific and Atlantic Oceans through the Isthmus of Tehuantepec. However, the country has never seriously pursued such a project until now. Nevertheless, the current government has made it a central part of its agenda. The situation with the Panama Canal could serve as a significant motivation to move forward. Moreover, with Asian countries becoming the hub of global economic development, the Isthmus could become a focal point for exporting goods and reducing transportation costs. The next government might continue this initiative, regardless of the election outcome, as it could aid in the development of Mexico's southern regions and some of the nation's poorest states. However, the challenge extends beyond just building a railway line; it involves constructing essential infrastructure, providing clean energy and offering

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TODAY'S NEWS

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Long Lines Form at Argentina's Gas Stations

Long lines formed Monday at gas stations in Argentina as demand for fuel exceeded supply. Economy Minister and presidential candidate Sergio Massa threatened to block oil companies' exports.

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Mexico's Pemex Sees Drop in Crude Oil Refining

Mexican state oil company Pemex's crude oil refining declined in September as compared to August, according to company data.

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Venezuela's High Court Suspends Opposition Primary Results

Venezuela's high court on Monday suspended the results of the opposition's presidential primary, which María Corina Machado decisively won with approximately 93 percent of the vote.

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Machado // File Photo: @MariaCorinaYA via X.

POLITICAL NEWS

Venezuela High Court Suspends Opposition Primary Results

Venezuela's high court on Monday suspended the results of the opposition's presidential primary despite the government's agreement just days before the vote to allow the opposition to choose its own candidate for next year's presidential election, the Financial Times reported. The Supreme Justice Tribunal, which is stacked with judges appointed by President Nicolás Maduro, ruled that "all effects [of the primary] are suspended" and ordered that the opposition primary's organizers hand over ballots and other documents related to the Oct. 22 vote. Former lawmaker María Corina Machado decisively won the primary, garnering about 93 percent of the vote. Since the vote occurred, the government has alleged fraud in the balloting, but Machado and other opposition members have said the vote was fair and transparent, Reuters reported. The government has presented no evidence of fraud in the vote, The Wall Street Journal reported. In June, Venezuela's comptroller-general barred Machado, a fierce Maduro critic, from holding office for 15 years. The official said she was being banned because of her support for U.S. sanctions against the Maduro government and for former opposition leader Juan Guaidó, Reuters reported. The deal that the government and the opposition reached earlier this month to allow each side to choose its presidential candidate led the United States to ease some sanctions on Venezuela's oil industry. The United States has said it would reinstate sanctions if Maduro's government fails to lift bans on some opposition political candidates and also free political prisoners and Americans who are "wrongfully detained" by the end of November, Reuters reported. "The U.S. government will take action if Maduro and his representatives do not meet their commitments under the electoral road map," the State Department said, The Wall Street Journal reported. Perkins Rocha, a lawyer for Machado's campaign, has said Monday's high court ruling does not change the outcome of the primary and that Machado will continue campaigning, The Wall Street Journal reported. "She was designated as the candidate of the whole opposition, and all the candidates recognized María Corina Machado's triumph," said Rocha. [Editor's note: See related **Q&A** on Venezuela in the Oct. 26 issue of the Advisor.]

ECONOMIC NEWS

Demand for Gasoline Exceeding Supply in Argentina

Less than three weeks before Argentina's presidential runoff election, drivers throughout the country waited for hours at gas stations on Monday as demand exceeded supply, the Associated Press reported. Economy Minister Sergio Massa, one of the two remaining presidential candidates, faulted oil companies for the problem and threatened to block their exports if the situation did not immediately normalize. The other candidate, Javier Milei, a right-wing libertarian, blamed the policies of the leftist government currently in office for the shortage. Oil executives are blaming halts at local refineries and the country's scarce foreign currency reserves that have held up imports as the main reasons behind the shortage in a country considered a major shale oil and gas producer, Reuters reported. During a campaign rally in Tucumán on Sunday, Massa said he would halt crude oil exports on Wednesday if the fuel supply issue was not solved by the end of the day Tuesday, the Buenos Aires Times reported. Local gas prices are controlled by the government and are lower than what companies can get in the international market, the Associated Press reported. "When they prefer to export rather than supply the local market, we have the responsibility to stand firm," Massa said in a local television interview Monday. [Editor's note: See related **Q&A** on Argentina's oil sector in the Oct. 6 issue of the Dialogue's weekly Energy Advisor.]

NEWS BRIEFS

Peru's Boluarte to Discuss Fight Against Drug Trafficking With Biden

Peruvian President Dina Boluarte said on Monday that she plans to discuss drug trafficking when she meets with U.S. President Joe Biden during a regional summit in Washington later this week, Reuters reported. Boluarte will be attending the inaugural Americas Partnership for Economic Prosperity Leaders summit and an Inter-American Development Bank forum. President Boluarte told reporters she will speak with Biden about "the full-frontal fight against drug trafficking, along with the country's efforts to garner larger and better investments."

Brazil Creates More Jobs in September Than Analysts Expected

Brazil created a net 211,674 formal jobs in September, official numbers showed on Monday, exceeding economists' expectations, Reuters reported. Year to date, 1.6 million jobs were created, according to the Labor Ministry, whose minister, Luiz Marinho, predicted that 2 million formal jobs would be added this year. The greatest number of jobs created came in the service sector, where 98,206 positions were added. Brazil now has documented 44 million formally registered workers.

Engie Brasil Buying Five Photovoltaic Power Stations From Atlas

Engie Brasil Energia said Monday that it has struck a deal with Atlas Renewable Energy to buy five of its operating photovoltaic power stations, Reuters reported. The power stations have a total installed capacity of 545 megawatts, and the deal is valued at approximately 3.24 billion reais ($646.04 million), Engie Brasil said in a securities filing, the wire service reported. The deal includes Atlas' net debt of 971 million reais.

BUSINESS NEWS

Mexico's Pemex Sees Drop in Crude Oil Refining

Mexican state oil company Pemex saw a decline in its level of crude oil refining in September as compared to August, and its output of fuel oil surpassed gasoline production, Reuters reported Monday, citing data on Pemex's website. In September, the company refined 767,994 barrels of crude oil per day, a 3.6 percent decline from August and 1.5 percent less than September of last year, the data showed. The company also produced 226,100 barrels per day of gasoline, a 6.5 decline from August, and 99,700 barrels per day of diesel, a 35 percent decline from that month. Pemex's total production of refined petroleum amounted to 826,500 barrels per day in September. The company also produced 281,200 barrels per day of fuel oil, which has high sulfur content, a 22.5 percent increase from August. Fuel oil is mainly used for electricity generation in Mexico. Last week, Pemex reported that its net loss in the third quarter grew to 79.13 billion pesos ($4.4 billion) from 25.44 billion pesos in the second quarter, Bloomberg news reported. The third-quarter result was the company's worst since the end of last year. For several years, Pemex has been the world's most highly indebted oil company. As of October, the company had debt of approximately $106 billion, CEO Octavio Romero said last Friday in an earnings call. Earlier in October, Romero told lawmakers that Pemex would continue to reduce debt this year. Last week, the lower house of Mexico's Congress voted to give Pemex more tax relief than what the government's 2024 budget had proposed. "What is needed at this point in time is a more comprehensive vision for the company, one that involves right-sizing, specialization and the freedom to partner with the private sector on new projects," Duncan Wood, senior advisor to the Mexico Institute at the Woodrow Wilson International Center for Scholars, told the Dialogue's weekly Energy Advisor in a **Q&A** published last week.

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fiscal incentives for companies to establish a permanent presence in the country. The federal government's plan to invest around 6 billion pesos in 2024 is encouraging news. Both the global economy and Mexico's economy stand to benefit significantly from such a project. Let's hope that this endeavor becomes more than just a government project and transforms into a national effort involving public-private partnerships, which would undoubtedly enhance its chances of success."

A **Lucinda Vargas, associate director of the Center for Border Economic Development at New Mexico State University:** "There is no question that an infrastructure investment that would connect two oceans is strategic, in Mexico or elsewhere. However, the bigger question is how such a megaproject as the Tehuantepec Interoceanic Corridor is unfolding and will eventually be fully realized. As proposed, the broader project includes developing 10 industrial sites along the corridor's route to spur the attraction of specific targeted industries such as automotive, semiconductors and pharmaceuticals. This is one differentiator the López Obrador administration points to between the Tehuantepec Corridor and the Panama Canal. It is planned as more than just a transshipment point. However, even if the first five industrial sites have received investor interest, the big imponderable is one of efficiency, both of how it will all be accomplished and implemented. Will the modernization of the two ports involved at Oaxaca and Veracruz be up to par on the critical transshipment task? Will the railway corridor itself function as a seamless route to mirror that of the Panama Canal? Will the industrial sites be developed with a more comprehensive strategy of addressing the basic needs of each subregion's population, which are characteristically among Mexico's poorest? Adding to the uncertainty is that the navy has been placed in charge, and the project has been declared one of national security. Accountability and transparency of the project's execution and management, therefore, become two more imponderables to settle the question if the Tehuantepec Corridor will function as envisioned and ultimately present a real logistical alternative to the Panama Canal."

A **Juan B. Sosa, former ambassador of Panama to the United States and president and CEO of the U.S.-Panama Business Council:** "Lately, there has been alarming news that the Panama Canal is 'drying up.' This is simply not true. Shippers are advised with time to mitigate the challenge. Even with these measures, the canal, an 'all-water route,' is a better financial proposition than other routes. But the Panama Canal is prepared to expand its watershed to ensure that it will continue to be the best alternative for decades to come. This is why the proposed improvements in the railroad in Mexico's Tehuantepec isthmus between the ports of Coatzacoalcos and Salina Cruz may make sense to improve the marketing opportunities of the State of Oaxaca but should not be considered a threat to the Panama Canal for three main reasons. First, shipping by rail requires double handling, a more expensive mode of transportation than the all-water route. Second, the ports in the Isthmus of Tehuantepec are not prepared to handle containers, the primary cargo of the railroad. To prepare them would require an enormous investment, jeopardizing its financial

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> — Juan B. Sosa

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feasibility, and infrastructure to support the project would also be needed. Third, infrastructure projects take a long time, at least a decade. Mexico already has other efficient container ports in the Pacific, including in Manzanillo and Lázaro Cárdenas, which require only one transfer from water to railroad and its destination, instead of the two that the Tehuantepec railroad would require."

A **Adrian Duhalt, research scholar at the Center on Global Energy Policy at Columbia University's School of International and Public Affairs:** "The Isthmus of Tehuantepec railway (ITR), which connects the ports of Salina Cruz in Oaxaca and Coatzacoalcos in Veracruz, is part of a logistical platform that seeks to trigger greater economic and industrial activity in the region. At first sight, upgrading the railway may be seen as Mexico's response to the Panama Canal, but in reality, it is part of a much broader and long-awaited policy–known as the Program for the Development of the Isthmus of Tehuantepec (PDIT)–oriented to address the development woes that have plagued both states for decades. The ITR, along with key infrastructure investments in ports, roads, natural gas supply and even industrial parks, seeks to help narrow the socioeconomic gap between southern and northern states and make the most out of the geographical and productive features of Veracruz and Oaxaca. On its own, it remains to be seen if the ITR will become a lucrative initiative, but as part of a more comprehensive development scheme, it boasts the potential to render positive outcomes along the different regions of the Isthmus of Tehuantepec. For this to happen, policymakers must realize that continuity of the program is essential. As Mexico goes to the polls in June 2024 to elect a new president, the task for the next government is to figure out how to make the PDIT an overall cost-effective policy tool that, in the long run, can boost economic and social development in the region and beyond."

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> **— Adrian Duhalt**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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