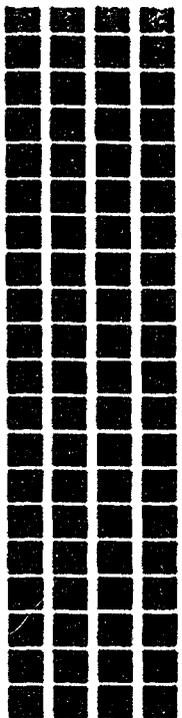


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Sector Study



Energy Sector Management Assistance Program

ESMAP

RE

Honduras

Petroleum Supply Management

Report No. 128/91

HONDURAS

PETROLEUM SUPPLY MANAGEMENT

March 1991

**ESMAP Strategy and Programs Division
Industry and Energy Department
The World Bank
Washington, D.C. 20433**

FOREWORD

This report is the result of a study conducted in July 1989 by the Joint UNDP/World Bank Energy Sector Management Assistance Programme (ESMAP).

The study was conducted by a working group under the supervision of and with the assistance of Mr. Salvador Rivera, Task Manager (ESMAP), Ken Hornby (consultant, ESMAP), A. Rios (consultant, ESMAP) and Rodrigo Leiva (consultant, ESMAP). The working group benefited from discussing and received the collaboration of Mr. Adalberto Chavez Petit, Norma Rauda, Jesus Orellana at the Comision Administradora del Petroleo (CAP), Mr. Rafael Ochoa at the Infrastructure Department in SECPLAN, Ms. Graciela Santos at the Central Bank, Texaco Management and, at the initiating stage, Mr. Zia Mian from the World Bank.

Ms. Susana Zurbaran and Mr. Ahmed Basharat provided secretarial assistance.

CURRENCY EQUIVALENTS

Currency Unit - Lempira (L)

Official Exchange Rate

1 US\$ = L.2 a/

1 US\$ = L.5.3 b/

a/ Rate prevailing in July 1989 at the time of the mission's visit.

b/ Rate as of January 1991.

Fiscal Year

January 1 to December 31

ABBREVIATIONS

B or Bbls.	Barrel (42 U.S. gallons)
BCF 24	Bolivar Coastal Fields crude (24° API Gravity)
CIF	Cost, Insurance and Freight
D	Day
DWT	Dead Weight Ton
ETA	Estimated Time of Arrival
FO	Fuel Oil
FOB	Free on Board
ft.	Feet
gal.	U.S. Gallon
GP	General Purpose
K	One Thousand
L	Lempira
LOC	Letter of Credit
LPG	Liquified Petroleum Gas
LR-1	Large Range (Class 1)
LT	Long Ton
MR	Medium Range
MT	Metric Ton
NCE	Net Capital Employed
87R	87 Research Octane Motor Gasoline
95R	95 Research Octane Motor Gasoline
S & T	Supply and Transportation
US\$	U.S. Dollar
yr.	Year

ACRONYMS

AFRA	Average Freight Rate Assessment
CAP	Petroleum Administrative Commission
MARAVEN	A Venezuelan Petroleum Company (A subsidiary of PDVSA)
PDVSA	Petroleos de Venezuela, S.A. (The national Oil Company of Venezuela)
PEMEX	Mexican Oil Company
REFTEXSA	Texaco Refinery at Puerto Cortes
TEX-TRADER	Texaco International Trader, Inc.

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

Background

1. This project is a follow-up to the Honduras Energy Assessment report of 1986. In July 1989, and October, 1990, ESMAP missions visited Honduras to: i) evaluate current petroleum supply arrangements, identify main issues and options to enhance the efficiency of the system; (ii) review the mechanisms in place to monitor financial revenues derived from import and internal distribution of petroleum products; and iii) implement a seminar for Government officials on downstream petroleum industry operations.

2. This report is divided in two parts: Supply Management and Financial Management. Part one comprises Chapter I and II and reviews current supply arrangements and options to enhance the current system. Part two includes Chapters III and IV, reviews current mechanisms to monitor financial revenues and proposes changes to enhance this system. The mission has designed and implemented an information system at the Petroleum Administrative Commission (CAP) to enhance the monitoring of procurement operations and the scheduling of petroleum supplies vis-a-vis foreign exchange availability. A four-day seminar on petroleum industry operations took place on October 1990 and was attended by participants from the six Central American Countries.

Petroleum Sector Organization

3. Petroleum consumption in Honduras is about 16,000 Bbl/d (US\$130 million in 1989). Petroleum demand has been growing at about 7.2% per year during the last four years. The Texaco-owned refinery in Honduras refines about 60% of petroleum products consumption; the remaining 40% is also imported by Texaco.

4. The Petroleum Administrative Commission (CAP) has, under decree 94 of 1983, the exclusive right to purchase and resell crude and petroleum products. The CAP is responsible for the purchasing of crude oil and reselling it to the Texaco Refinery, and the setting of product prices at each point in the supply chain up to the retail level. In practice, Texaco is in charge of all the logistical aspects related to the supply transportation, and distribution of both crude and petroleum products.

5. For finished products, the Texaco Refinery has a finished products CIF purchase agreement with Tex-Trader that covers the supply and transportation of refined petroleum products delivered to the Texaco refinery in Puerto Cortes.

6. Domestic distribution is carried out by private companies: Texaco, Esso, Shell, Dippsa, Copena, Pehon and Tropigas. These companies, as well as the Texaco refinery, operate within the boundaries of the cost and pricing structure set by the Government; this has led to demands by the distributors to increase the margins to keep pace with inflation and required new investments.

Issues and Recommendations

The Issues

7. The main Petroleum Supply issues facing Honduras are at both macro and subsectoral levels.

8. Macro. At the macro level, lack of foreign exchange has created petroleum shortages, forcing the Government into arrears with Texaco. Additionally, inadequate planning in petroleum procurement by CAP has led to procurement inefficiencies, reflected in additional costs to the Government. Just in 1988, the Government incurred unnecessary financial charges of about US\$1.5 million, caused both by delays in the process of opening Letters of Credit and lack of forecasts of foreign exchange needs at the Central Bank; this problem has been compounded by the lack of transparency or accountability by the institutions involved in the procurement system, particularly in CAP's operations.

9. The permanent solution to this problem is linked to the process of required economic adjustment and economic growth. The failure to take corrective action and continue operating in a crisis situation will increase the cost of petroleum supplies while reducing the fiscal contribution of revenues derived from the import of crude/product and of sales at the retail level; in addition, there will be associated costs to the economy caused by the shortages. Under current circumstances, the only corrective measure that the Government can take is to coordinate an acceptable level of petroleum supply in relation to availability of hard currency and encourage the efficient use of Petroleum, i.e. a lower energy/GDP ratio.

10. Sub-sectoral. At the sub-sectoral level, the issue is of an institutional nature. Institutionally, under the current system: i) there is a lack of transparency and accountability in the regulatory system, which, further, does not provide incentives to reward efficient operations and penalize uneconomic operations i.e. currently, the refinery operates on the basis of an unwritten agreement to receive a guaranteed 10 million Lempiras--without assurance of profit-remittance, thus creating uncertainty on future investments--while the distributors must work within the limits of an imposed pricing structure; ii) the Government has both a policy and operational role in the procurement of crude and petroleum products, thus creating a conflict of interest i.e. the Government's exclusive right to import petroleum crude/products and price control policies have prevented any competition in the sub-sector; and iii) consequently, there is an absence of economic criteria to set petroleum prices, subsidies and taxes.

11. As a consequence of this institutional issue, the downstream petroleum industry operates under a cost-plus system. As a result, in 1988, the cost to the economy of the Government's decision to run crude versus import products was in the US\$8-12 million range; for the future, this opportunity cost will change according to the crude-price differentials in international markets. Domestic petroleum prices, which have historically been above their import parity cost, were, as of January 1991, under a cross-subsidy system (Table 1.2).

12. To address this issue, the mission has evaluated alternative arrangements which would allow more competition, transparency and the consequent reduction of procurement costs while maintaining security of supply and quality control of petroleum products.

13. This report concludes that a first option for Honduras is to move towards the phased liberalization of the petroleum import system. (Annex 1 gives a description of phases involved in liberalization of the market). A first phase would include the liberalization of petroleum imports and a second phase would tackle domestic distribution and liberalization of petroleum prices. The Government would: (i) play a coordinating role to achieve economies of scale; (ii) regulate and dictate norms for safety of depots and quality control of products; (iii) ensure that CIF prices reflect least-cost options; and iv) ensure a competitive market for supply and distribution of petroleum products.

14. This option would eliminate any Government intervention regarding the operations of the Texaco refinery, since the refinery would choose, according to the market, to: (a) continue to operate at ex-refinery prices equal to import parity prices, (b) shut down and convert the tankage to a products terminal, or (iii) to de-bottleneck and reduce operating costs. This option would not preclude the Government from continuing implementing the San José Accord.

15. The constraints to liberalize in a single step are of a legislative and logistical nature, i.e. lack of streamlined legislation to allow the construction of petroleum infrastructure i.e. storage facilities, lack of trained individuals in the Government to monitor a competitive petroleum industry operation, and the unpredictability of access to foreign exchange. The phased deregulation of the petroleum supply and distribution system will have to be done shortly, otherwise continuing inflation and devaluation will require Government determined price adjustments that under the current system are likely to lag behind requirements and lead to breakdowns in the economic adjustment process.

Recommendations

18. The many recommendations included throughout this report are summarized here in more general terms and are categorized by their constraints and by the timing of their implementation. The recommendations that can be implemented immediately are listed in Table 1.

Table 1: RECOMMENDATIONS FOR IMMEDIATE IMPLEMENTATION

Recommendations	Remarks
1. <u>Texaco Refinery Operation</u>	
<ul style="list-style-type: none">- Start negotiations between Government and Texaco on new formal operating agreement linked to parity cost of imported products.- Continue with San Jose Accord crude and evaluate economics of other crudes.- Send LOC requests to CAP for imported products, with adequate anticipation.- Run crude optimization analysis to determine most economical composition after each crude or product price change.- Provide CAP with annual forecast of crude, product imports and FO exports.	<ul style="list-style-type: none">- Needed to provide Refinery incentives to operate efficiently and to allow long range planning. Refinery operations would be optimized.- To be done by Texaco Refinery's optimization model.- Avoids delays in the LOC process.- Refinery has agreed to do this and advise CAP accordingly.- Should use latest prices and data broken down by quarters. Refinery agreed to use new form to do this as well as a new format for the monthly forecast.
2. <u>CAP</u>	
<ul style="list-style-type: none">- Strengthen technical and economic knowledge of staff through in house training program, to be provided by Supply and Transport specialist (S&T).- Advise refinery when Central Bank opens LOC and when correspondent Bank pays the LOC.- Retain Refinery's LOC request number throughout LOC process including liquidation of LOC.- Insure that Central Bank has monthly and annual forecast of foreign exchange needs for crude and products.- Transmit LOC requests to Central Bank as soon as they are received.- Use proposed new forms for LOC requests and liquidations.- Prepare Action Plan for liberalization of petroleum imports and deregulation of retail prices.	<ul style="list-style-type: none">- May take time to find qualified candidate.- CAP has agreed to this.- CAP has agreed to this.- CAP agreed to transmit to the Central Bank the new form being used by the Refinery.- CAP agreed to do this.- CAP agreed to do this. Forms will be sent as soon as completed.- Detailed stages are shown in Annex 1.
3. <u>Central Bank</u>	
<ul style="list-style-type: none">- Implement use of Refinery forecasts of US\$ needs for crude and products in order to prioritize US\$ needs versus availability of funds.- Promptly handle LOC requests for full contractual compliance and acknowledge their receipt.	<ul style="list-style-type: none">- Necessary to provide proper planning of available funds. Possibly will avoid penalties and other costs associated with delays in opening LOC's.- Open LOC's per contract stipulations. Avoid penalties and extra costs. Central Bank has agreed to acknowledge LOC requests.

Table 1: (Cont'd) RECOMMENDATIONS FOR IMMEDIATE IMPLEMENTATION

Recommendations	Remarks
- Use only correspondent banks approved by Sellers. Advise CAP when correspondent bank pays the LOC.	- Avoid costly delays. The foreign exchange situation must first be normalized. Central Bank agreed to notify CAP when LOC is paid.
- Advise CAP more promptly on total costs of a LOC.	- Will allow total liquidation sooner.
- Use the new LOC request form proposed by mission	- Central Bank has agreed to it.
- Retain Refinery LOC request number as part of the LOC number assigned by Central Bank.	- Central Bank has agreed to do this.

Source: Mission developed.

19. After a new formal operating agreement including profit formula and remittance rights has been negotiated, between the Government and the Texaco Refinery, the recommendations below can be implemented.

Table 2: RECOMMENDATIONS TO BE IMPLEMENTED AFTER AGREEMENT

Recommendations	Remarks
Texaco Refinery	
1. Install equipment to steady voltage and automatically start standby generators.	- Will minimize refinery shutdowns.
2. Implement profit/operational improvements: <ul style="list-style-type: none"> o - Increase Saleable product yield. o - Install new product tankage. o - Reduce operating costs. o - Undertake de-bottlenecking and efficiency projects. 	- Such items would be continually worked on with constant improvements. No incentive to do anything with present arrangement.

Source: Mission developed.

20. Several items could be improved in the very short term (negotiate fuel oil outlet, improve FO backhaul freight, establish new pricing basis for imported products, etc.) but, to do so, CAP should have a refinery and petroleum supply and transportation specialist available to assist in the negotiations. When such expertise is available, the recommendations shown in Table 3 can be implemented. For longer term benefits associated with possible advantages of term product agreements, term crude and product transportation agreements, possible offshore processing arrangements, and the advent of other North and South Coast product terminals, it is essential that CAP have a full time Supply and Transportation Coordinator. Table 3 also includes recommendations associated with the full time S. & T. Coordinator, and hence, are for the longer term.

Table 3: RECOMMENDATIONS WHEN CAP HAS S. & T. EXPERTISE

Recommendations	Remarks
<u>With Short Term Advisor (3 months)</u>	
1. Initiate implementation of liberalization of petroleum market.	- None.
2. Revise prerequisites for new marine terminals to better reflect expected operations. Handle the required coordination role for offtakes and import quantities. Monitor product quality.	- Coordination required to avoid refinery production problems and product run-outs.
3. Talks with PDVSA on choice of crudes that might be available under San Jose Accord for third party processing.	- To obtain the economical heavier crudes more suited to conversion available in Curacao.

Source: Mission developed.

21. One of the overall objectives of this project is to improve efficiency and control by streamlining the main financial paper flow and other documentation dealing with funds paid and collected. The Mission reviewed the proposed computerized system with CAP and discussed with the Texaco Refinery and the Central Bank the involvement expected from them. Report format changes, new reports and forms were presented to each, some to be implemented manually as soon as they were in place. The Mission received a positive response from everyone and a total agreement. Technical support was discussed and agreed to with the data processing personnel of the Ministry of Economy and Commerce, SECPLAN and the Central Bank. The following programs will make up the overall proposed system that will be implemented at that time:

- (a) Annual and Monthly Forecast of Volume and Value of Crude and Refined Product Imports and Fuel Oil Exports.
- (b) Request for LOC.
- (c) Invoicing.
- (d) Liquidation of LOC.

PART ONE

SUPPLY MANAGEMENT

Part One evaluates current petroleum supply arrangements. Alternative supply arrangements which would generate a least cost supply are explained and recommended. Ways and means for recruitment of supply and quality control are introduced.

I. CURRENT PETROLEUM SUPPLY ARRANGEMENTS

1.1 This chapter provides: (i) an overview of the links between the economy and downstream petroleum operations; and (ii) an overview of current petroleum supply arrangements and room for improvement.

The Economy

1.2 The Honduran economy is going through a period of crisis characterized by a chronic balance of payment disequilibrium, a large fiscal deficit, and an inability to fully service external debt obligations of about US\$3.3 billion.

1.3 The Governments' fiscal deficit has been increasingly financed through the domestic financial system—as external financing sources have dried up—and through the accumulation of external arrears. As of 1987, the external public debt of Honduras represented about 66% of GDP, and debt service payments were equivalent to 23% of exports of goods and services.

Background and Prospects

1.4 Extensive Government intervention, the world recession, deteriorating terms of trade, and the adverse political climate in Central America all contributed to an economic slowdown in the early 1980s, particularly affecting private investment. Exports grew only at a rate of about 3.7% and a balance of payments crisis was avoided as big capital inflows took place, linked mainly to the construction of the hydropower project El Cajon.

1.5 In 1987, the combination of a drop of international coffee prices, Honduras' main export, and a decline of voluntary external financing to the public sector(from US\$227 million in 1985 to US\$23 million in 1987) precipitated a balance of payment crisis. In response, the Government allowed an accumulation in arrears, increased the money supply to finance the public sector deficit and permitted the expansion of the spread between the official and parallel exchange rates(from 25% to 100% in 1989).

1.6 For the future, the Government has defined, in cooperation with the Bank, an adjustment program to tackle both short-term macroeconomic issues and medium-term structural issues. This program has close links to the improved efficiency of public sector institutions. Along those lines, this report evaluates in detail the petroleum procurement operations carried out by the Government through the CAP and recommends short and medium term measures to improve the efficiency of those operations.

Petroleum and the Economy

1.7 During the 80s, the petroleum sub-sector was a fiscal revenue generator, mainly in the form of the excedente, taxes and duties; prices were, overall, at a level well above their import parity cost. Still, distortions were maintained into the pricing structure, distortions that have become more acute since March 1990. Overall, petroleum pricing policy is not formulated under economic principles, but under financial or fiscal targets, which will become harder to control under a highly inflationary environment.

1.8 Financial Excedent. Until March 1990, the Government of Honduras had maintained the ex-refinery product prices at the same levels they were during the era of high crude/product prices of several years ago. Since crude/product prices were relatively low and the Government allowed the refinery a fixed profit while covering all the costs of the refining operation, there was a significant surplus of income left in the refinery that went to the Central Treasury; this surplus grew from equivalent US\$5.5 million in 1985 to US\$71 million in 1988. This amount was called the "Excedente" or the surplus remaining after all the costs and fixed profit were covered. An amount of Excedente was paid with each crude cargo by the Refinery to CAP, the administrator. This payment represented the actual surplus shown at the month's closing of the Refinery books after covering all the costs and allowing Lempiras 833,333 per month gross profit. This was divided equally to the number of crude cargoes that were paid until the following month's closing. This surplus or Excedente was paid together with the actual FOB cost of the crude plus any financing costs. Under today's high prices, there is not anymore excedente.

1.9 By contract between CAP and the Texaco Refinery, CAP is entitled to 1.5% of the value of all the crude purchases by the Refinery. This is known as "Comision Manejo de Gobierno" and is intended to cover the cost of administration of the crude contract including the cost associated with LOC's. The 1.5% is calculated on the FOB of the crude to the Refinery which includes the FOB value to CAP, any finance charges and the Excedente on each crude cargo.

1.10 Fiscal Revenue. In 1988 the Government had fiscal revenues of US\$40.76 million on duties and taxes related to petroleum product imports and distribution.

**Table 1.1: HONDURAS GOVERNMENT REVENUE FROM PETROLEUM INDUSTRY
(US \$ Millions)**

	1985	1986	1987	1988
1. Duties and Taxes^{a/}				
a) Crude Oil Imports	8.05	6.53	6.47	b/ 8.41 g/
b) Product Imports	18.00	18.46	20.39	18.31
c) Consumption Tax	8.59	9.01	10.08	11.74
d) Refinery Income Tax	2.30	2.30	2.30	2.30
Sub-total	36.94	36.30	39.24	40.76
2. Other Revenue Excedente	5.50	45.04	53.48	77.93
TOTAL	42.44	81.34	92.72	118.69

a/ Income tax from the petroleum distribution and retailer companies are not available.

b/ Includes Manejo (US\$1.47 million).

g/ Includes Manejo (\$2.04 million).

Source: CAP, Central Bank of Honduras and Nission estimates.

1.11 Pricing of Petroleum Products While the scope of this report does not include a detailed analysis of petroleum pricing policy, its results, issues and options; this section gives an overview of the issues surrounding petroleum pricing. There is, undoubtedly, a need to carry out an in depth energy pricing study.

1.12 The most important signal for the efficient supply, distribution, and consumption of petroleum products is the pricing policy and the institutional structure to carried it out. In Honduras, this pricing policy appears^{1/} to have been based mostly on financial or fiscal grounds rather than under economic principles regarding efficiency, information to consumers, and allocation and mobilization of resources.

1.13 The 1981-89 period did not see any adjustment of petroleum prices for inflation; until March 1990, retail prices remained unchanged in nominal terms, thus, declining in real terms by about 30%. Regarding their levels, by and large prices remained above their import parity cost.

1.14 For the 90s the situation is completely different, Honduras is now living in a higher inflationary environment, currency movements of the Lempira are a new element, and international prices of petroleum products are more volatile. Recent volatility in international petroleum prices has aggravated this situation and, as of October 1990, both the structure and levels of prices were distorted: the levels on some of the fuels were below their economic cost. Further, the pricing structure has differentials between fuels i.e. Kerosene vis. Diesel and Gasolines, which have acted as an incentive to

^{1/} It is not clear that there is a "pricing policy" as such, with objectives, a strategy for its implementation and monitoring.

mix or dilute Kerosene with other fuels, as a consequence, subsidized kerosene is reaching the industrial sector and automobile owners, but not those poor sectors which were supposed to benefit from the subsidy.

TABLE 1.2
HONDURAS
PETROLEUM PRICE STRUCTURE -JANUARY 15, 1991
Zone 5-Tegucigalpa

ITEM	UNITS	MOGAS 95	AV-JET CO	KERO	DIESEL	F.O.
FOB	US\$/USG	0.8753	0.9737	0.9737	0.9147	0.5035
Freight & Insurance	US\$/USG	0.0389	0.042	0.042	0.0444	0.0542
Financial Charges	US\$/USG	0.008	0	0.008	0.008	0.008
In-transit Losses	US\$/USG	0.0025	0.0025	0.0025	0	0
Demurrage	US\$/USG	0.0011	0.0011	0.0011	0.0011	0.0011
CIF	US\$/USG	0.9258	1.0193	1.0273	0.9682	0.5668
CIF in Lempiras	Lps/USG	4.9067	5.4023	5.4447	5.1315	3.0040
Central Bank Charges	Lps/USG	0.0687	0.0756	0.0762	0.0718	0.0421
Duty- 15% CIF	Lps/USG	0.7360	0.8103	0.8167	0.7697	0.4506
DECREE 85-5% CIF	Lps/USG	0.2453	0.2701	0.2722	0.2566	0.1502
Terminal Losses	Lps/USG	0.0236	0.0157	0.0157	0.0049	0
IMPORT PARITY *	Lps/USG	5.9804	6.5741	6.6256	6.2345	3.6469
Refinery Costs	Lps/USG	0.1838	0.1838	0.1838	0.1838	0.1838
Refinery Margin	Lps/USG	0.0787	0.0787	0.0787	0.0787	0.0787
Refinery-Income Tax	Lps/USG	0.0527	0.0527	0.0527	0.0527	0.0527
EX-REFINERY COST	Lps/USG	6.2956	6.8893	6.9408	6.5497	3.9621
OTHER SUBSIDIES						
Direct Government Subsidy						
To Refinery	Lps/USG	-2	0	0	0	-0.5
Cross Subsidy **	Lps/USG	3.8615	4.1231	-4.7035	-0.8802	-1.504
Other	Lps/USG	-0.1109	-0.1109	-0.1109	-0.1109	-0.1109
EX-RACK PRICE	Lps/USG	8.0462	10.9015	2.1264	5.5586	1.8472
Consumption Tax-7%	Lps/USG	0.5632	0.7631	0.1488	0.3891	0.1293
Stabilization Fund	Lps/USG	0.15	0.15	0.15	0.15	0.15
Price to Distributor	Lps/USG	8.753	11.8907	2.3161	6.088	1.9657
Distributor's Margin	Lps/USG	0.105	0.12	0.0812	0.105	0.045
Transport Cost	Lps/USG	0.3932	0.3693	0.3181	0.3688	0.2686
Retailer's Margin	Lps/USG	0.5368	0	0.2546	0.3782	0
Consumer Price	Lps/USG	9.7964	12.3039	3.0791	6.9497	2.4401

* It excludes terminal/port fees which in an open market would be about Lps/USG.1260

** From Gasolines and Av-jet to other fuels.

Source: Mission estimates, CAP.

1.15 Taxation or subsidy considerations are not properly analyzed, and as Table 1.2 shows there is not component in the price structure for maintenance of road infrastructure. The only taxes and duties included are Ad-Valorem import tax (15%), consumption tax (7%), and a specific stabilization fund.

1.16 Institutionally, the Ministry of Economy, under CAP's advice, is responsible for setting petroleum prices, including margins for transportation and distribution. Given its operational orientation, the CAP or any other institution, including SECPLAN and the DGH, have not made any effort to establish norms or regulation aimed at establishing the necessary conditions for an increased level of competition in the petroleum market, or to efficiently regulate what Government officials sometimes call an industry characterized by being a natural monopoly. Indeed, current legislation in the hydrocarbon law, and at the General Directorate of Transport restricts the entrance of new participants in the construction of bulk oil storage facilities and gas stations.

Current Petroleum Supply Arrangements

1.17 This Section evaluates current supply arrangements and the issues surrounding current operations, including crude and finished product procurement. The recommendations listed here take into account current constraints in the Honduran institutions that are in charge of petroleum procurement, i.e., inadequate human resource training, financial and technical constraints.

1.18 The main issues addressed in this section are those related to the improvement in the operation of the refinery and the procurement of both crude and refined products. The recommendations dwell on the assumption that foreign exchange will be made available and scheduled to meet petroleum needs.

Refinery Operation

Background and Current Situation

1.19 In 1989, the lack of foreign exchange resulted in a series of petroleum supply disruptions which, in turn led to unplanned ^{2/} rationing. This was compounded by the fact that the exchange Department of the Central Bank did not prepare a forecast of foreign exchange needs for crude and finished product imports. In the July-September period, the Government had overdue payments to Texaco of about US\$21 million; in the same period, the Government incurred unnecessary expenditures of US\$230,000 due to a combination of erratic scheduling of petroleum supplies vis-a-vis foreign exchange availability. In spite of these problems, Texaco has done an efficient and commendable job in collaborating with the Government in maintaining the security of supply.

^{2/} *There does not seem to be any contingency plan to face supply disruptions.*

1.20 This situation was partially resolved when Texaco agreed to finance new crude supplies expecting that payment would be made in the next 60 days. In January 1990, the overdue payments forced Texaco to suspend any new shipments of crude and product. The recurrence has a negative impact from a fiscal viewpoint, the degree depending on levels of rationing, and will result in losses for the Honduran economy while adversely affecting any economic adjustment program.

Overview

1.21 The Texaco Refinery, located at Puerto Cortes, is a hydroskimming type refinery with a capacity of 14k Bbls. per stream day. It was built in 1968 and designed to run a light, reconstituted Venezuelan crude because of the limited local fuel oil market. In the early years of its operation, flexibility was provided by processing the tailor-made Venezuelan recon-crude which matched refinery yield to demand. In recent years, since the San Jose Accord agreement, the flexibility of having an ideal recon crude has disappeared and the El Cajon hydro project was completed, thus reducing fuel oil demand.

1.22 The refinery was designed with only limited crude and product tankage, which is a major problem today in importing finished products as well as exporting fuel oil. Surplus fuel oil can only be exported in small parcels (60k Bbls). Hence there have been only limited opportunities for economical export sales. Table 1.3 shows the amount of fuel oil exported over the last several years.

Table 1.3: FUEL OIL EXPORTS FROM TEXACO REFINERY (1983-1988).
(K Barrels)

	1983	1984	1985	1986	1987	1988
FO Exports	125.4	210.2	255.3	125.2	105.2	278.7

Source: CAP

1.23 Due to limited fuel oil exports, the refinery has not operated at capacity for any sustained length of time since reopening in 1982, running only about 50% of capacity in most years. With the current cost-plus operation, in which the Refinery receives 10,000K Lempiras before tax annually regardless of the thruput and the fact that Texaco International Trader, Inc. (Tex-Trader) is making some profit on importing products, there is currently an incentive for the Refinery not to maximize crude thruput under today's arrangement. The refinery operated at 8.5k Bbls/day in 1988, the highest average thruput since 1982. The refinery operated at 10.4k Bbls/day for the first three months of 1989 while exporting 90k barrels of fuel oil.

1.24 Since the positive announcement, in mid 1987, of the construction of a new product import terminal at the port of Tela, the refinery seems to be trying to maximize crude runs to demonstrate to the Government of Honduras the importance of the refinery operation and to reinforce their desire to continue a long term presence in Honduras. However, their efforts to maximize economical crude thruput have been impaired due to:

- (a) Delays by the Central Bank in opening Letters of Credit for crude cargoes and limited crude tankage has required the refinery to shutdown due to lack of crude. There were two 6 day shutdowns for this reason during the first ten months in 1988. Shortage of foreign exchange when needed caused these delays.
- (b) Changes by the Comision Administradora del Petroleo (CAP) on the refinery's program to import the more economical crude, from Isthmus crude to Venezuelan crude because payment is made in 60 days versus 30 days for the Mexican crude. Shortage of foreign exchange when needed was the reason for these uneconomic decisions.
- (c) CAP's cancellation of crude cargoes on several occasions in favor of importing finished products when there were extreme shortages of foreign exchange. Both Venezuela and Mexico, as suppliers of crude, require that the Letters of Credit be opened prior to loading. Tex-Trader has been willing to deliver imported products prior to having the Letter of Credit in place in order to accommodate the Government of Honduras. This intentional payment delay has been abused to the extent that as of July 1989 Letters of Credit (LOC) for Tex-Trader have not been opened or paid for some US \$20 million worth of crude freight and finished products.
- (d) Needed tank repairs in 1987 and 1988 caused operational disruptions because of limited tankage in the refinery. A new cathodic protection system has now been installed.
- (e) Many power-dips and outages. The refinery shifted its electric power source to the power utility (ENEE) in late 1987. This has proved to be an unreliable source. There were 22 such incidents in the first 10 months of 1988. The refinery should install equipment to ensure steady voltage and to automatically start their standby diesel generators when necessary.
- (f) Operational problems at the refinery, i.e., steam boilers, with many of these problems initiated by voltage drops: There were 11 boiler shutdowns in the first 10 months of 1988 (this is in addition to those 22 shutdowns due to voltage drops and power outages). The refinery is currently completing the installation of a new steam turbine generator for segregated boiler power supply.

Product Demand and Forecast

1.25 The Honduras product demand mix is middle distillate oriented (61%). A comparison of average refinery yields and product demands is shown in Table 1.4.

Table 1.4: REFINERY YIELDS AND PRODUCT DEMAND, 1988

	Refinery Production, %	Demand, %
Gasoline	18	21
Middle Distillates	43	61
Fuel Oil	36	15

Source: Texaco Refinery, CAP and Mission estimates.

1.26 If the refinery could operate at 12k Bbls. per calendar day capacity, the total required major products imports would amount to 4.5k Bbls/day (1988 demand) based on a 94% salable products yield and would produce 2.0k Bbls/day of export fuel oil. In 1989, fuel oil demand grew 28% over 1988. The main reason for this was increased bunker sales. The growth rate for superior gasoline demand was 15.5.1% in 1989 over 1988 while middle distillates demand grew 10.% over the same period. Total products demand grew 10.32% in 1989 over 1988 due largely to the fuel oil demand increase. As a reference, between 1985 and 1989, total products grew at 8.1% per year. Two growth scenarios were developed to forecast the product demands for superior 1995 as shown in Table 1.5.

Table 1.5: ESTIMATED PRODUCT DEMAND INCREASE PER ANNUM, %

	LPG & Gasoline	Jet A-1 & Diesel	Kerosene & Fuel Oil	Total Products
Scenario I	4	7	1	5.1
Scenario II	6	10	3	7.7

Source: Mission estimates.

1.27 As shown in Table 1.6, the total products growth rate is projected to be 5.1% per year and 7.7% per year in Scenario I and II, respectively. Using the above growth rates, product demand forecasts were developed for 1995.

**Table 1.6: PETROLEUM PRODUCT DEMAND AND FORECAST TO 1995
(k Barrels)**

Scenario	Actual					Forecast	
	1985	1986	1987	1988	1989	1995	
						I	II
LPG	145	147	153	180	162	236	270
GASOLINE, 95R	443	485	576	634	732	835	953
GASOLINE, 87R	384	399	421	437	442	575	657
KEROSENE	289	296	299	319	344	342	392
JET A-1	330	350	396	432	424	694	842
DIESEL	2041	1886	2140	2355	2589	3781	4589
FUEL OIL	508	406	576	744	952	797	915
TOTAL	4140	3969	4561	5101	5645	7260	8618

Source: CAP and Mission Estimates.

Refinery Tankage

1.28 The refinery, at today's capacity, becomes less relevant to the total needs of the country in 1995. By 1995 with the refinery operating at 12k Bbls./day, product imports would amount to 10.1k Bbls./day and 13.4k Bbls./day in Scenarios I and II, respectively.

1.29 If the refinery capacity has not changed by 1995, crude tankage requirements will also remain unchanged from today's needs (unless the Port Authorities dredge the shipping channel and turning basin that would allow crude cargoes of 320-350k Bbls. Thus, creating a need for an additional 200k Bbls. of crude tankage). On the other hand, the refinery's product tankage, while being extremely limited today as a product import terminal for the total demand, will present a totally inoperable situation in 1995 without additional product tankage or additional product import terminals on the North Coast. An analysis of the Refinery product tankage, using 1988 product demands, is shown in Table 1.7. Although this type of analysis is more suited to evaluating terminals (without products also being produced daily), it still demonstrates the lack of product tankage at the Refinery.

Table 1.7: TEXACO REFINERY PRODUCT TANKAGE ANALYSIS

<u>PRODUCT</u>	<u>TANK CAPACITY, K BBLs.</u>	<u>UNAVAILABLE CAPACITY, K BBLs.</u>	<u>AVAILABLE CAPACITY, K BBLs.</u>	<u>1988^a DEMAND, BBLs/DAY</u>	<u>DAYS SUPPLY</u>	<u>NET REQUIRED CUSHION</u>	<u>DAYS SUPPLY</u>
LPG	4.3 ^b	0.6	3.7	160 ^d	23	--	23
GASOLINE, 95R	34.0	3.8	30.2	1737	17	6	11
GASOLINE, 87R	30.0	3.8	26.2	1197	22	7	15
KEROSENE	14.0	1.5	12.5	874	14	6	8 ^e
JET A-1	30.0	2.8	27.2	1184	23	8	15
DIESEL	136.0	7.4	128.6	6452	20	6	14
FUEL OIL	112.0	6.7	105.3	2803 ^g	38	6	32

^a The number of days of required cushion is dependent on the number and size of tanks in each product service, whether the refinery is operating and at what level, and one day for discharging product, two days for testing Jet A-1, and a five day loading range. The standard five day loading range could be reduced in this analysis to allow larger import parcels.

^b Includes two new 30,000 gallon tanks currently under construction.

^c Kerosene, at eight net days supply, is not the limiting product because of available Jet A-1 (same product) supplies.

^d Only represents the LPG that is produced in the Refinery. Shortfall is imported through another terminal.

^e Includes 7648/D of fuel oil exports.

Source: Mission estimates.

1.30 In this analysis, the limiting product tankage is that of premium gasoline at 11 net days supply (plus 2 or 3 more days by reducing the loading range due to the refinery's own production). With the refinery operating at capacity, the clean product imports will amount to about 5,050 Bbls./day (1988 demand) indicating that the cargoes would have to be between 55-70k Bbls. (5k Bbls./day x 11 or 14 days). At a crude thruput of 8.5k Bbls./day, as was the case in 1988, clean product imports amounted to about, 6,300 Bbls./day and cargoes were between 70-90k Bbls.

Refinery Operation

1.31 Because the Texaco Refinery is currently operating under a Government established a cost-plus arrangement, it is not possible to determine the "economics" of its operation using usual methods. For the country, the marginal cost of operating the refinery is equal to the differential with the parity cost of imported products. To give a "directional indication" of what is best for the Honduran economy, a cost comparison has been made of a Refinery operating case and an imported products only case. This shows that the refinery running crude is about US\$8-12 million more costly for specific cargoes in March, May and July, 1988; this situation varies according to the crude-product price differential. These results confirm the experience of similar sized refineries in the region, namely, that a cost-plus basis is the only arrangement whereby Governments can maintain operation of these units.

1.32 Small hydroskimming refineries are not as economical as large conversion-type refineries. However, with good crude/product price relationships, as it was the case during 1988 and previously during the 1970's, small hydroskimming refineries can be marginally profitable. But this also means that the small refineries must maximize thruput. In the case of the Texaco Refinery, this also means an economical export outlet for fuel oil.

1.33 A summary of the Texaco Refinery operating costs for the years 1985-1988 is shown below. Refinery operating costs are usually reviewed and compared excluding the cost of refinery fuel because the refinery sells itself the fuel consumed and, hence, there is no effect on the refinery's profit (loss).

Table 1.8: TEXACO REFINERY OPERATING COST EX FUEL
(K Lempiras)

	1985	1986	1987	1988	1988 % of Operating Costs
Salaries, wages & benefits	3052	3564	3755	4407	30
Materials, supplies	3166	4205	5194	4486	30.5
Dredging	786	1035	1481	870	5.9
Purchased utilities	1	31	304	1021	6.9
Depreciation	1148	1184	1203	1249	8.5
Home office charges	380	370	684	863	5.8
Bank commissions	1834	1870	32	21	.14
Other	963	14344	1835	1774	12.3
Total operating costs, ex fuel	11,330	13,693	14,478	14,691	
US\$ million	5.7	6.3	7.2	7.3	
Refinery crude runs, KB	2602	1472	2317	3109	
Cost per barrel, ex fuel, Lp./BL	4.35	9.30	6.25	4.73	
US\$/BL	2.1	4.65	3.12	2.36	
Refinery fuel costs US\$ million	3.4	1.7	2.2	2.0	

1.34 The above refinery costs are high relative to refineries in the 14,000-25,000 BPSD feed. A factor for this low efficiency is the reduced thruput at which the refinery has been operating, a factor outside the control of Texaco management.

1.35 The category of Materials, Supplies, & Maintenance is generally higher than the rule of thumb average over time of 25% of total costs, excluding fuel, which comparable refineries maintain. In this four year span, the costs were 31.5% of total costs ex fuel. The amounts for depreciation in all years and the home office charge in 1988 are all normal, (in economic terms, the refinery is a sunk cost, thus depreciation would be excluded). Purchased utilities, excluding refinery fuel, is US\$.16 per barrel which is an acceptable figure.

1.36 To operate the refinery or to use it as a terminal for importing finished products is not a decision that can be changed every few months as crude/product prices change. Even more, it is a decision that should be taken by Texaco, as market conditions dictate. To shutdown the refinery would require releasing all the process unit technicians (operators) and the majority of the technical and mechanical department technicians, engineers and skilled craftsman. Also, the process units would have to be properly moth-balled, which could cost as much as \$1 million. This action can not be easily reversed. Rehiring of a competent, technical and skilled staff would be difficult and would require at least one year's training for some positions costing some \$0.5 million plus a similar amount to demothball. Shutting down the refinery would also require the cancellation of today's crude supply contracts unless such crude was sold to another Refinery for processing products for Honduras. If cancelled, after several years, these contracts probably would not be allowed to be re-negotiated.

Cost Comparisons: Crude Refining vis-a-vis Product Imports

1.37 As an "indication," three cost comparison cases were developed at different crude and product situations during 1988 showing the Texaco Refinery running crude and the Refinery operating as only a products import terminal. These annualized cases were based on data generated by the Refinery's computerized program that were run for the three dates shown and detailed in Annex II. The costs calculated were the total costs of the two types of operations excluding all duties, import and income taxes and the Excedente (surplus), all of which is received by the Government. The total U.S. dollar costs were also determined for each case. The difference between total costs and total U.S. \$ costs is any cost in Lempiras such as utilities, fuel oil export tax, local commissions and expenses associated with letters of credit, after tax profit and 90% of the fixed operating costs.

1.38 These cases show that the Refinery Running Crude is more costly by \$8-12 million/yr. than using the Refinery as a product import terminal and also requiring \$4-8 million more U.S. dollars. It must be remembered that this situation has been generated not by Texaco but by the Government's decision to work within the boundaries of a cost-plus system without the expertise at CAP to efficiently regulate or enforce a cost-plus system or move towards a more competitive environment.

1.39 The Imported Product cases assumed that the Refinery crude tanks were converted to product tankage and thereby allowing the use of fully loaded GP vessels. This assumption decreased the import products freight by US\$9 million/yr. by eliminating dead freight as compared to the current rates for importing products. It was also assumed that the Refinery would receive a thruport fee equal to that which CAP has offered to Telaport (3 U.S. cents/gal.) of which 0.5 U.S. cents/gal. was assumed to be profit. One-time costs for moth-balling the Refinery process units (estimated at \$1.0 million) and the cost

for cleaning and converting the crude tanks (estimated at \$0.5 million) were not added to the Imported Products cases and, therefore, are not included in the cost comparisons.

1.40 The Refinery Crude Running cases were based on the typical Refinery operation in 1988. However, there are a number of items that could improve the operation of the Refinery, as follows:

- (a) Increase the salable product yield from 93% used in the Refinery program to 95% or 95.5% which is within the capability of the actual Refinery operation as demonstrated in early 1989. Improvements in salable product yield can be done through efficiency projects and energy conservation and loss reduction projects (lower tower pressure, minimize excess air, improve combustion, use of more insulation, reduce steam leaks, improved metering, etc.).
- (b) Add additional fuel oil and clean products tankage to allow fuel oil exports and clean product imports to be made in fully-loaded GP sized ships. Honduras is very short on product tankage and incentives must be given to encourage Texaco and others to invest in tankage.
- (c) Negotiate an outlet for surplus fuel oil and an improved back-haul freight rate for its transportation. One possibility would be to produce straight pipestill bottoms and sell as visbreaker feed to the Maraven Refinery in Curacao; both efforts could improve net back from fuel oil \$1-2/Bbl.
- (d) Fully utilize all flexibilities allowed for in the availability of different crudes and recon components under the PDVSA contract, thereby optimizing for the most economical feedstock (including butane spike which alone would produce \$260k/year savings to Honduras for each 1%). Another example shows that, if Lamar crude was substituted for Ceuta crude, some US\$ 986K/year could be saved by Honduras. The Refinery is now making some of these optimum-operation type decisions.
- (e) Undertake de-bottlenecking projects of the refinery process units to obtain additional inexpensive capacity, improved efficiency and operation (improve boiler and furnace efficiencies, maximizing available preheat, etc.). Could obtain 20-30% inexpensive additional capacity from debottlenecking. ²
- (f) Diligently work toward reducing refinery operating costs.

^{3/} Since the completion of this report, the refinery is undertaking several projects that are mentioned in the report, including additional tanks, new processing units (Amine Scrubber/Amine recovery unit), modern boiler instrumentation, and studies for de-bottlenecking.

1.41 If the refinery improvement ideas could be implemented, the cost comparisons in Annex II would change. Also, the Government could negotiate that the Texaco Refinery import products at a more favorable FOB price than the Tex-Trader Caribbean posting, i.e. the low of Caribbean posting which is a commonly-used FOB pricing basis. Checking a number of Caribbean posting during 1988, Tex-Trader posting were 0 - \$1.26/Bbl. higher than the low of posting with averages of \$.42 - \$.63/Bbl. higher. Therefore, both the "Import Products" and "Refinery Crude" cases could be improved by at least \$.42/Bbl. The comparison shown in Table 1.7 uses an average of the three pricing cases shown in Annex I and adjusting both the "Running Crude" and "Import Products" cases to reflect the possible refinery improvements (paragraphs 1.40(a) - 1.40(f)) and to import products at \$.42/Bbl. less than today's arrangement.

1.42 The above cost comparison now indicates that running crude in the Refinery would save \$1.0 million/yr. in foreign exchange as compared to importing products. However, on total costs, the "Running Crude" case is more costly by \$2.3 million/yr which is essentially the difference in the amount of after tax profit. As before, this comparison does not include the one-time expenses associated with the "Import Products" case of \$1.0 million estimated for moth-balling the Refinery process units and \$0.5 million estimated for cleaning the crude tanks and making the necessary piping changes. With the current income tax rate of 46%, the Government of Honduras will also benefit considerably from a more improved and efficient operation of the Refinery. Some of these benefits will generate income that is not available today.

1.43 The initiation, completion and operation of the refinery improvement ideas outlined in paragraphs 1.40 (a-f) requires a stable, and fair agreement between the Government of Honduras and the Texaco Refinery with incentives to accomplish efficiency and penalties for inefficient operations. There is no present formal arrangement covering profits for the refinery. The profit allowed of 10,000K Lempiras/year (before tax) is on an ad-hoc basis and there is no assurance of profit remittance rights. The current arrangement does not reward efficiency or improved operation. With an aura of uncertainty and no incentives for improved operation, no long range planning or needed investments are hitherto being done or undertaken.

1.44 The current profitability of the Texaco Refinery requires further clarification. Based on a 5,400K Lempiras after tax profit and a net capital employed at the end of 1988 of 34,886K Lempiras (excluding the intercompany payable to the Home Office representing unpaid product imports), the nominal return is 15.5%. This is based on an exchange rate of 2 Lempiras/U.S.\$. The U.S. dollar return would also yield 15.5%. However, during the past three years, a "parallel market" exchange rate has been used increasingly for remitting U.S. dollars abroad. Using the same set of basic data from the above calculation, the Mission calculated the returns at a 4 Lempiras/U.S.\$ exchange rate (except for plant, property and equipment which remained at the 2 Lempiras/U.S.\$ rate, the historical exchange rate). On this basis, the return in U.S. dollars decreases to 9.8% shown in Annex III. This is an unacceptable return for the private sector investor if he must invest in foreign currency and take revenues in Lempiras.

Table 1.9: COST COMPARISON OF RUNNING CRUDE OR IMPORTING PRODUCTS AND ADJUSTING RESULTS TO REFLECT IMPROVEMENTS IN EACH CASE (\$ millions)

	Run Crude	Import Products	Run Crude vs. Import Products
Total Costs, Exc. Duties, Taxes & Gov't. Surplus ^{d/}	123.8	113.7	10.1
Total U.S. \$ Costs ^{e/}	113.2	106.9	6.3
1. Improve Salable Prod. Yield by 2.5%(300 B/Dx365x\$16.92/B).	(1.9) ^{b/}	---	(1.9)
2. Added F.O. Tankage: (3.90 \$/LTx $\frac{1.745}{6.7} \times \frac{140-60}{60}$)	(0.8) ^{b/}	(1.1) ^{b/}	0.3
Added Clean Tankage: Dead freight premium=\$2.09/B.	(4.1) ^{d/}		(4.1)
3. Improve netback for export Fuel Oil (613KB x 2 \$/B)	(1.2)	---	(1.2)
4. Fully utilize all flexibility under crude contracts:(Estimated)	(1.2)	---	(1.2)
5. Improve efficiency and operation (Est'd.)	(0.5)	---	(0.5)
6. Reduce Op. Costs (\$400k reduced fuel plus \$200k other)	(0.6)	---	(0.6)
7. Reduce Import Product Prices by \$0.01/gal.	(0.8)	(2.2)	1.4
Revised Total Costs. excl. Duties, Taxes & Gov't. Surplus ^{e/}	112.7	110.4	2.3
Revised Total U.S. \$ Costs	102.6	103.6	(1.0)

a/ From Annex II (Average of the three pricing cases).

b/ Based on average crude CIF cost.

c/ Running crude (613KB export fuel oil) or importing products (805KB fuel oil demand).

d/ Clean products volume is 1938 KB in "Run Crude" case. Average freight included in Refinery program to cover dead freight was \$2.09/Bbl.

e/ Total costs reflect both US\$ and Lempiras based costs.

Source: Mission estimates.

Options to Increase Efficiency

1.46 As shown in this chapter, the current regulatory system established by the Government has not provided an incentive to optimize investments and economic decisions. The mission has evaluated five options to address this issue, namely: First, to continue the current operation agreement under which Texaco is given a fixed after-tax profit of Lempiras 4.6 million regardless of their level of efficiency and operations. As illustrated in Annex 1, this alternative had an economic cost of about US\$8-12 million in 1988. This figure will vary depending on the crude-product price differential. Additionally, this

option will undoubtedly be unmanageable if inflation and devaluation require frequent adjustments in the retail prices. This option is not favorable either to the Government or Texaco ^{4/}.

1.47 **Second**, to liberalize the supply system and, consequently, retail prices with the elimination of the current price structure and maintain only the monitoring of the CIF prices (see Annex I). Retail prices will depend only on the cost efficiency of each company and will fluctuate with International prices and the exchange rate, the refinery will choose to continue operating at ex-refinery prices equal to import parity plus a thruput fee or to mothball and work as a terminal, the Government will review the Taxation system according to its budgeting requirements (including road maintenance), and the Government could consider some tax incentives for the construction of new storage facilities. The drawback of immediately implementing this option is the lack of adequate storage facility to avoid monopolistic operation, the need to train Government staff on petroleum operations, and the lack of foreign exchange, and the lack of regulatory laws to incentive competition in supply and distribution of petroleum products. ^{5/}

1.48 **Third**, continue operating the refinery and induce efficiency through pricing mechanisms by setting up the ex-refinery price equal to a CIF parity cost formula of importing products as defined by the Government. In this option the refinery, distributors and major consumers would be allowed to directly import petroleum products and/or crude oil. This option would force the Refinery to operate at an optimum thruput, to import when is more economic to do so or shut down the refinery, and reduce operating costs to become profitable. This option would require an agreement on profit remittance rights, and to implement a mechanism to adjust local prices to devaluation and inflation. The negative aspect of this option is that the clearing price (the formula CIF price) may be at times above the lowest CIF price available through bidding or deregulated markets.

1.49 **Fourth**, under which petroleum products are supplied to the import terminals by the company with the successful Government approved competitive tender. In this case the ex-refinery price is defined by the optimum CIF bid plus duties and taxes and the terminal fee, plus adjustments for devaluation. This option implies considerable level of Government intervention. Currently, however, Honduras does not have the staff or technical expertise to do competitive tender arrangements. Training of staff would be needed in supply and transportation.

1.50 **The fifth** option is an extension of the current system plus remittance rights, and requires a new, formal agreement with Texaco linked to the import parity cost plus a profit formula which would provide incentives for the Refinery to invest in projects to reduce plant losses and operating costs, increase energy conservation, decrease fuel consumption and, generally, improve Refinery operations. Also, it would provide an incentive to maximize crude throughput and the yield of salable products, it would encourage the Refinery to invest in product tankage which is urgently required. It will also

^{4/} *Additionally, Texaco will continue to be faced with the inability of remitting their profits, thus creating a level of uncertainty which may hamper any new investments.*

^{5/} *It took about 4 years of paper work to a local company to build a new bulk oil terminal. With this precedent, other oil companies have shelved new investment plans.*

provide an incentive for the Refinery to make de-bottlenecking investments to increase capacity at low cost and to ensure that adequate long range planning is being done.

1.51 The negative aspects of this fifth arrangement include the cumbersome administration and intervention by the Government, and the fact that the commercial risks are taken mainly by the Government.

1.53 In summary, in order to increase efficiency in the procurement and distribution system it is recommended that Texaco's Refinery operation be linked to the parity cost of imported petroleum products (option three), followed by the liberalization of all petroleum imports and the deregulation of the distribution system, including margins and retail prices (option two).

Table 1.10: RECOMMENDATIONS ASSOCIATED WITH REFINERY OPERATIONS

Recommendations	Constraints	Timing
1. Continue operation at Texaco Refinery, provided that improved arrangement linked to import parity cost are put in place. Distributors and major consumers allowed to import.	Refinery/Gov't. formal agreement. Implementation of all the other recommendations shown here would improve economics.	Start agreement negotiations immediately.
2. Implementation of profit/operational improvement ideas: - Increase salable product yield. - Install new product tankage. - Undertake de-bottlenecking and long range efficiency projects. - Reduce refinery operating costs.	Acceptance, fair, formal agreement between Gov't. and Refinery.	After agreement finalized, such items would continually be worked on and projects undertaken.
3. Refinery to install equipment to steady voltage and to automatically start standby diesel generators.	Capital Investment. No formal profit agreement with Gov't.	In place one year from signing a formal agreement.
4. Gradual liberalization of petroleum imports and deregulation of local prices.	Government must prepare detailed proposal including training of local staff.	Should start immediately

Source: Developed by mission.

Crude Procurement

Supply Contracts

1.54 CAP has the responsibility for purchasing the crude requirements for the Government of Honduras.

1.55 CAP has FOB-type crude supply contracts for 6,000 Bbls./day of Isthmus crude and 6,000 Bbls./day of Ceuta recon crude from PEMEX and PDVSA, respectively, under the conditions of

the San Jose Accord. The terms of these contracts are for one year and they are modified/extended annually. CAP sells the crude to the Texaco Refinery at Puerto Cortes under terms of a crude purchase/sale contract that expired on January 27, 1986 but continues to be the basis for the crude purchase/sale. This contract also authorizes the Refinery to provide the necessary freight and insurance for each cargo.

Crude Tanker Sizes

1.56 The Texaco Refinery utilizes its transportation affiliate, Tex-Trader, to handle the freight and insurance for each crude cargo. The Refinery maintains, by dredging some 150,000 cubic yards per year, a safe draft at the refinery dock of 32 feet which is also the current maximum safe draft of the ship channel and turning basin. This depth limits the size of the crude cargoes, depending on the dead weight tonnage of the vessel, as shown in Table 1.11. Vessels larger than a GP class would have to be light-loaded in order to arrive at a safe draft of 32 feet.

Table 1.11: TANKER SIZES AND TYPICAL DRAFTS

Tanker Category	Afra Class	Category Range, KDWT	Typical SIZES, KDWT	Typical Fully-Loaded Draft, Feet
General Purpose	GP	16.5 - 25 ^a	19 - 22	31 - 33
Medium Range	MR	25 - 45 ^b	35 - 38	36 - 37
Large Range-1	LR-1	45 - 80 ^b	45 - 50	39 - 41

^a Tankers in this category are normally of the 19 - 22 KDWT size.

^b Tankers with sizes between 25 - 32 KDWT are uncommon compared to availability of the 32 - 50 KDWT size.

Source: Mission estimates from Lloyd's Tanker Register.

AFRA and Worldscale System

1.57 A list of monthly AFRA's for 1988 for GP, MR, and LR-1 vessels are included in Annex IV. The same Annex includes some Worldscale flat rates for voyages associated with Honduras for both the first half and second half of 1988. Worldscale flat demurrage rates are also shown for tonnage up to 45,000 DWT. Starting in 1989, Worldscale rates are being published using the metric system (\$/MT) and the monthly AFRA adjustments are being quoted for a much narrower range of vessel sizes (MT's). For this study, all references to AFRA and Worldscale were based on the system that was in place for 1988 and for which all the data is available.

Crude Freight Arrangement

1.58 The Refinery requests that CAP arrange for crude cargoes of 180,000-220,000 Bbls. (about 24,000-29,000 LT, depending on the crude). This requested cargo size is basically between two normally-sized tanker categories with ship availability typical of 19 -22 KDWT in the GP category and 32 - 50 KDWT in the MR category. As a consequence, tankers of 32 - 50 KDWT sizes are being used

with resultant dead freight charges. However, using MR vessels with their lower freight rate and incurring up to 6,000 LT of dead freight is essentially equal to using fully-loaded GP vessels with their higher freight rates. Tex-Trader has a dead freight costing formula for using MR vessels that limits the amount of dead freight that can be charged. The total MR vessel freight rate cost (including dead freight) would never exceed an amount it would cost if the cargo had been delivered on a GP vessel. Therefore, the present arrangement of requesting 180,000-220,000 Bbls. cargoes and the use of MR vessels with the current dead freight formula should be continued to take advantage of the possibility of using the MR vessel, when available, with lower freight rates, but never having to incur dead freight charges greater than if the total cargo was transported on a GP vessel.

1.59 The current Tex-Trader crude freight contract for Honduras is a good arrangement. The advantages can be summarized as follows:

- (a) Tex-Trader is a large organization with its own and chartered tankers as well as access to other shipping to ensure obtaining tankers when required. With only 336kB of available crude tankage in the Refinery (two tanks) and after deducting the seven days required cushion for replenishment (3 day loading range, 1 day loading, 1 day discharging and 2 days settling) there is only another six days supply available after providing space for a 180kB cargo (or three days supply when importing a 220kB cargo) and operating at maximum crude thruput. Consequently, it is critical to be able to provide a ship in the required date range.
- (b) If the tanker market became tight, being with a major oil company with its own fleet would be beneficial compared to total reliance on spot market availability which, even today, is a relatively thin market.
- (c) Freight rates are based on Worldscale system with AFRA adjustments. The AFRA system is based on actual average chartering costs incurred 15 to 45 days prior to the month used. Therefore, it does reflect the level of the actual tanker market, although it is a slightly delayed reflection.
- (d) Dead freight costs, associated with MR vessels, are limited to the rate of using a fully loaded GP vessel or less under the present costing formula.

1.60 It is recommended that the current crude freight arrangement be continued at this time.

1.61 The Texaco Refinery advised that the Port Authority for Puerto Cortes has long range plans to dredge the ship channel and turning basin to a 38 feet safe draft. At that time, the Refinery should review the economics of building an additional crude tank and, also, to keep the dock dredged for a safe draft of 38 feet. The annual savings in freight costs, using light loaded 50k DWT's, should be more than adequate to provide an acceptable return for the investment. Under today's operating

arrangement, such savings would pass to the Government of Honduras via an increased "Excedente". Any new arrangement must include some incentive for the refinery to make this type of investment.

Flexibility and Optimization of Crude Procurement

1.62 CAP indicated that they have agreement from PDVSA for considerable flexibility under the crude supply contract regarding types of crude, recon components and the amounts of each but holding to the total availability of 6,000 barrels/day of recon crude. Only recently the refinery has been made aware of this flexibility. Since the refinery has a good computer optimization model, the Mission recommended, and the refinery has agreed, to run this program each time there is a significant change in crude and product prices to determine the most economical feedstock composition. The refinery then advises CAP who, in turn, determines if PDVSA would supply the proposed composition. Since April, 1989, the Venezuela recon crude has been optimized and has included at least 1.0% butane (based on a verbal recommendation by the mission) and changes have been made in other components as well.

1.63 If these optimizations had been implemented in 1988, Honduras would have saved \$260K/year in LPG product imports costs for each 1.0% butane recon component and \$986K/year if Lamar crude had been substituted for Ceuta crude (Based on prices as of November 15, 1988).

1.64 Operation under the present crude supply contracts offers an opportunity for optimizing crude choice (Venezuelan or Mexican crudes) which the Refinery has the capability of doing through use of its computer optimization model. When the Refinery is operating at capacity (12,000 Bbls./day), there is no choice to run Venezuelan versus Mexican or vice-versa except for optimizing the composition of the Venezuelan recon. However, if the Refinery is having operating problems and is running less than 12,000 barrels/day, the optimum crude to be maximized can be determined and the Refinery should prepare their running plans accordingly. Computer programs that were run using prices in effect for February 25, April 8 and July 7 (all in 1988) all concluded that Isthmus crude was the most economical choice. Although the refinery requested more Isthmus crude, CAP deliberately changed a couple of the cargoes to Venezuela recon because of the 60 credit terms with Venezuela (versus 30 days credit with Mexico). This costly decision was due to lack of sufficient foreign exchange when needed.

1.65 In 1988, Isthmus crude only made up 42% of the crude charge that averaged 8,518 Bbls./day when the Isthmus crude should have made up 70% of the total. The annualized computer program results for April 8 and July 7 cases indicates that the Government of Honduras lost an opportunity of increasing the amount of their differential (profitability) by 11.3 million lempiras and 15.1 million lempiras, respectively.

1.66 The annualized computer program also calculates the total U.S. dollar outflow for each case. The annualized results for the April 8 and July 7 cases indicates that the actual operation versus the optimum, cost the Government of Honduras some US\$5.7 million and US\$7.3 million in foreign exchange, respectively. Of course, these two sets of results are annualized, offering limited data and the programs were not run each time a recon component, crude or product price change took place during the year. However, there is no question about the overall conclusion that Isthmus crude should have been

maximized; only the exact magnitude of what it cost the Government of Honduras is difficult to determine. This demonstrates that Government intervention on operation issues is far from efficient. It is recommended that the Refinery be kept up to date regarding prices on all crudes and recon components and that the computer program be run each time there is a significant change in product or feedstock prices.

Summary of Recommendations, Constraints and Timing

1.67 A summary of the recommendations associated with crude procurement and the timing of their implementation is shown below.

Table 1.12: RECOMMENDATIONS AND TIMING SUMMARY

Recommendations	Constraints	Timing
1. Optimization of crude choice by computer to maximize most economical crude after each significant crude or product price change.	None	Has now been implemented.
2. Continuation of the current crude freight arrangements.	None	Continue present contract this time.
3. When Government dredges ship channel and turning basin, Refinery to maintain dock at 38 ft. and build additional crude tankage.	Gov't plans to improve port.	Long term. Requires Refinery to have incentive for new tank construction in their operating agreement with Government.

Source: Mission developed.

Finished Products Procurement

Supply Contract

1.68 The Texaco Refinery has a finished products CIF purchase agreement with Tex-Trader that covers the supply and transportation of refined petroleum products delivered to the Texaco Refinery installation at Puerto Cortes. The contract is based on Tex-Trader Caribbean posting and payment within 60 days with financing charges for the second 30 days. As of October 1990, the Refinery was the only terminal available in Honduras to import these products. Asphalt, Avgas and LPG are imported by others, in small parcels, through their own limited facilities. The arrangement being used by the Texaco Refinery for importing finished products has been acceptable to CAP since there are no other current alternatives to insure that the product shortfall will be continuously covered. This situation should change once the new terminal in the port of Tela is operational.

Finished Products Freight

1.69 The lack of product tankage at the Texaco Refinery allowed cargoes of up to about 90,000 barrels during 1988. As a consequence, the freight element in the CIF price for the products is high as it includes dead freight and multi-port discharge costs, even though it is based on Worldscale AFRA adjusted rates. In June, 1989, due to a last-minute cancelled crude cargo (lack of foreign exchange), an urgent product import was made with only 59KB and incurred a freight rate of \$25.81/LT. Emergency product imports are developed outside the normal shipping plan by Tex-Trader and do not benefit from shared transportation to other Texaco locations. There was about 65% dead freight on this shipment.

Other Issues Involving Products

1.70 New Terminal at Tela. Because of the need for additional product tankage and a desire to have another product import terminal, the Government of Honduras has set up a list of cumbersome prerequisites for any party wishing to construct a marine terminal for the purpose of importing finished product shortfalls. One such terminal has been constructed by Dippsa at Tela. While the participation of other parties in petroleum product imports is a positive step, there are several items included in the list of prerequisites that need modification, such as:

- (a) The amount of required storage is stated to be 230-250k Bbls. distributed in such a way to allow importation of each clean product produced by the refinery plus aviation gasoline. The terminal being constructed at Tela originally involved 9 tanks with a total installed capacity of 226 K Bbls. As shown in Table below, that tankage configuration would only permit cargoes of 125k Bbls. with every third cargo of 132k Bbls. This is based on the 1990 (Scenario I) demand and with the refinery operating at capacity (12k B/D). A lower than capacity crude rate and/or the higher product demand in later years would reduce the permitted cargo size even further (in 1995, a cargo would be required every eight days with the tankage configuration shown in Table 1.13 with a maximum permitted cargo of 81k Bbls.). At the minimum 280k Bbls. of total tankage is required. With such tankage, the permitted cargo size in 1990 could be as high as 194k Bbls. and in 1995 the cargo size could be 153k Bbls. CAP advised the Mission during the last visit that two additional tanks were being constructed that will bring the total installed tank capacity to 280K Bbls. Their sizes were not made known to the Mission.
- (b) The required import volume must be made in 180,000 Bbls. cargoes. This is an odd-sized cargo. A fully loaded GP vessel (19-22KDWT commonly available size) would be more practical to insure no dead freight with cargoes of 150-168 k Bbls.
- (c) All offshore product purchases, ocean freight and insurance to be done through the offices of CAP. At this time, CAP does not have the expertise to handle this. A knowledgeable supply and transportation person with industry experience on all aspects of petroleum product quality will be needed. In addition, such a person would have to coordinate all the local marketers purchases from the refinery and from any third party

terminal to insure that sufficient ullage in all products always exists at the Refinery so that maximum crude runs are always maintained.

- (d) The prerequisites, as written, infer that a new terminal would be handling the import of all the products shortfall (quantities not produced by the refinery). Since the refinery has product tankage (although limited at this time) and currently handles all product importations, the refinery should also be considered as a viable product importer too. If the Refinery builds additional tankage so that fully loaded GP vessels could be used, they must also be considered as a legitimate import terminal. This will insure that Honduras is receiving its finished products at the lowest CIF prices.
- (e) The prerequisites, as written, do not adequately cover the very important subject of product quality. As mentioned in (c) above, product quality must first be addressed in the offshore acquisition of the products. Then, again when the products reach Tela aboard a vessel (in-transit contamination). The Mission understands that only one receiving line is being constructed and without pigging installations. The receipt of products into PetroTela tankage will involve some product contamination (with or without pigging). With pigging, there would be a small amount of product downgrading which would be manageable. No provisions are being made to check product quality on-shore. After receipt of products into PetroTela the handling and blending off of the batch interfaces has not been considered. Normally, the major product distributors will not lift products from any terminal without full assurance that all key specifications are within the proper limits. The laboratory testing results and analyzes of each tank ready for delivery must be available to all distributors before each product is loaded for sale to the consumer (quality certificates).
- (f) The contract, which was submitted to the Congress for its approval, places the CAP as exclusive buyer for products, thus promoting further Government intervention.
- (g) The contract, as written, guarantees a terminal margin. This will not give any incentive to be efficient; such practice should be discontinued under the liberalization of the petroleum market.

Table 1.13: TANKAGE UTILIZATION AT THE PROPOSED PETROTELA ^{a/}

Product	1990 ^{b/} Total Shortfall, B/D	Tank Cap., KB	Less Tk. Stms., KB	Pumpable Cap., KB	Days Supply	£/ Cushion	Net Days Supply
95R Nogas	400	21.0	1.5	19.5	49	7	42
87R Nogas	833	42.0	3.0	39.0	47	6	41
Kerosene	200	10.0	1.0	9.0	45	7	38
Jet A1	1,287	42.0	3.0	39.0	30	9	21
Diesel	4,005	101.0	6.5	94.5	24	6	18 ^{d/}
Avgas	120	10.0	1.0	9.0	75	9	66
Total	7,071	226.0	16.0	210.0			

2 cargoes: (7,071 - 120) x 18 days = 125K Bbls.
 1 cargo : (7,071 - 120) x 18 days+ (120 x 54 days) = 132K Bbls.

- ^{a/} Not including the two new tanks 54KB (size and service of each not specified).
^{b/} Product shortfall with refinery operating at capacity (12 KB/D).
^{c/} Cushion comprised of a typical 5 day loading date range, 1 or 3 days for settling and testing (3 days for aviation products) and 1 day shutdown of tanks when receiving cargo. If more than one tank in service, the 1 day shutdown to receive cargo is not necessary.
^{d/} Diesel is limiting product at 18 days (i.e., an import is required every 18 days).

Source: Mission estimates.

1.71 Petroleum Products Storage Capacity for Future Demand. Honduras will require new storage capacity in the next five years. The failure to add new capacity may bring some disruptions and may hamper the entrance of new companies into the importation of products. Essentially, all of the bulk product tankage in the country is located at the Texaco Refinery, and PetroTela in the future. As the table below shows, there will be 12-29 days supply of clean products in 1995 (assuming no contamination of products nor problems of foreign exchange) and up to 36 days supply of fuel oil. The refinery is constructing 60k Bbls. of clean product storage which would add another 5 days supply. While this capacity is adequate to supply the country with 2.5 cargoes per month, it is inadequate to sustain any serious emergency or delay; additionally, and equally important, the lack of storage capacity may preclude new competition derived from companies interested in importing petroleum products, from entering into the market.

Table 1.14: TANKAGE CAPACITY FOR SELECTED PETROLEUM PRODUCTS (1995)

	Tankage Capacity KBBLs	Unavailable Capacity KBBL	Available Capacity KBBLs	1995 Demand BBL/D	Days Supply	Net Required Cushion Days	Net Days Supply
95 R Nogas	55	5.3	49.7	2,611	19	7	12
87 R Nogas	72	6.8	65.2	1,800	36	7	29
Kerosene	24	2.5	21.5	1,074	20	7	13
Jet A-1	72	5.8	66.2	2,307	29	8	21
Diesel	237	13.9	223.1	12,572	18	6	12
Fuel Oil	112	6.7	105.3	2,509	42	6	36
			531.0	22,873			

Source: Mission estimates.

1.72 The location of the present storage (Texaco Refinery) and the proposed terminal (Tela) is away from the large consuming centers (Tegucigalpa and San Pedro Sula) and, therefore, not ideally located for national security. To improve this situation, a clean products terminal should be evaluated to be constructed in San Pedro Sula and be supplied by pipeline from the Texaco Refinery. This would put the new storage at one of the major consuming centers as well as placing the new tankage in route to the largest consuming center. Such a project should be considered by the Government of Honduras to be developed by private investors. It must be accepted that adequate emergency product supplies and their associated facilities are a costly undertaking and are usually financed by a surcharge passed to the consumer. However, in this particular case, the possible terminal in San Pedro Sula, supplied by pipeline, would eliminate road transportation costs now being incurred and this would provide a portion of the overall costs.

Summary of Recommendations, Constraints and Timing

1.73 A summary of the recommendations associated with product procurement and the timing of their implementation is shown below:

Table 1.15: RECOMMENDATIONS AND TIMING SUMMARY

Recommendation	Constraints	Timing
1. To strengthen regulation and enforcement for new marine terminals i.e. <u>product quality, cargo size, safety</u> . CAP to advise import needs and that new Terminal does not have exclusive supply rights, rather, the new terminal's operation should be subject to competition with Texaco's facilities.	Lack of expertise in CAP to handle coordination and technical role stipulated in prerequisites.	Need to hire and train a supply and transportation specialist with product quality expertise.
2. Review project associated with proposed new terminal in San Pedro Sula (Supplied by pipeline). Determine cost and economics.	Ability of investors to obtain funds and support to undertake project for national security purposes.	Long Term.

Source: Mission developed.

II. ALTERNATE CRUDE AND PRODUCT SUPPLY POSSIBILITIES

2.1 The various crude and product supply and transportation possibilities reviewed in this chapter are shown below.

TABLE 2.1. CRUDE AND PRODUCT SUPPLY AND TRANSPORTATION ALTERNATIVES

SUPPLIES		TRANSPORTATION	
Crude	Products	Crude	Products
1. Current arrangement using San Jose Accord crude at Texaco Refinery.	Current Arrangement purchasing from Texaco at Tex-Trader prices.	Current Arrangement with Texaco.	Current Arrangement with Texaco.
2. Spot market crude through Texaco Refinery.	Spot market import through Refinery.	Spot market for crude Tanker.	Spot market for clean product tonnage.
3. Term Arrangement with Oil Producing country for Texaco Refinery or third party.	Bidding term arrangement by the Government with major oil companies or other suppliers.	Bid for voyage/term arrangement with major oil companies.	Bid for voyage/term arrangement with major oil companies.
4. Processing crude at third party Refinery.	Products available from processing crude at third party Refinery.		
5.	Liberalization of Product imports.		Arranged by each company under an agreed freight formula or provided under a pooled arrangement.

Source: Developed by Mission.

Elimination of Certain Supply and Transportation Possibilities

2.2 There are certain crude, product and transportation possibilities that require discussion and then will be discarded because of their impracticality in transporting and providing supplies to Honduras at this time or in the future, as follows:

- (a) **Spot Market Crude Supplies.** The crude spot market is usually an availability in large quantities or on large ships that would require lightering. Small refineries have limited flexibility to handle the variety of spot market crudes available with no opportunity to blend for a more constant quality feedstock. Plant design of most small hydroskimming refineries is highly heat integrated which requires feedstock similar to their original design. Quality of spot market crudes is quite varied. Sulfur, vanadium and salt content as well as whether the crude is basically naphthenic or paraffinic could be a factor that would not allow the crude to be run at a particular refinery from a unit process or

product quality standpoint. The limited crude tankage in the Texaco Refinery results in providing four (4) days supply in addition to the normal replenishment three (3) days cushion and would require that the crude be available and arranged for with essentially no room for delays. Also, in times of tight crude supplies, the spot market disappears. Therefore, the basic variable nature of spot market crudes offering acceptable qualities and the need for precise scheduling eliminates this supply possibility for the Texaco Refinery. The possibility of benefits of the spot market price could be completely offset by the need to lighter. Even if the Refinery has additional crude tankage in the future, there are too many other detrimental factors to consider the spot market as a suitable, adequate and assured crude source for Honduras. It is recommended that crude supplies from the spot market not be considered further.

(b) Term Arrangements for Crude Supplies. The possibility of purchasing crude under a term agreement from an oil producing country, either for running in the Texaco Refinery or for third-party processing, has less advantages than purchasing crude under the terms of the San Jose Accord. The advantages of using San Jose Accord crude are as follows:

- Security of crude supplies should be considered better than term arrangements, which are usually for one year, because of the general concept/philosophy of the San Jose Accord in which the supplier countries have agreed to provide crude as general assistance to Caribbean/neighboring countries.
- Generally, prices for term crude supply contracts are essentially the same as the prices being used under the San Jose Accord.
- Purchases under the San Jose Accord allow long term (15 year) loans at 6% interest for up to 20% of the purchased value. Honduras has utilized this benefit.
- In the past, Venezuela and Mexico have allowed countries purchasing San Jose Accord crude to have it processed at third-party locations as long as the country receives the resultant products.
- Consequently, term arrangements for crude supplies will not be considered further. If crude is required as the least cost option for processing in the Texaco Refinery or by a third-party, only crude supplies available under the terms of the San Jose Accord will be considered.

(c) Crude Transportation. Crude transportation is discussed in detail in paragraphs 1.53 and 1.54 and concludes that the current freight arrangement with Tex-Trader is the recommended method at this time. No further consideration will be given to utilizing the spot market for crude tankers. A bidding arrangement with the major oil companies by voyage or on term is a possible long term option for crude transportation and is discussed below.

- (d) **Product Transportation.** The current product tankage in the Texaco Refinery is very limited as discussed before. Therefore, ships must be chartered for a specific fixed loading range date with very little opportunity for flexibility to change this date range without affecting the cargo size or causing a product run-out. The ability to charter GP sized clean tankers on the spot market for such a precise schedule would be risky. The spot market for clean GP vessels is a thin market. Owners of many of these vessels will not transport leaded products and this restriction is being used more and more making the availability of suitable tankers on the market even more scarce. With the present amount of product tankage at the Refinery, product import voyages will incur considerable dead freight on GP sized vessels. In 1988 when the crude charge was only 8.5k Bbls./day, import parcels of up to 90k Bbls. were possible. On three voyages reviewed, the average dead freight paid by the Government amounted to \$37k per vessel. However, another \$10k per vessel could have been charged if Texaco had not utilized the same ships on multi-port discharge voyages. With the refinery operating at capacity, import parcels will be 55 -70k Bbls in 1989 with substantially higher dead freight costs. Because of the need to fix a vessel to a very precise loading schedule, the leaded products restrictions affecting availability of GP clean tankers in the spot market and higher dead freight charges without multi-port discharge possibilities, it is recommended that clean products transportation not rely on the spot market.
- (e) **Spot Market Product Supplies.** Products available on the spot market are offered in full cargo lots which can not be considered by Honduras. With limited product tankage at the Texaco Refinery, part cargoes of three or four products with specific qualities have to be arranged with assurance of availability and with very little flexibility in the required loading date range. Therefore, the spot market should not be considered as a source for Honduras product import needs in the short term.

Processing Crude at Third Party Refinery

2.3 In Annex V, the possibility of purchasing crude under the San Jose Accord and processing it at a a third party refinery (Curacao) was reviewed. For comparative purposes, four cases were developed. The Base Case represents the current operation of the Texaco Refinery with all product imports at Tex-Trader prices and a dead freight premium. These prices are an average of those used in the three cases in Annex II. Cases I and II are based on processing two crude slates in Curacao and using Tex-Trader prices on all shortfall product purchases. Crude transported on 50 KDWT tankers and the products to Honduras on fully loaded GP's. Case III represents a product imports case (refinery is shut down but operates as a terminal). A summary of the Annex V cost comparison cases is shown below. These cases are only intended to indicate directional results.

Table 2.2: SUMMARY OF COMPARATIVE COSTS OF PETROLEUM SUPPLY CASES
 (Excludes duties, taxes, and surplus to Gov't)
 (K Dollars)

Base Case	Case I	Case II	Case III
Texaco Refinery Run 5.9K/D Isthmus Run 6.0KB/D Ceuta Recon Current Product Import Arrangement	Curacao Refinery 6.0KB/D BCF 24 5.9KB/D Isthmus Shortfall Products Purchased at Tex-Trader Posting	Curacao Refinery 6.0KB/D Lagotreco 5.9KB/D Isthmus Shortfall Products Purchased at Tex-Trader Posting	Import Products direct to Texaco Refinery on full GP vessels. Products purcha- sed Tex-Trader Posting
Total Costs (a) 124,973	(b) (c) 110,365	(b) (c) 117,316	116,158

- (a) Crude and product prices are average of the three cases shown in Annex 1.
 (b) Processing arrangement includes \$1.25/B processing fee, delivery of 95% saleable product yield and a minor product exchange based on value (1.3 Bbls. F.O. per 1.0 Bbl. diesel and 1.2 Bbls. diesel per 1.0 Bbl. 95R Gasoline).
 (c) Crude transported to Curacao on 50K DWT tankers. Products transported to Honduras on fully loaded GP vessels.

Source: Mission estimates.

2.4 The results of these cost comparisons, indicate that processing a heavier than present crude at Curacao is "directionally" the lowest cost case. The processing crude at Curacao cases are intended to give only directional costs since the exact unit processes that would be used and the resultant yields may be different than those assumed. However, even another \$0.50/Bbl. processing fee would only add another \$2.2 million to the overall cost. Additional crude combinations could have been worked using lower priced crudes that may be more suitable to the conversion equipment available at Curacao. More familiarity with the Curacao Refinery was needed as well as knowing what other types of crude PDVSA would be willing to supply under the San Jose Accord. The heavier cheaper crudes would result in the least cost cases. Each of the cases could be improved somewhat, with the Base Case having the largest possible improvement potential, as shown below.

**Table 2.3: POSSIBLE IMPROVEMENTS TO ALTERNATE SUPPLY CASES
(K Dollars)**

	Base Case	(K Dollars) Case I	Case II	Case III
1. Products purchased at \$.01/gal. less than today	814	548	551	2,213
2. Texaco Refinery to improve salable yield to 95.5%. (valued at average crude price)	1853	-	-	-
3. Additional clean product tankage to allow use of full GP's. (Dead freight Premium=\$2.09/B)	4050	-	-	-
4. Additional fuel oil tankage to allow exports in full GP's.	828	-	-	-
5. Improvement in optimizing available feedstock from Venezuela.	1246 (a)	-	-	-
6. Improve outlet for F.O. export (Est. @ \$2/B).	1226	-	-	-
7. Reduce Operating Costs, (Est.)	600	-	-	-
TOTAL COST REDUCTION	10,617	548	551	2,213
TOTAL COST FROM TABLE 2.2	124,973	110,365	117,316	116,158
TOTAL COST AFTER IMPROVEMENTS	114,356	109,817	116,765	113,945

(a) Example: 1% butane spike would save \$260K/yr. Running Lamar crude would be \$986K/yr. more profitable to Honduras than running Ceuta crude in 1988 (Nov. 1988 prices).

2.5 After these improvement adjustments, the Base Case is essentially the same cost as importing products (Case III) but not as economical as processing the heavier crudes in Curacao. The overall difference between operating an improved Texaco Refinery or processing at Curacao is \$4.5 million/year. This may not be justified when considering any political desirability of keeping the Texaco Refinery operating (provision of jobs, total payroll effects on Puerto Cortes, etc.). It is recommended that conversations be held: (i) between CAP (together with a petroleum specialist) and PDVSA regarding a wider choice of crudes under the San Jose Accord and (ii) between CAP (together with a petroleum specialist) and Maraven regarding possible processing at Curacao with a need to obtain yields from various crudes and associated product pricing. The processing at Curacao cases can then be evaluated more accurately.

Term Arrangement for Product Purchases

2.6 The current arrangement for purchasing the product shortfall for Honduras is basically a term contract at Tex-Trader Caribbean posting. This contract (between Tex-Trader and the Texaco Refinery) should be improved by the intervention of CAP requesting that the FOB products price be changed, to perhaps as much as the Low of Caribbean posting. This should be done immediately and represents about all CAP should do in the short term.

2.7 Caribbean posting should be the basis of FOB product pricing into Honduras. For the first 22 cargoes of clean products imports in 1988, the Texaco Refinery compared the CIF product cost using the mean of U.S. Gulf prices (adjusted for quality and volume) with the actual CIF product cost using Tex-Trader Caribbean posting. After 1,844,375 barrels of product (\$41.5 million), the actual CIF costs were \$58k lower than if the mean of U.S. Gulf prices and a U.S. Gulf source had been used. Consequently, U.S. Gulf prices should not be considered as an alternate pricing basis for Honduras but rather the mean or low of Caribbean posting should be the basis. The Esso postings should not be included with the Caribbean posting since they are higher being based on product availability at the Bahamas (outside of the Caribbean).

2.8 When CAP has a well-trained Supply and Transportation (S. & T.) Coordinator in place, there may be some advantage to submit requests to the major oil companies and other suppliers, such as Maraven, Trintoc, Petrojam, etc., to bid on six month or, more preferably, one year supply arrangements. Usually such agreements tie their prices to price changes with Caribbean posting or U.S. Gulf prices. The term arrangement allows the supplier to be able to arrange for the needed crude to produce the products required under the contract and, the longer the term, the firmer the arrangement is likely to be with the best pricing. CAP can not enter into such arrangements without a qualified S. & T. Coordinator who is able to analyze bids, understand and be familiar with product quality and the value and importance of each specification. Therefore, it is recommended that CAP employ the highest qualified S. & T. person available and insure that he receives further training in S. & T. matters. Annex VI lists the details of the job description for the S. & T. Coordinator.

Voyage/Term Arrangements for Crude Transportation

2.9 The recommended crude freight arrangement at this time is the one that exists today. However, when CAP has a qualified S. & T. Coordinator in place, it may be worthwhile to consider requesting bids from all major oil companies for a term freight arrangement (one year). With present crude tankage, the only hope for benefits would be from the possible alignment with a company that could provide more tankers of the 25-32K DWT size and, thereby, improve the freight rate (less dead freight). On the other hand, the present arrangement is a good one and may not be worth jeopardizing. Arrangements for crude freight by voyage should definitely not be considered at this time because Honduras would be uncovered with regard to any transportation commitment during an era of limited crude tankage (little or no flexibility in providing tankers on a specific date range and needing a major oil company's commitment on the use of their fleet and their access to other shipping).

2.10 In the long term when CAP has a S. & T. Coordinator and additional crude tankage has been constructed and the Refinery's dock is at 38 feet (after the Puerto Cortes Port Authority dredges the ship channel and turning basin to 38 feet of safe draft), it would definitely be advantageous to Honduras to request yearly bids for crude transportation from all the major oil companies. Yearly arrangements undertaken by the oil companies also allow them to plan their total chartering needs which reinforces their commitment to assure coverage. Such an arrangement would provide Honduras with the most economical crude freight cost while providing the assurance of coverage when needed. Even with additional crude tankage in the long term and with a S. & T. Coordinator, it is not recommended to consider arrangements

for crude freight by the voyage. During tight tanker market conditions, there is no commitment to assure coverage which is a very important factor for Honduras.

Voyage/Term Arrangements for Products Transportation

2.11 At the present time, clean products freight should continue to be provided by Texaco on the present AFRA adjusted Worldscale basis, allowing Texaco to use its own or long term chartered vessels and with the possibility of economizing when having multi-port discharge voyages.

2.12 When additional product tankage has been constructed in the Refinery and/or another third party marine terminal is available on the North Coast, fully loaded GP-sized tankers can be used. With CAP's S. & T. Coordinator in place, CAP could arrange for yearly bids from all the major oil companies to supply coverage for Honduras. This would be a very economical way to obtain the required tonnage and have assurance of coverage. Under such arrangements, the major oil company has the opportunity to include the Honduras requirements with their own in order to fix their total in-chartering needs. This would result in the most economical coverage.

2.13 When there is additional product tankage in the Refinery and or another third party even with a S. & T. Coordinator, CAP should not consider arranging product transportation on a voyage by voyage basis. There is too much risk being able to fix a tanker when needed and, over the long term, the freight rates would probably not be competitive with a term arrangement. Also, a voyage by voyage arrangement would most likely involve brokers whose fees are 3% and higher. Therefore, it is recommended that biddable term arrangements be used in the longer term (when additional product tankage is available) and not to rely on voyage by voyage coverage.

Liberalization of Petroleum Imports

2.14 This option coincides with the recent economic policies adopted by the Government, particularly monetary policies. Under this option the Government would strengthen its regulatory capacity to allow the free importation of petroleum products, and consequent deregulation of retail prices. As a result: i) the price will depend on the cost efficiency of each company and will fluctuate with the International price and the exchange rate; ii) the refinery would chose either to continue operating based on market conditions or convert the crude tankage to clean products; iii) as the market grows, new companies could enter and compete in the market; and iv) the Government would review the petroleum taxation system according to requirements at the exchequer. The major constraints to adopt this measure in the foreseeable future is the lack of tankage capacity (an entry barrier), foreign exchange restrictions, the lack of laws regulating the rental of storage facilities to other parties and Government staff experience in petroleum operations. The use of Government approved pooled competitive tenders could be done in the medium term after training of Government staff.

Improved Freight Rate for Fuel Oil Exports

2.15 Fuel oil exports are transported as backhaul on ships that have just delivered crude to the Texaco Refinery. Backhaul freight should be very cheap freight. It is recommended that CAP (together with a petroleum transportation specialist) negotiate a fair backhaul rate with Tex-Trader in order to improve the fuel oil net-back to the Texaco Refinery.

Summary of Recommendations, Constraints and Timing

2.16 A summary of the recommendations associated with alternate crude and product supply and transportation possibilities and the timing of their implementation is shown below.

Table 2.4: RECOMMENDATIONS AND TIMING SUMMARY

Recommendations	Constraints	Timing
1. Spot market not be considered for crude supplies.	None	Immediately.
2. San Jose Accord term arrangement for crude is preferable over all others.	None	Immediately.
3. Spot market not to be considered for product supplies.	None	Immediately.
4. CAP and PDVSA should hold talks to determine total choice of crudes available under San Jose Accord for third party processing.	Need petroleum specialist to assist in talks.	As soon as petroleum specialist available.
5. CAP and Maraven (Curacao Refinery) should hold talks to obtain yield data from various crudes, processing fee, total recovery and product prices for a possible processing arrangement.	Need petroleum specialist to assist in talks.	As soon as petroleum specialist available.
6. Continue operating Texaco Refinery with new Gov't. Honduras agreement on profit and remittances linked to import parity cost.	Need to negotiate new agreement	As soon as new agreement in place.
7. Spot market not to be considered for crude transportation.	None	Immediately.
8. Voyage by Voyage arrangements for crude transportation should not be done in either the short or long term.	None	Immediately.
9. Improve FOB pricing aspect of current product supply arrangement from Tex Trader Caribbean posting to low of Caribbean posting.	CAP to hold talks with Texaco Refinery and Tex-Trader. Short term advisor needed.	Should start this immediately when Advisor is available.
10. Spot market not be considered for product transportation.	None	Immediately.
11. Voyage by voyage arrangements for product transportation should not be done in either the short or long term.	None	Immediately.
12. Current product freight arrangement should continue.	None	Immediately.
13. Improve backhaul freight rate for fuel oil exports by negotiation with Tex-Trader.	Need petroleum transportation specialist to assist in talks.	As soon as trans. specialist available.
14. To prepare proposal and requirements for liberalization of petroleum imports.	Will require short term assistance.	Short term

Source: Mission developed.

PART II

This section evaluates the current financial system to monitor those transactions related to the importation of crude and products and proposes an enhanced system to structure the planning and scheduling at different levels.

III. CURRENT FINANCIAL INFORMATION SYSTEM

3.1 The current flow of information includes the generation of reports involved in the purchase and sale of crude and the purchase of refined petroleum products and lead as required for the supply of petroleum products, and the calculation of revenues generated from the excedente, which is subject to changes from price variations.

3.2 The main issue is the lack of planning and scheduling at different levels. The mission's proposed system will produce the requests for LOCs and their liquidations, CAP's crude and Excedente invoicing to the Texaco Refinery and will provide the BCH with monthly and annual forecasts of foreign exchange needs for the supply of petroleum products.

3.3 The remainder of this chapter shows the main bottlenecks on the current system, including the forecast of foreign exchange needs, issues in LOCs, and issues surrounding the calculation of the excedente.

Forecast of Foreign Exchange Needs

Background

3.4 As of January 1990, the Exchange Department of the Central Bank did not prepare forecasts of foreign exchange needs for crude and finished product imports nor of the foreign exchange requirements from other sectors of the economy. The Mission believes that the lack of adequate planning to meet these needs is the chief contributor to the costly delays that arise and the uneconomic decisions that are taken when letters of credit are needed, assuming that there is sufficient foreign exchange available. A lack of foreign exchange even more strongly supports the need to forecast requirements in order to prioritize them against the availability of funds. According to the Exchange Department of the Central Bank, an attempt was made to prepare such forecasts and the pertinent information was solicited from the various sectors of the economy; however, their attempts failed for lack of cooperation.

3.5 Insofar as crude and finished products needs are concerned, the Texaco Refinery currently provides CAP with monthly import requirements of both crude and refined products for the next three months before the tenth (10th) of the month. These estimates also include the loading date range at the loading port and the expected time of arrival (ETA) at the discharge port. CAP, upon receipt of these estimates, calculates the value of the cargoes using current prices. These estimates are forwarded to the Central Bank for planning purposes according to CAP. The Central Bank maintains, however, that they do not receive these estimates.

Proposed Procedure

3.6 Two forms have been designed to provide the Central Bank with annual forecasts and monthly updates for the next three months of the estimated volume and value of crude and products imports. The forecasts will also include the estimated value of fuel oil exports which should be of value to the Central Bank in anticipating foreign exchange proceeds since each export parcel is worth approximately \$500k based on early 1989 prices. Annex VII shows the annual forecast format and Annex VIII the monthly updates format.

3.7 The Refinery has agreed to prepare all the forecasts based on their running plan and using current crude and product prices and freight costs. The Refinery will forward these new forecasts forms to CAP.

3.8 CAP has agreed to provide the Central Bank with the annual forecasts and the monthly updates for the next three months of the estimates of volume and value of crude and product imports. CAP will send all this forecast information to the Central Bank immediately after receipt and appropriate review. This will be done by mail until both the Central Bank and CAP have a direct line modem and computers. The annual forecasts must be made available to the Central Bank no later than January 10th and the monthly updates no later than the 10th of each month. The implementation of obtaining an annual forecast of foreign exchange needs will allow the Central Bank to know when foreign exchange is needed and, at the same time, if necessary, allow them to prioritize the country's needs against the availability of funds.

Implementation and Timing of Recommendations/Agreements

3.9 A summary of the agreements reached regarding the forecast of foreign exchange needs and the timing of their implementation is shown below.

Table 3.1: RECOMMENDATIONS/AGREEMENTS AND TIMING SUMMARY

Recommendations/Agreements	Constraints	Timing
1. Refinery will have their computer prepare the agreed upon forecast of requirements reports using the new formats.	Need to program the reports preparations.	Time for refinery programmer to summarize data into proper format. Will use telex or Fax until CAP's computer, Modem and Printer are in place.
2. CAP agreed to provide the Central Bank with annual forecasts and monthly updates for the next three months of the estimated value of crude and product imports in order the Central Bank can prioritize their dollar needs. Will be prepared by the Refinery based on their running plan and current crude, product and freight costs.	None	Immediately, even if parts of the data production must be done by hand.

Source: Mission developed.

Letters of Credit

Background

3.10 Crude purchases from Venezuela and Mexico under the San Jose Accord must be paid with irrevocable letters of credit (LOC's). These LOC's have individual financial characteristics. In the case of purchases from Venezuela, the LOC is opened for the estimated volume of the cargo plus or minus 10% and must be issued and confirmed at least seven days prior to loading the tanker. Credit terms are 60 days from loading. The first 30 days carry no financing cost. The second 30 days carries a finance charge based on the prime rate prevailing on date of loading as published by Citibank New York. With respect to purchases from Mexico, the LOC is opened for the estimated value of the cargo plus or minus 15% and for the estimated quantity plus or minus 10%, and must be issued and confirmed five days prior to the first day of the window of the loading date range. Credit terms are 30 days from date of loading with late payments subject to a finance charge also based on the prevailing prime rate on the date of loading as published by Citibank New York. In both cases, payment must be made through banks acceptable to the sellers.

3.11 LOC's are also required for payment of the freight and insurance to Tex-Trader on crude deliveries, the CIF cost of imported finished products by Texaco and lead imported by Texaco. With respect to the freight and insurance on crude shipments, CAP requests the necessary LOC's when advised by the Texaco Refinery. These LOC's must be issued and available no later than five days prior to loading and must also be paid within 30 days from date of discharge. There is no provision with respect to a finance charge in the event of late payment. Regarding the supply of refined products, Tex-Trader must be notified five days prior to loading that the LOC has been opened. Credit terms are 60 days from date of arrival. A gallonage price element is included in the CIF price of each product representing the cost of the additional 30 days credit extended to the buyer based on the prime rate as published by Citibank New York in effect on the date the gallonage price element is determined by Tex-Trader. This price element is subject to revision at the sole discretion of the seller but no more than once a quarter.

Problems Associated with the Letter of Credit Process

3.12 In reviewing the LOC process during 1988, the Mission believes that there is little regard for contract compliance. A part of this problem is the lack of adequate forecasting by the Central Bank of its foreign exchange requirements to pay for crude and imported products. This disregard for contract compliance sends the wrong signal to the sellers, particularly, if different supply arrangements were to be negotiated in the future. This negligence in connection with the current LOC's process causes the following problems:

- (a) Because the LOC's for crude purchases are seldom available prior to the loading date as specified in the crude contracts, loading is delayed until the LOC is confirmed. This can be and, in fact, was very expensive in 1988, not only in increased financing costs, but also in terms of demurrage costs and refinery shutdowns. Based on the analysis of the

information available for year 1988, financing costs on crude purchases amounted to approximately **\$470k** (\$350K for Venezuela crude and \$120k for Mexican crude. In two separate occasions, the refinery shut down for approximately 6 days each time due to low crude inventories caused by LOC's delays. The aggregate cost of these two shutdowns has been estimated at **\$610k** plus the attendant demurrage costs of about **\$110k**. The cost of these two shutdowns as well as the demurrage can not be recovered. Demurrage costs for the year 1988, excluding those mentioned above, have been estimated at about **\$300k**. Demurrage costs actually recorded by the Refinery in 1988 were \$175,000. Demurrage charges, however, are historically delayed in being billed but will eventually be settled by the Refinery.

- (b) Both sellers of crude have provided CAP with lists of approved banks to be used. Nevertheless, the use of correspondent banks not approved by the sellers has caused many delays in opening a LOC acceptable to the seller. This reduces the time available to have the LOC's in place because the sellers' banks require that additional safety clauses be included in the LOC's from banks not originally approved by the them. CAP advised that the Central Bank will open LOC's with smaller banks when it lacks the foreign exchange necessary to open the LOC for the full amount as required by banks approved by the sellers. Smaller banks will open the LOC for less than 100% of the value of the LOC.
- (c) Tex-Trader is not being paid on time for refined product imports, nor are the LOC's being opened in accordance with the terms of the agreement (5 days before loading). As of July 20, 1989, there were five cargoes already discharged, totalling \$10.8 million for which the corresponding LOC's had not yet been opened.
- (d) Tex-Trader is not being paid on time for crude freight and insurance. The agreement calls for payment 30 days from date of discharge. As of July 20, 1989, there were six invoices past due for a total of \$1.3 million for which the corresponding LOC had not been opened. Neither of the agreements for the supply of refined products and crude freight and insurance provide for finance charges in the event of late payment.

3.13 Costs to the Economy: The aggregate cost of delays associated with timely crude LOC openings for year 1988, as discussed above, was over US\$1 million. Financing charges on crude cargoes cost another **\$470k**. Under the present ad-hoc agreement with Texaco, the refinery is allowed a profit of 10,000K Lempiras per year before tax, and, thus, this entire cost is borne by the Government of Honduras.

3.14 As mentioned earlier in connection with LOC's for refined products, a gallonage price element is included in the CIF price of each product representing the cost of the additional 30 days credit. For the year 1988, this cost has been estimated at \$400K or the equivalent to U.S. \$0.004/gallon. This is a hidden cost that can easily be overlooked since it is recorded as part of the CIF price and not as a financing cost. There is no provision for finance charges in the event of payment after the 60 days stipu-

lated by the contract. Although it is not uncommon for Tex-Trader to receive payment after the due date because the LOC has not been opened on time or not opened at all.

Improvements Recommended for Letter of Credit Process

3.15 Following are the recommendations to be implemented for improving the LOC's process:

- (a) CAP has agreed to provide the Central Bank with an annual forecast, updated monthly for the next three months, based on crude and imported finished product volume and value estimates provided by the Texaco Refinery. This will allow the Central Bank to program their foreign exchange needs and ensure availability when required. Based on the data available for year 1988, savings in reduced demurrage and shut down costs would have amounted to \$1,020k.
- (b) Only correspondent banks approved by the sellers should be used. However, this may not be feasible during periods of extreme shortages of foreign exchange and more time should then be allowed to get the LOC's in place.
- (c) Although small, time and cost savings can be achieved by eliminating unnecessary typing. Each application for a LOC by CAP to the Central Bank consists of a cover letter accompanied by a Form CB-17 entitled "Solicitud de Crédito Documentado". This form has been enhanced to include the pertinent information now included in the cover letter, such as, loading date range, flexibility of volume and value, when the LOC must be in place and approved, and the Seller's pertinent data, such as name, address, departments, telephone and telex numbers, etc. Annex IX, Annex X, and Annex XI represent the proposed forms agreed to by CAP and the Central Bank to substitute for Form CB-17 and the cover letter now used. Also, Annex XII, Annex XIII and Annex XIV represent the proposed forms agreed upon by CAP to be used for the liquidation of the LOC. Both the request and liquidation forms will be incorporated into the information system.
- (d) Annex XV, entitled "Calculo del Valor CIF de las Importaciones a Recibir por la Refinería Texaco de Honduras, S.A." is prepared by CAP upon receipt of Texaco's request to open a LOC on their behalf in favor of Tex-Trader to import refined products. This report is prepared and forwarded by CAP to the Central Bank together with the application for the LOC. This document is again prepared if there is a change to the original amount of the LOC. The preparation of the report allows CAP to verify the value of the LOC requested by the Refinery. This table will be generated by the proposed system. For this purpose, current refined product prices, insurance and freight costs will be maintained in the computer files.
- (e) CAP and the Central Bank have agreed to acknowledge receipt of requests for LOC. CAP has also agreed to inform the Refinery when the Central Bank has opened the LOC with the correspondent bank and when the latter pays the LOC upon notification by the

Central Bank. This will keep the Refinery informed as to the status of their request until payment is made. Also, as a means of facilitating communications and cross-referencing between the Refinery, CAP and the Central Bank, it has been agreed that the Refinery's request number for a LOC be retained through the entire LOC process up to and including the liquidation of the LOC. This is necessary because the Central Bank does not assign a LOC number until the LOC is opened with the correspondent bank. In this manner, the LOC will be identified from the moment the request is made by the Refinery to CAP. The Central Bank will add the Refinery number to the number assigned by them, i.e., 288/89-C4 (where C4 represents the Refinery number).

- (f) Regarding LOC for freight and insurance on crude cargoes, CAP waits until the tanker has loaded to request the LOC from the Central Bank. CAP has agreed to request the Central Bank to open the LOC immediately upon receipt of the request from the Refinery so that LOC can be opened according to the terms of the contract (although expired, all other terms are being followed).
- (g) With respect to LOC's for refined products, these must be opened five days prior to loading as called for by the terms of the agreement in order that the stipulated payment date of 60 days from arrival at Puerto Cortes is made on time.

Credit

3.16 It is recommended that all credit terms for payments be reduced to 30 days. This refers to all CAP payments on crude purchases from Venezuela and all payments for crude freight and insurance. This also refers to the Texaco Refinery payments for crude and "Excedente" to the Government of Honduras and to Tex-Trader for imported finished products. This will save approximately \$870k annually based on 1988 data available. It is realized, however, that this recommendation cannot be implemented until the foreign exchange situation is normalized and more planning is undertaken by the Central Bank.

Implementation and Timing of Recommendations/Agreements

3.17 A summary of the recommendations/agreements associated with LOC's and the timing for their implementation is shown below.

Table 3.2: RECOMMENDATIONS/AGREEMENTS AND TIMING SUMMARY

Recommendations/Agreements	Constraints	Timing
1. Reduce all credit terms for purchase and payments to 30 days. Estimated annual savings: \$870k.	Requires contract renegotiations	Cannot be implemented until foreign exchange situation is normalized.
2. Central Bank and CAP undertake responsibility to insure that there is contract compliance in the processing of all LOC's. Costs in 1988: US\$1 million.	Lack of foreign exchange.	Immediately
3. CAP and the Central Bank have agreed to use the new forms for the Request to open a LOC.	Manually until Computer System is on stream.	Short term, as soon as new forms are available. Long term, during program implementation mission.
4. CAP has agreed to use the new forms for all liquidations of LOC's.	Manually until computer system is on stream.	Short term, as soon as new forms are available. medium term, during program implementation.
5. CAP and the Central Bank have agreed to acknowledge receipt of requests for LOC's from the Refinery.	None	Immediately
6. CAP has agreed to inform the Refinery Central Bank has opened the LOC with the correspondent banks.	None	Immediately
7. CAP has agreed to inform the Refinery when the correspondent bank has paid the LOC once notified by the Central Bank.	None	Immediately
8. CAP and the Central Bank have agreed to retain the Refinery's request number for a LOC through the entire LOC process up to and including the liquidation of the LOC.	None	Immediately
9. Use correspondent banks approved by sellers, during periods of extreme shortage of foreign exchange.	May not be feasible	Whenever possible
10. Elimination of unnecessary typing and forms not required.	None	Immediately

Source: Mission developed.

Communication and Documentation Flow

3.18 The present flow of communication and documentation between the Texaco Refinery and CAP and between the latter and the Central Bank in connection with the LOC's in payment of crude (FOB), finished products (CIF) and crude transportation and insurance costs has been reviewed. A brief description of these processes and their problems are detailed in the following paragraphs.

Procurement Procedure for Crude

3.19 The current procedure used for crude procurement for each cargo is represented as a flow diagram in Annex XVI and can be described as follows:

- (a) The Refinery sends CAP a telex, before the tenth of each month, that contains a forecast of crude cargoes required for the following three months. In the event that the following month's cargoes need to be changed due to an unexpected shutdown, etc., revisions to the forecast are telexed to CAP by the Refinery. The forecast used to only indicate whether the crude is Isthmus or a Venezuelan recon with the required ETA ranges at the loading port and at Puerto Cortes. Now, with agreement to use the new formats for forecasts, the value and details of the recon composition are also provided. A fuel oil export schedule is included indicating the volume and which ship it will be back-hauled on. Since April 1988, 220,000 barrels crude cargo sizes have been requested. (180,000 barrels before). Also, since April, the Venezuelan recon composition has included 1% Butane (none in prior cargoes). Also, a more economically recon composition has been ordered. Texaco has agreed to run crude optimization programs whenever crude or product prices change in order to determine which crude is most economical, and then to notify CAP. However, in two recent occasions, while Isthmus crude was most economical, CAP decided in favor of Venezuelan crude due to more favorable credit terms (60 days for Venezuelan crude vs 30 days for Mexican crude).
- (b) CAP then telexes PEMEX and/or PDVSA of the following month's cargoes indicating the desired loading date range, the type of crude/recon and the size of the cargo.
- (c) PEMEX/PDVSA then advises CAP by telex that the proposed loading date range is acceptable or suggests an alternate date range.
- (d) CAP telexes the Refinery that the proposed loading date range is acceptable or advises the alternate date range suggested by the supplier.
- (e) If an alternate loading date range has been suggested, the Refinery must confirm its acceptance to CAP by telex. CAP, in turn, telexes such confirmation to the supplier.
- (f) The Refinery advises Tex-Trader, as soon as the crude supplier has confirmed the loading date range, for the need of a tanker, the required loading date range, volume, crude type and the loading port.
- (g) When the Refinery receives a tanker nomination for each specific loading, this information is telexed to CAP who, in turn, telexes the information to PEMEX or PDVSA. CAP also names the crude cargo inspectors to be used. The Refinery telex also includes the expected freight rate and insurance cost.

- (h) CAP sends a separate letter to the Central Bank, about 30 days prior to the loading date, requesting that a Letter of Credit (LOC) be opened for each of the following month's cargoes. The letters specify the volume, crude type, the loading date range and the value. The value has been determined by CAP using the required crude and fuel oil prices found in Platt's Oilgram in the case of the Isthmus crude pricing formula or the latest advised crude and recon component prices received from PDVSA in the case of the Venezuelan recon crude. In the future, the Refinery has agreed to include the value of the cargoes in the annual and monthly forecasts forwarded to CAP. The letters to the Central Bank do not always contain sufficient information regarding the number of days the LOC must be in place prior to the loading date (Venezuelan crude) or the first day of the loading date range (Isthmus crude). Data is sometimes lacking with regard to the flexibility of the volume and value as required by contract. The new forms agreed to by CAP and the Central Bank for the request to open LOC will include all pertinent information.

3.20 The Central Bank, upon receipt of the application, will undertake the task of securing a correspondent bank. In one instance where data was available, it took the Central Bank 12 days to establish the LOC with the correspondent bank. This delay was caused by using a correspondent bank not originally approved by the Seller and was no doubt used because of lack of foreign exchange at the time.

3.21 CAP also receives, after each cargo, the telex invoice from the Seller with actual loaded quantity, copy of bill of lading and shipping documents with quantity and quality information for verification. The invoice is verified against the LOC documentation received from the Central Bank and the information posted to a worksheet.

3.22 CAP also sends letter to the Central Bank requesting LOC's for the freight and insurance associated with each crude cargo. These LOC's must be in place 5 days prior to loading.

3.23 There is the need for more consistency of data and control which would verify each invoice and payment. These features will be provided by the computer system that will be implemented. Also, there is a need to eliminate the delays mentioned above. The LOC's are seldom approved on the dates specified by the agreements with the Sellers. These delays are costly and will give the impression that there is little regard for contract compliance. The cost consequences and recommendations for improvement were discussed in Section VI.

Procurement Procedure for Refined Products

3.24 The current procedure used for the procurement of finished products is represented as a flow diagram in Annex XVII and can be described as follows:

- (a) The Refinery provides CAP a three month forecast of its product imports monthly. Also, as soon as the Refinery is arranging the next product import, a letter is sent to CAP

requesting that a LOC be opened. CAP has agreed to provide the Central Bank with annual forecasts and monthly updates for the next three months of the volume and value of crude and refined products prepared by the Refinery.

- (b) CAP sends letter to the Central Bank requesting that a LOC be opened on each cargo, as instructions are received from the Refinery.
- (c) The Refinery contacts Tex-Trader and requests the specific needs for the CIF delivery of products.
- (d) The importation of asphalt (except for government asphalt imports which are brought in under the San Jose Accord loan), avgas and LPG by others is handled in the following manner:
 - 1. At the beginning of each year, the importing company advises CAP, by letter, of its total requirements for the year.
 - 2. CAP sends letter to the Central Bank authorizing these imports and requesting that LOC's be made available as needed by the importing companies.
 - 3. The importing company then handles each import, when needed, directly with the Central Bank without further involvement of CAP. Since these imports are off-loaded at different small terminals, in small parcels and on specialty carriers, their procurement and freight arrangements are more efficiently handled by the importing company than with any future involvement by CAP.

3.25 Based on the LOC documentation sample available, the Texaco Refinery's request to CAP to open a LOC on their behalf in favor of Tex-Trader was dated May 21, or approximately 15 days prior to discharge. According to the terms of the Texaco Refinery/Tex-Trader agreement, the LOC should be confirmed in Coral Gables no later than five days prior to loading (May 28th in this case). Texaco referred to this requirement in their letter to CAP. Twelve days after the date of Texaco's letter, CAP requests the Central Bank to open the LOC. This is actually 5 days after the date when the LOC should have been confirmed. It was not until June 30 that the Central Bank requested their correspondent bank in Miami to open the LOC. Each party, in this case, was at fault for waiting too long before requesting or initiating action.

3.26 The agreement with Tex-Trader calls for payment no later than 60 days after discharge. From the documentation available, the LOC, referred to above, was paid on time or very close to it. However, according to conversations held in Honduras with Texaco management in November, 1988 and more recently in Coral Gables, it is not uncommon for the LOC's to be paid after their due date. As an example, a LOC in the amount of \$2.9 million for refined products due on June 23 was paid on July 18.

3.27 The delays experienced in securing LOC's for refined products could also be costly in terms of disruptions. To date, Texaco has not imposed financial charges on the late additional days beyond the 60 days stipulated. There is no provision with respect to a finance charge in the event of late payment.

Letters of Credit for Freight and Insurance on Crude Shipments

3.28 In the case of LOC's for freight and insurance on crude cargoes, the process is also initiated by the Texaco Refinery. Based on the LOC documentation available, the Texaco Refinery's request to open a letter of credit in favor of Texaco Panama Inc. was dated October 22, 1988. The letter also indicated that payment is due within 30 days from discharge, scheduled for November 5 -10. On November 14, CAP requested the Central Bank to open the LOC. There is no further documentation and, therefore, it could not be ascertained whether or not the LOC was paid on time. The Refinery should have requested a LOC sooner. CAP was not responsive at all in their request to the Central Bank.

Other Imports

3.29 The importation of asphalt (except for government asphalt), avgas and LPG is handled directly by the marketing companies. At the beginning of each year, the importing company advises CAP, by letter, of their annual requirements. CAP sends letter to the Central Bank authorizing these imports. There is no further involvement by CAP since the importing companies handle the imports during the year directly with the Central Bank.

Texaco Payment for Crude

3.30 In the agreement between the Texaco Refinery and the Government of Honduras, Texaco has 60 days from date of loading to pay for the crude. The chronology of two crude cargo payments, one from Venezuela and one from Mexico has been reviewed and are shown in Annex XVIII. The Mission's analysis of these two payments is as follows:

- (a) With respect to the Venezuelan crude, the tanker loaded on May 13th. On July 7, CAP forwarded to Texaco all shipping documents, two invoices (one invoice for the FOB value of the cargo plus financing and "Excedente", and a separate one for the 1.5% Manejo) and a receipt as acknowledgment of payment. Texaco remitted to CAP the total of the two invoices on July 11. On the same day, CAP endorsed the check and forwarded it to the Central Bank with pertinent instructions as to the account where the check was to be deposited, etc. CAP, under the agreement with Venezuela, has 60 days from loading date to pay for the crude. The last 30 days are subject to a finance charge based on the prime rate published by Citibank New York. Texaco Refinery has 60 days to pay CAP from date of loading, but there is no finance cost. Therefore, the finance cost paid to Venezuela is borne by the Government of Honduras. Based on data available, this cost amounted to approximately \$350k in 1988.

- (b) Regarding the Mexican crude cargo, the tanker loaded on July 2. On August 30, or 58 days after loading, CAP forwarded to Texaco the letter with the shipping documents, invoices and receipt. On the same day, the Texaco Refinery paid CAP. The following day, August 31, the check was endorsed by CAP and forwarded to the bank.
- (c) Under the terms of the agreement, CAP pays Mexico 30 days after loading but must wait another 30 days to collect from the Texaco Refinery. The Central Bank provides CAP financing for 30 days until the crude cargo is paid by the Refinery and charges CAP accordingly. The finance charge is based on the prime rate prevailing on the date of loading as published by Citibank New York. CAP charges this finance cost to the Refinery as part of the cost of the crude. Although this is not within the terms of the expired agreement between the Government of Honduras and the Refinery, the Mission was informed by CAP that this procedure was verbally agreed to by the three parties.

Implementation and Timing of Recommendations/Agreements

3.31 A summary of the recommendations/agreements associated with communications and document flow and the timing of their implementation is shown in Table 3.3.

Table 3.3: RECOMMENDATIONS/AGREEMENTS AND TIMING SUMMARY

Recommendations/Agreements	Constraints	Timing
1. Central Bank will contact correspondent bank immediately upon receipt of application for LOC.	Foreign exchange situation must be normalized.	Immediately
2. Texaco Refinery insure that their request to CAP for LOC's for imported products are in place with adequate anticipation (minimum three weeks).	None	Immediately
3. CAP will transmit the Refinery's request for LOC's for imported products immediately upon receipt of the request.	None	Immediately
4. The Central Bank will open the required LOC's for imported products as soon as requested to do so by CAP.	Foreign exchange situation must be normalized.	Immediately

Source: Mission developed.

The Excedent

Determination and Use of the Estimated Excedente

3.32 At the beginning of each month, the Texaco Refinery sends to CAP a computerized report package prior to the receipts of the crude cargo or cargoes scheduled for that month. One report is the spreadsheet entitled "Programa de Estimacion de Costos Anualizados de REFTEXSA" and is prepared using annualized costs and revenues, except that the latest crude and product prices are used. The computer program generating this report also calculates the estimated Excedente for the year. Another report in this package shows the estimated price of the crude cargo or cargoes that the Refinery will receive during the month. This estimated price includes the estimated cost of the crude to CAP using the latest prices, any finance charges and the estimated Excedente for the crude cargo. This estimated Excedente is based on the annualized calculations included in the spreadsheet discussed above. The estimated 1.5% manejo on the Refinery's FOB cost of the crude is also included in the calculations. For Government and Customs purposes, CAP's CIF cost of crude is defined as the Refinery's FOB cost. The Refinery uses these estimated costs to establish necessary reserves on their books until the actual amounts are known.

Determination of the Actual Excedente to be Paid

3.33 The total Excedente actually paid with each crude cargo by the Refinery to CAP (who forwards it to the Treasury account in the Central Bank) is made up of two parts. First is the net surplus on the Refinery books each month after deducting the monthly before tax profit of 833,333 Lempiras. This surplus amount is located in "Cost of Sales". This net surplus amount is paid at the time any crude cargo is due for payment from the month's closing date to the next month's closing date. If two cargoes are due for payment during this period, the amount of the net surplus is divided equally between the cargoes. Second, included in the month's closing of "Cost of Sales" is the estimated Excedente amount that was reserved for each crude cargo that has not yet been paid (payment is due 60 days from the loading date). The estimated Excedente reserved for the crude cargo is added to the net surplus portion and the sum of the two is the actual amount of Excedente that is invoiced by CAP and paid by the Refinery.

3.34 The determination of the monthly net surplus requires further clarification. The import duties covered by Decretos D14/54 and D85 (the refinery is exonerated from the Arancelario tax on crude) are based on the CIF price which includes the Excedente. Also, the 1.5% Manejo charge is based on the CIF price which includes the Excedente. Consequently, the gross surplus as determined at month's closing includes an amount for taxes and an amount for Manejo. The net surplus is that amount remaining after the two amounts (for taxes and manejo) have been deducted.

3.35 Immediately after the month's closing, the Refinery calculates, for each crude cargo due for payment until the next month's closing, the correct final amounts for the Manejo and the correct final amounts of the D14/54 and D85 taxes to determine the net surplus. This net surplus is added to the total

amount that had been reserved for that cargo (CAP's FOB, financing costs and the estimated Excedente). All of this information is forwarded to CAP who prepares an invoice to the Refinery broken down as to CAP's actual FOB and financing cost (both as invoiced to CAP from the crude seller) and the balance is the amount of Excedente that is due for that cargo. An example of the development of the Excedente for the hypothetical crude cargo is shown in Annex XIX.

Annual Reconciliation of Excedente

3.36 In the past, after the end of each year CAP prepared an annual calculation to determine the Excedente. The method was based on a cash accounting method and without taking into account any changes to crude or product inventories in the Refinery. It is not possible to reconcile the Excedente calculated in this manner with the total amount of Excedente that was actually paid on each crude cargo during the year. The Refinery's books are maintained following the accounting accrual method. That is, in a given month, only the crude processed (each barrel of crude and products maintains its own price in inventory) would be charged to production costs. This may include crude from several cargoes received over the last month or two as well as the current month. Crude in inventory has its actual or estimated Excedente included in its unit value. The Excedente paid during the month is paid on a past cargo received whether or not that cargo was processed or taken to inventory in the given month. Therefore, CAP's annual attempt to reconcile the Excedente should be discontinued.

3.37 Another year-end calculation that would produce an estimated annual Excedente would involve taking an average of each month's annualized estimation of the Excedente. The latest prices for crude and products are used each month. However, this represents a cash accounting method as well and would not be a reconciliation. The Mission does not believe CAP can gain from any attempt to reconcile the annual Excedente calculated on a cash accounting basis with the actual Excedente paid during the year.

3.38 In order to insure that proper accounting practices are being followed by the Refinery, CAP could request that qualified government auditors review the Refinery's books. This would insure that the Excedente determinations made by the Refinery are correct.

Advance on Excedente Received by CAP

3.39 There are times during the year when CAP invoices the Refinery for "Excedente Advance" based on information supplied by the Refinery. The Government, rather than waiting until payment for the next crude cargo or cargoes is due and as soon as the Refinery has closed its books for the month, requests the Refinery to remit the Excedente portion of the upcoming payments as shown on their books. The 1.5% Manejo is correctly calculated on this Excedente Advance and is also invoiced and paid by the Refinery. Then, when the payment is due on the crude cargo or cargoes (i.e., before the next month's closing), the invoice only contains an amount for CAP's FOB plus the financing charge and the Manejo on those amounts.

3.40 The Excedente Advance is called the "Complementario" by CAP because it has been erroneously applied to the last cargo paid. In order to keep the computerized records pure for each cargo, CAP has agreed to treat this payment by the Refinery as an advance and to invoice it as such. The proposed forms for invoicing for the Excedente Advance are included in Annex XX.

Summary of Government Revenues from the Petroleum Industry

3.41 The amount of revenue generated for the Government from the Excedente was estimated to be equivalent to US \$71.4 million in 1988, up from US \$52.9 million in 1987. With crude and product prices higher now than last year, the amount of Excedente expected in 1989 will be lower than that generated in 1988. The total revenue generated for the Government from duties and taxes from the petroleum industry plus the Excedente amounts to US \$42.44 million in 1985 growing to US \$118.66 million in 1988.

Summary of Recommendations and Timing

3.42 A summary of the recommendations associated with the Excedente and the timing of their implementation is shown in Table 11.1:

Table 3.4: SUMMARY OF RECOMMENDATIONS AND TIMING

Recommendations	Constraints	Timing
1. CAP not to undertake annual reconciliations of Excedente because of different accounting methods used.	None	Immediate
2. CAP to request qualified Government auditors to review Refinery accounting procedures and books.	None	Any time
3. CAP has agreed to change invoicing procedure when invoicing for an Excedente Advance to assist computerization.	Need computer program in operation.	After program has been installed.

IV. ENHANCED INFORMATION SYSTEM

Proposed System

4.1 The proposed Petroleum Financial Information System is designed to monitor the financial flow involved in the purchase and sale of crude and the purchase of refined petroleum products and lead for the supply of petroleum products to Honduras. The system produces the requests for LOC and their liquidations. CAP's crude and Excedente invoicing to the Texaco refinery and provides the Central Bank with monthly and annual foreign exchange forecasts for the supply of petroleum products.

4.2 Eventually, all communications between CAP and the Central Bank and CAP and the Texaco Refinery will be viz modem. Communications referred to are the requests for LOC's and subsequent changes, acknowledgments of LOC's requests, notification by Central Bank that LOC's have been opened with the correspondent bank, as well as of subsequent payments, forecasts of foreign exchange needs, costs incurred in processing LOC's, liquidations of LOC's, Refinery's advice to CAP on price of crude to be paid by the Refinery, CAP's invoices to the Refinery for crude purchases, etc.

4.3 At the present time, the members of CAP's Administrative Commission are provided monthly with an eight page report containing calculations of the estimated Excedente (annualized) and other miscellaneous operational and statistical data. This report is entitled "Proyeccion Costos e Ingresos Anualizados REFTEXSA". The report is manually prepared by CAP. At times, CAP makes changes to the Refinery spread-sheets data and incorporates these changes into the report distributed to the Administrative Commission. As a substitute for the report, a revised package will be prepared for distribution. The package, agreed to by CAP, consists of two newly designed report forms plus the current report on the Excedente paid to date by the Refinery and which is prepared manually by CAP at the present time.

4.4 The first new report is entitled "Calculation of Estimated Excedente (Annualized)" and provides a complete detail of all estimated refinery revenues and costs resulting in the estimated Excedente for the year. This is shown in Annex XXI. The second new report is entitled "Income to the Government of Honduras from Refinery Operations" and includes all taxes and other income, also on an annualized basis, derived from the operations of the Texaco Refinery. Both of these reports will be computer generated by the Refinery together with their present spread-sheet. The third report, which is currently prepared on the Excedente paid to date, will be generated by CAP's computer. This is shown in Annex XXII as an example of how it would have looked after the fourth crude cargo in 1987.

4.5 To assist CAP in the review and analysis of the estimated Excedente, the Refinery has agreed to expand the General Sales and Cost of Sales sections of the Income Statement which is currently being sent to CAP.

4.6 The Refinery notifies CAP of the total value of each crude cargo in order for CAP to invoice the Refinery. This amount includes the actual cost to CAP of the crude purchased from Mexico

or Venezuela, any finance charges on the purchase and the corresponding accrued Excedente for the crude cargo as calculated by the Refinery.

4.7 The invoice to the Refinery for crude purchases has been redesigned. The new format has been agreed to by CAP. The invoice package, consisting of cover letter, invoices, receipt, calculation of the financing cost and recon crude API adjustment, in the case of Venezuelan crude, will be generated by the computer once all pertinent data is entered. Once printed for delivery to the Bank of London and Montreal in exchange for the check in payment for the crude, it is only necessary to attach the shipping documents, which are part of the invoice package, for transmission to the Refinery. The revised invoice and receipt package is shown in Annex XXIII (pages 1-4).

4.8 CAP's invoicing procedure to bill the Refinery for the "Excedente Advance" will be the same as for crude purchases.

4.9 The proposed computerization will also have the added benefit of freeing people's time, now devoted to clerical activities, so that more analysis and system improvements can be made.

4.10 CAP has agreed to a system of centralized records and monitoring capabilities. The framework provides the records needed for the complete accounting of crude, refined products, crude freight and insurance and Excedente and the desired monitoring of the various components. There are other reports and communications improvements that can be done by the Ministry's data processing personnel at a later date and which are not vital to the control of moneys being paid and collected. These can be undertaken over time by the Ministry of Economy computer data processing personnel or equivalent from SECPLAN. The proposed framework for the computerized crude information flow as being proposed by the Mission is shown in Annex XXII.

Implementation and Timing of Recommendations/Agreements

4.11 A summary of the recommendations and agreements associated with the computerization of LOC's, annual forecasts and monthly updates for the next three months of crude and refined products imports, calculation of Excedente and the invoices to Texaco and the timing of their implementation is shown below.

Table 4.1 RECOMMENDATIONS/ AGREEMENTS AND TIMING SUMMARY

Recommendation/Agreements	Constraints	Timing
1. All communications between CAP and the Central Bank and CAP and the Texaco Refinery will be via modem.	Need computers and modem in CAP and Central Bank.	Hardware has been installed and training completed during the program implementation mission.
2. Ministry of Economy has agreed to handle the technical aspects of the computer operations.	None	As needed once system is on stream.
3. Maintenance to be contracted to a reliable local supplier.	None	
4. CAP has designated two employees to be trained as computer operators (one as back-up).	Need Equipment in place.	Training provided during the program implementation mission back in July 1990.
5. Train computer operator employees at Central Bank.	Dedicated equipment to be installed.	Done in July 1990.
6. A new report of the Excedente (annualized) has been agreed to by CAP. Will be computer generated by the Refinery.	Needs to be programmed.	Time for Refinery programmer to summarize data into proper format.
7. A new report that includes all revenues from taxes and other income to the Government of Honduras has been agreed to by CAP. Will be computer generated by the Refinery.	Needs to be programmed.	Time for Refinery programmer to summarize data into proper format.
8. CAP has agreed to replace report "Proyeccion Costos e Ingresos Anualizados REFTEXSA" sent to the Administrative Commission with the reports described in No. 6 and 7 above plus a report on the amount of Excedente paid to date.	Programming required and equipment in place.	Time for Refinery programmer to produce tables in No. 6 and 7.
9. CAP has agreed to provide the Central Bank with annual forecasts and monthly updates for the next three months of the estimated value of crude and product imports. These forecasts will be prepared by the Refinery.	The forecast must be programmed by Refinery.	Immediately, even if parts of the data production must be done by hand.
10. Computerization of the invoices to the Refinery for crude purchases and for any Excedente Advance.	None	Immediately

Proposed Structure and Features of System

General Information

4.12 Unique codes will be assigned to each terminal, crude, crude component, product cost feature, etc. This will permit a) the grouping of all cost components under their corresponding LOC, which will also be identified by its assigned number, and b) the consolidation of all homogeneous crudes (by source), products, costs, etc., for the preparation of statistical reports. The documents transmitted by modem will be stored in files and used as data entry, and available for information at a later date. This will allow the computerization of statistical reports to be done by the Ministry's data processing personnel as needed in the future. The system will be flexible enough to accept changes, retaining the original data and all revisions, i.e., LOC's which are opened for an estimated value of the cargo may be revised several times due to price or volume changes.

System Codes

4.13 Each of the following will be identified by its own family of codes.

- (a) Terminals.
- (b) Types of crude.
- (c) Recon crude components associated with Venezuelan crude.
- (d) Crude gravity adjustment element.
- (e) Different Texas crudes and fuel oil associated with Isthmus Crude pricing.
- (f) Each refined product.
- (g) Cost feature, such as, FOB, freight, insurance, telex costs, commissions on opening LOC's, exchange commissions, finance cost, etc.

Supporting System Files

4.14 The system will have the following supporting files that will be maintained and changed whenever any of the prices or rates change:

- (a) Crude prices.
- (b) Product prices.
- (c) Supplies and Source Codes

- (d) Prime Rates, Citibank, New York
- (e) Exchange rate.

Programmed Reports

4.15 All the reports to be produced will be associated with a general report name of that system. The various general reporting systems will be:

- (a) Annual and Monthly Forecasts.
- (b) Request to Open Letter of Credit (this system has three distinct reporting procedures and various reports associated with each covering crude, refined products and crude freight/insurance).
- (c) Invoicing.
- (d) Liquidation of Letters of Credit (this system has three distinct reporting procedures covering crude, refined products and crude freight/insurance).

The report showing the calculation of the estimated Excedente (annualized) is provided each month as part of the procedure to open the letters of credit for crude during that month and, therefore, part of that system. The report showing the amount of actual Excedente paid to date is produced as part of the Invoicing system.

4.16 The system must be able to automatically calculate the financing cost, for verification purposes, in those instances when payment is made after 30 days. An example:

Interest rate at 10% on value of LOC for Venezuelan Crude for 30 days:

$$\text{Formula: } \frac{\text{U.S. Dollar Value} \times 100 \times 30}{360} = \text{Financing Cost}$$

The financing cost is calculated on the actual amount paid per Seller's invoice.

4.17 In order to avoid duplication errors in handling dual currencies, the system will always use a Lempiras for U.S. dollars exchange rate, dividing or multiplying as necessary to make the required conversion.

HONDURAS

PROGRAM FOR THE LIBERALIZATION OF DOWNSTREAM PETROLEUM MARKET

1. Objective

To deregulate the refining, importation, export, storage, transport and wholesale and retail distribution of petroleum products including LPG, asphalt, lubricant and others with the objective of obtaining a better allocation of resources and introducing more efficiency and transparency to the sector.

2. Phases for Implementation

The current legal and operational structure of the hydrocarbon subsector allows the liberalization of the petroleum in two phases:

- **First Phase: Pre-liberalization. This phase will include:**
 - (i) **Designing a pricing mechanism to fix prices to reflect the opportunity cost of petroleum products, while simulating those that would prevail in a deregulated market to be implemented in the second phase.**
 - (ii) **Allowing refiners, distributors and major consumers to directly import petroleum products and/or crude oil.**
- **Second Phase: Liberalization**

Implementation will include total deregulation of refining, importation, exportation, transportation and wholesale/retail distribution of petroleum products through the decontrol of retail prices and removal of entry barriers to the petroleum market.

3. Plan of Action

First Phase:

- (a) **To allow a private bulk oil terminals to operate under industry standards, making sure that they have the freedom to operate its installations and set its tariffs to third parties as regulated by market conditions. Their operating contracts should not impose on the Government and third parties the obligation to rent their facilities.**

- (b) **The Central Bank must establish transparent and non-discriminatory rules to have access to foreign exchange for the importation of petroleum products/crude.**
- (c) **The Administrative Petroleum Commission (CAP) must establish a pricing mechanism for maximum ex-refinery prices based on the import parity concept (defined by an agreed FOB price of a representative market, freight, insurance, import tariffs, unloading, and storage).**
- (d) **The pricing mechanism, ex-refinery, referred to above in items (c), requires elimination of current procedures, including fixing refinery margins. Following such elimination, profits and losses will be a consequence of the refineries advantages vis-a-vis import parity prices. Under this structure, the refinery will have total operational freedom (level of utilization, refining or importing products). This structure will simulate the operation of a refinery in a competitive market.**
- (e) **To abolish the export tax for petroleum products (currently for fuel oil) in a consistent way with the structural adjustment program being carried out by the Government. This would allow the refinery to compete in equal conditions with imported products.**
- (f) **To make explicit in the pricing structure, specific taxes to the consumer, including amount per gallon and mechanism for readjustment.**
- (g) **To make explicit in the pricing structure the level of subsidies by products; and to define a program for their gradual elimination to make prices reflect their economic cost.**
- (h) **To establish a pricing structure for petroleum products, allowing their automatic adjustment every time that the variations in the variables used for its determination bring a change in the price to the consumer greater than 5%. Specifically, in this structure the price would be indexed to the exchange rate, and the distribution margins (wholesale, transport, and retail) to the indexes representing costs and investments (CPI, Wage Index, etc.)**

Second Phase

- (a) **To review and modify the legislation and norms for the construction and operation of oil storage facilities, transport and distribution of petroleum products. (Article 11 and Decree 319, Article 117 and Decree 1276 in the Hydrocarbon Law). The objectives to achieve through this modification are:**
 - (i) **To be transparent and non discriminatory;**

- (ii) To have streamlined and safe procedures to authorize the installation of gas stations and bulk storage facilities.
- (iii) To allow an easy entrance and exit to the market and free competition.
- (b) Specifically, the amendments must exclude from the regime of operation contracts (Hydrocarbon Law) the construction and operation of petroleum bulk terminals.
- (c) To establish the decontrol of retail prices, including imports, refining, transportation, wholesales and retail distribution, through the elimination of petroleum products from the list of controlled prices in Article 30, Decree 41-89.

**COST COMPARISON OF RUNNING CRUDE
AT TEXACO**

	MARCH 4, 1988						MAY 27, 1988		
	RUN CRUDE			IMPORT PRODUCTS			RUN CRUDE		
	K BBLs	\$/BBL	K \$	K BBLs	\$/BBL	K \$	K BBLs	\$/BBL	K \$
ISTHMUS CRUDE	2,139	13.40	28,663				2,139	15.56	33,283
CEUTA CRUDE (a)	1,205	17.44	21,015				1,205	17.44	21,015
KEROSENE RECON (a)	372	20.06	7,462				362	20.69	7,697
DIESEL RECON (a)	613	17.43	10,685				613	19.74	12,101
MEXICAN CRUDE FREIGHT	2,139	0.82(b)	1,754				2,139	0.75(c)	1,604
MEXICAN CRUDE INS. @ .033%			10						12
VEN. RECON CRUDE FREIGHT	2,190	0.98(c)	2,146				2,190	0.89(c)	1,949
VEN. RECON CRUDE INS. @ .033%			14						14
HANDLING CHARGE (1.5% FOB)(d)			1,017						1,111
EXPORT F. O.	(613)	7.93	(4,861)				(613)	10.26	(6,277)
FUEL OIL EXPORT TAX @ 1%			49						63
LEAD/CATALYST COSTS			485			--			485
UTILITIES EX REF. FUEL (f)			511			--			511
FIXED COSTS	4,329	1.58	6,840	5,329	1.05(g)	5,595	4,329	1.58	6,840
PRODUCT IMPORTS: CIF(h)									
LPG (i)				59	30.00	1,770			
GASOLINE, 95 R	71	22.58	1,603	604	20.72	12,515	71	25.58	1,816
GASOLINE, 87 R	160	20.29	3,246	512	18.48	9,462	160	24.29	3,886
KERO/JET	379	24.37	9,236	860	22.37	19,238	379	23.59	8,941
DIESEL	1,328	22.98	30,517	2,489	20.98	51,970	1,328	23.47	31,168
FUEL OIL				805	14.00	11,270			
BANK COMMISSION (1.4% CIF)(d)			624			1,613			641
LESS FINANCING CHARGES (j)			(332)			(860)			(341)
AFTER TAX PROFIT (g)			<u>2,700</u>			<u>604</u>			<u>2,700</u>
TOTAL COSTS EXCL. DUTIES, TAXES AND SURPLUS TO GOVERNMENT			123,384			113,177			129,219
TOTAL U.S. \$ COSTS (k)			112,873			106,462			118,621

- LEGEND:**
- (a) = Assumes that Venezuelan crude invoices would be paid in 30 days with no finance charges.
 - (b) = Mexican crude freight on March 4 is based on actual cargo.
 - (c) = Freight rate based on Worldscale flat for the voyage, adjusted with monthly AFRA for MR vessels of 30,000 LT cargo capacity.
 - (d) = Represents estimates of costs incurred in processing LOC's (33% of figure is US\$ Cost).
 - (e) = Fuel Oil export price estimated based on relationship of Gulf spot and Tex-Trader posted prices in other time periods.
 - (f) = Cost of refinery fuel covered by crude purchases.
 - (g) = Thruput fee cost for importing products assumed to be 2.5 cent/gallon which is 0.5 cents/gallon less than the fee which has been offered by CAP to Telaport. The remaining 0.5 cents/gallon is assumed to be gross profit.
 - (h) = Assumes clean products transported in fully loaded GP's in the Import Products Cases because refinery crude tanks converted to product service.
 - (i) = LPG CIF price estimated at \$30.00/bbl.
 - (j) = Assumes that current 30 day financing charge for product imports is eliminated by paying in 30 days.
 - (k) = Assumes that 10% of fixed operating costs are US \$ costs.

SOURCE: TEXACO REFINERY, CAP AND MISSION ESTIMATES.

OR IMPORTING PRODUCTS
REFINERY

	JULY 8, 1988								
	IMPORT PRODUCTS			RUN CRUDE			IMPORT PRODUCTS		
	K BBLs	\$/BBL	K \$	K BBLs	\$/BBL	K \$	K BBLs	\$/BBL	K \$
ISTHMUS CRUDE				2,139	13.92	29,775			
CEUTA CRUDE (a)				1,205	17.44	21,015			
KEROSENE RECON (a)				372	17.96	6,681			
DIESEL RECON (a)				613	15.33	9,397			
MEXICAN CRUDE FREIGHT				2,139	0.74(c)	1,583			
MEXICAN CRUDE INS. @ .033%						10			
VEN. RECON CRUDE FREIGHT				2,190	0.88(c)	1,927			
VEN. RECON CRUDE INS. @ .033%						13			
HANDLING CHARGE (1.5% FOB)						1,003			
EXPORT F. O.				(613)	8.75(e)	(5,364)			
FUEL OIL EXPORT TAX @ 1%						54			
LEAD/CATALYST COSTS						485			
UTILITIES						511			
FIXED COSTS	5,329	1.05(g)	5,595	4,329	1.58	6,840	5,329	1.05(g)	5,595
PRODUCT IMPORTS: CIF									
LPG (f)	59	30.00	1,770				59	30.00	1,770
GASOLINE, 95 R	604	23.61	14,260	71	25.82	1,833	604	23.96	14,472
GASOLINE, 87 4	512	22.36	11,448	160	24.35	3,896	512	22.54	11,540
KERO/JET	860	21.47	18,649	379	22.25	8,433	860	20.25	17,415
DIESEL	2,489	21.24	52,866	1,328	20.78	27,596	2,489	18.88	46,992
FUEL OIL	805	14.10	11,351				805	14.10	11,351
BANK COMMISSION (1.4% CIF)			1,676			585			1,569
LESS FINANCING CHARGES (g)			(891)			(311)			(834)
			<u>604</u>			<u>2,700</u>			<u>604</u>
TOTAL COSTS EXCL. DUTIES, TAXES AND SURPLUS TO GOVERNMENT			117,328			118,662			110,474
TOTAL U.S. \$ COSTS (h)			110,571			108,182			103,789

(Annualized volume balances based on Refinery Computer program and volumes represent 1988 Forecasted demand)

TEXACO REFINERY
% RETURN ON NET CAPITAL EMPLOYED
YEAR 1988
(In Thousands)

	CASE I ^(a)		CASE II ^(b)	
	LEMPIRAS	US DOLLARS	LEMPIRAS	US DOLLARS
Profit Before Tax	10,000	5,000	10,000	2,500
Income Tax - 46%	<u>4,600</u>	<u>2,300</u>	<u>4,600</u>	<u>1,150</u>
Profit After Tax	<u>5,400</u>	<u>2,700</u>	<u>5,400</u>	<u>1,350</u>
NET CAPITAL EMPLOYED				
Current Assets	49,482	24,741	49,482	12,371
Net PPE - Cost ^(c)	20,047	10,024	20,047	10,024
Other Assets	8,430	4,215	8,430	2,108
Liabilities -Local ^(d)	<u>(43,073)</u>	<u>(21,537)</u>	<u>(43,073)</u>	<u>(10,768)</u>
	34,886	17,443	34,886	13,735
% Return (after tax)	15.5	15.5	15.5	9.8

- (a) Assumes exchange rate of 2 Lempiras = 1 U.S. \$.
 (b) Assumes exchange rate of 4 Lempiras = 1 U.S. \$.
 (c) Cost and depreciation translates at exchange rate prevailing at time of acquisition.
 (d) Excludes intercompany payable to home office.

Source: Texaco Refinery and Mission Developed.

1988 AFRA AND WORLDSALE RATES

A. AFRA %

Month	Vessel Category #		
	GP	NR	LR-1
January	161.5	126.0	83.3
February	169.3	135.1	83.4
March	175.4	142.5	92.7
April	176.2	131.5	94.9
May	176.6	129.9	88.3
June	180.9	130.5	91.5
July	185.2	136.2	95.3
August	171.0	137.4	89.6
September	162.8	135.7	87.6
October	181.4	135.5	88.3
November	171.0	137.0	86.4
December	182.3	139.4	89.9
YEAR AVERAGE	174.5	134.7	89.3

B. WORLDSALE FLAT RATES, \$/LT

Voyage	Jan-June, 1988	July-Dec., 1988
Beaumont, Texas/Puerto Cortes	3.80	3.58
Coatzacoalcos/Puerto Cortes	3.45	3.28
Curacao/Puerto Cortes	4.02	3.80
Las Minas/Puerto Cortes	3.35	3.19

1988 AFRA AND WORLDSALE RATES

A. AFRA %

Month	Vessel Category #		
	GP	NR	LR-1
Punta Cardon/Puerto Cortes	4.13	3.86	
Coatzacoalcos/Curacao	4.02	3.71	
Punta Cardon/Curacao	1.74	1.69	

C. WORLDSALE FLAT DEMURRAGE, \$/DAY

DWT Range	GP	NR
15,000 - 19,999	3,300	3,050
20,000 - 24,999	4,400	4,050
25,000 - 29,999	5,550	5,100
30,000 - 34,999	6,800	6,300
35,000 - 39,999	8,050	7,450
40,000 - 44,999	9,300	8,550

g/ DWT by vessel category: GP 16,500 - 24,999 DWT's
NR 25,000 - 44,999 DWT's
LR-1 45,000 - 79,999 DWT's

Source: Texaco Refinery

COMPARATIVE COSTS OF PETROLEUM SUPPLY CASES

(Based on Estimated 1988 Demand and prices as annualized on March 4, May 27 and July 8, 1988 as shown in Annex II)

Crude Freight to Curacao

<u>Venezuela:</u> BCF 24- 6,000 B/D x 365 x \$14.40/B @/	=	\$31,536k
Freight b/- \$1.74/LT x .893 x 2190KB/7.038B/LT	=	483k
Insurance - \$32,019k x .033%	=	11k
CIF CURACAO	=	\$32,030k
<u>Legotrecó</u> - 6,000 B/D x 365 x \$17.60/B	=	\$38,544k
Est. Freight b/- \$1.74/LT x .893 x 2190KB/7.31B/LT	=	\$ 465k
Insurance - \$39,009 x .033%	=	\$ 13k
CIF CURACAO	=	\$39,022k
<u>Mexico: Isthmus</u> - 5,860 B/D x 365 x \$14.29/B @/	=	\$30,566k
Est. Freight b/- \$4.02/LT x .893 x 2139KB/7.48/LT	=	\$ 1,038k
Insurance - \$31,604 x .033%	=	\$ 10k
CIF CURACAO	=	\$31,614k

Products Freight to Honduras

LPG - 144KB x \$13.30/B @/	=	\$1915k
Reg. Gasoline - 512KB x \$3.80/LT x 1.745/8.7B/LT x 1.15	=	\$ 449k
Prem. Gasoline - 604KB x \$3.80/LT x 1.745/8.6B/LT x 1.15	=	\$ 536k
Kero/Turbo - 860KB x \$3.80/LT x 1.745/7.9B/LT x 1.15	=	\$ 830k
Diesel - 2489KB x \$3.80/LT x 1.745/7.5B/LT x 1.15	=	\$2531k
F.O. - 805KB x \$3.80/LT x 1.745/6.7B/LT	=	\$ 797k
FREIGHT TO PUERTO CORTES ^M	=	\$7058k

Processing Fee to Curacao:

(2190 KB + 2139 KB) .995 x \$1.25/B = \$5384k

Balances at Curacao

1. BCF 24/Isthmus Combination, KB^{dem}

	<u>Distillation/Reforming</u>		<u>Visbreaking</u>		Total Refinery Yield	1988 ^M Honduras Demand Plus Ocean Loss		F.O. Exch.	Outright Purchases
	BCF24	Isthmus	Total	Charge		Yield			
LPG	33	76	109	-	17	126	144	-	18
Reg. Gasoline	171	92	263	-	172	435	512	-	77
Prem. Gasoline	201	410	611	-	-	611	604	(7)	-
Kero/Turbo	131	156	287	-	-	287	860	-	573
Diesel	479	624	1103	-	722	1825	2489	10	654
Fuel Oil	1055	666	1719	(1719)	808	808	805	(3)	-
	2070	2022	4092		1719	4092	5414		1322

2. Legotrecó/Isthmus Combination, KB^{dem}

	<u>Distillation/Reforming</u>		<u>Visbreaking</u>		Total Refinery Yield	1988 ^M Honduras Demand Plus Ocean Loss		Mogas Exch.	Outright Purchases
	Legotrecó	Isthmus	Total	Charge		Yield			
LPG ^M	56	76	132	-	12	144	144	-	--
Reg. Gasoline	211	92	303	-	119	422	512	-	90
Prem. Gasoline	238	410	648	-	-	648	604	(44)	--
Kero/Turbo	159	156	315	-	-	315	860	-	545
Diesel	632	624	1256	-	502	1758	2489	53	678
Fuel Oil	774	666	1438	(1194)	561	805	805	-	-
	2070	2022	4092		1194	4092	5414		1313

Product Purchases From Curacao

1. BCF 24/ Isthmus Combination:

<u>Product</u>	<u>KB</u>	<u>\$/B</u>	<u>K\$</u>
LPG	18	16.70	301
Reg. Gasoline	77	20.20	1555
Kero/Turbo	573	20.34	11,655
Diesel	654	19.25	12,590
Total	1322		26,101

2. Lagotreco/Isthmus Combination:

<u>Product</u>	<u>KB</u>	<u>\$/B</u>	<u>K\$</u>
Reg. Gasoline	90	20.20	1,818
Kero/Turbo	545	20.34	11,085
Diesel	678	19.25	13,032
Total	1313		25,955

COST SUMMARY FOR PROCESSING IN CURACAO, K\$

	<u>BCF 24- Isthmus</u>	<u>Lagotreco - Isthmus</u>
Crude Cost CIF Curacao	63,644	70,636
Processing Fee @ \$1.25/B	5,384	5,384
Product Purchases in Curacao	26,101	25,955
Product Freight to Honduras ^{1/}	7,058	7,058
Product Insurance to Honduras	36	36
Refinery Terminalling Costs @ \$1.05/B	5,685	5,685
Bank Commission @ 1.4% CIF	1,525	1,525
Crude Handling Charge @ 1.5% FOB	932	1,037
Total	110,365	117,316

Run Crude at Texaco Refinery

	<u>KB</u>	<u>\$/B</u>	<u>K\$</u>
Buy Isthmus Crude FOB	2139	14.29	30,566
Isthmus Frt. \$3.28 x 1.745/7.48/LT	2139	0.77	1,647
Isthmus Insurance @ .033%			11
Buy Ceuta Crude FOB	1205	17.44	21,015
Buy Kero Recon FOB	372	19.57	7,280
Buy GO Recon FOB	613	17.50	10,728
Ven. Recon Ft. \$3.86 x 1.745/7.49	2190	0.92	2,015
Ven. Recon Insurance @ .033%			14
Crude Handling Charge, 1.5% FOB			1,044
Export F.O.	(613)	8.98	(5,505)
Export F.O. tax @ 1%			55
Lead/Catalyst Costs			485
Utilities ex Ref. Fuel			511
Fixed Costs	4329	1.58	5,595
Import LPG CIF	85	30.00	5,100
Import Reg. Gasoline CIF	160	28.98	3,677
Import Prem. Gasoline CIF	71	24.66	1,751
Import Kero/Turbo CIF	379	23.40	8,868
Import Diesel CIF	1328	22.41	29,760
Less Financing ^{1/}			(328)
Bank Commission @ 1.4% CIF net			684
Total			124,973

Import into Texaco Refinery

	<u>KB</u>	<u>\$/B</u>	<u>KB</u>
Import LPG FOB	144	16.70	2,405
Import Reg. Gasoline FOB	512	20.20	10,342
Import Prem. Gasoline FOB	604	21.81	13,173
Import Kero/Turbo FOB	860	20.34	17,492
Import Diesel FOB	2489	19.25	47,913
Import Fuel Oil FOB	805	13.08	10,529
Product Freight to Honduras ^{h/}			7,058
Product Insurance to Honduras			36
Bank Commission @ 1.4% CIF			1,525
Operating Cost at Terminal	3616	1.05	<u>5,685</u>
Total			116,158

Notes: ^{a/} Prices taken from Texaco computer program deducting \$0.92/Bbl. freight for Venezuelan crude and \$0.77/Bbl. for Mexican crude.

^{b/} LR-1 AFRA's based on 1988 average.

^{c/} LPG freight estimated at \$140/MT.

^{d/} Crude ocean loss at 0.5%.

^{e/} Product yields from Curacao processing estimated (95% salable products on crude charge).

^{f/} Product ocean losses at 0.5% for LPG, gasolines and Kero/Turbo, 0.4% for diesel and 0.25% for fuel oil.

^{g/} Product exchanges assumed based on price (1.3 Bbls. F.O. = 1.0 Bbl. of diesel; 1.2 Bbls of diesel = 1.0 Bbls. of 95R gasoline).

^{h/} Products imported into Refinery, when operating as a terminal, done on fully loaded GP vessels.

^{i/} Volume of LPG in each case in equal to the amount produced in the maximum LPG production case.

^{j/} Assumes products are paid in 30 days thereby eliminating the financing charges.

JOB DESCRIPTION OF CAP'S SUPPLY & TRANSPORTATION COORDINATOR

CRUDE SUPPLIES

1. **Familiarization with crude supply contracts. Provide notifications to suppliers of volume overages/shortfalls in order to retain rights to crude.**
2. **Assist in renegotiation of crude supply contracts.**
3. **Review the Texaco Refinery's recommendations for Venezuelan Recon Crude compositions and basically understand reasoning.**
4. **Develop working relationship with counterparts in the Texaco Refinery, PDVSA and PEMEX.**
5. **Maintain a coordinator's role with Central Bank to insure LOC's are always timely in place.**
6. **Keep Texaco Refinery continually apprised of all crude/recon component prices that are received from PETROVEN and maintain a complete up-to-date pricing file.**
7. **Audit each Venezuelan recon crude invoice, including the necessary gravity adjustments.**
8. **Maintain an up-to-date pricing file on U.S. Gulf crudes and fuel oils that relate to the Isthmus crude pricing formula and audit each invoice.**

PRODUCT SUPPLIES

1. **Understand the product quality specifications of each product, their individual importance and which can be related to price.**
2. **Continually be informed on the products market and maintain up-to-date product pricing files.**
3. **Familiarization with Caribbean postings, U.S. Gulf postings and other pricing bases that may be appropriate for the supply of products to Honduras.**
4. **Develop working relationships with the product supply personnel associated with all the major oil companies and other suppliers (Maraven, Trintoc, Petrojam, etc.).**
5. **Maintain a coordinator's role with the Central Bank to insure LOC's are always timely in place.**

6. Request bids for product supply under term arrangements and analyze the quotes regarding prices, quality, payment terms, etc.
7. Present analysis of product supply bids with recommendation and ranking of each to CAP's Technical Committee for approval, when necessary.
8. Audit all product invoices.
9. If other terminals are constructed in Honduras, must coordinate all marketer's product liftings from the Refinery and terminals as well as develop the product import schedules to each location.

TRANSPORTATION

1. Know about tanker characteristics and how they relate to the physical facilities available at the Texaco Refinery and other terminals in Honduras.
2. Must understand how freight rates are developed and their relation to bunker prices, port charges and tanker availability.
3. Understand deadfreight and demurrage, their causes and limitations.
4. Continually be informed on the tanker market.
5. Develop working relationships with several reliable, prominent, international tanker brokers as well as the transportation personnel associated with all the major oil companies.
6. Understand the spot tanker market and how to request and evaluate biddable term freight arrangements.
7. Know about voyage charters, term charters, term freight arrangements and the Worldscale/AFRA freight system.
8. Present ocean freight contract proposals to CAP's Technical Committee for approval, when necessary.
9. Audit all freight invoices including charges for deadfreight and demurrage.
10. Arrange all cargo insurance coverage.

REFINERIA TEXACO DE HONDURAS, S.A.
PROGRAMACION TENTATIVA SOBRE IMPORTACION
DE PETROLEO CRUDO Y REFINADOS
PARA EL AÑO 19__

	ENERO/MARZO		ABRIL/JUNIO		JULIO/SEPT		OCT/DEC		TOTAL	
	(1) BBLs. MILES	(1) \$US MILES								
CRUDO (FOB)										
REFINADOS (CIF)										
FLETE/SEGUROS DE CRUDO										
TOTALS										
VALOR DE EXPORTACION DE F.O.										

(1) BASADO EN PRECIOS VIGENTES EN ENERO____, 19__

(2) PARADA DE LA REFINERIA PROGRAMADA PARA _____

PREPARADO Y SOMETIDO A LA COMISION ADMINISTRADORA DEL PETROLEO DEL MINISTERIO DE ECONOMIA Y COMERCIO
EN ENERO____, 19__.

REFINERIA TEXACO DE HONDURAS, S.A.
GERENTE GENERAL

REFINERIA TEXACO DE HONDURAS, S.A.
PROGRAMACION TENTATIVA SOBRE IMPORTACION
DE PETROLEO CRUDO Y REFINADOS
PARA LOS MESES DE JULIO, AGOSTO Y SEPTIEMBRE DE 1988

<u>FECHA DE</u> <u>EMBARQUE</u> <u>F.O.</u>	<u>PRODUCTO</u>	<u>PROCEDENCIA</u>	<u>BBLs.</u> <u>MILES</u>	<u>(1)</u> <u>\$US,</u> <u>MILES</u>	<u>\$US</u> <u>MILES VALOR</u> <u>EXPORTACION</u>
<u>JULIO</u>					
4-6	REFINADOS (CIF)	TEX-TRADER	90	2,100	
7-9	CRUDO (FOB)	VENEZUELA	180	3,400	
22-24	REFINADOS (CIF)	TEX-TRADER	85	2,000	
	FLETE/SEG. CRUDO		-	155	
	SUB-TOTAL		<u>355</u>	<u>7,655</u>	<u>540</u>
<u>AGOSTO</u>					
1-3	REFINADOS (CIF)	TEX-TRADER	87	2,055	
10-12	REFINADOS (CIF)	TEX-TRADER	95	2,250	
18-25	REFINADOS (CIF)	TEX-TRADER	95	2,240	
23-25	CRUDO (FOB)	VENEZUELA	180	3,400	
26-28	REFINADOS (CIF)	TEX-TRADER	90	2,220	
	FLETE/SEG. CRUDO		-	160	
	SUB-TOTAL		<u>547</u>	<u>12,325</u>	<u>-</u>
<u>SEPTIEMBRE</u>					
4-6	CRUDO (FOB)	VENEZUELA	180	3,400	
13-15	REFINADOS (CIF)	TEX-TRADER	74	1,750	
20-22	CRUDO (FOB)	MEXICO	180	3,400	
27-29	REFINADOS (CIF)	TEX-TRADER	80	1,690	
	FLETE/SEG. CRUDO		-	330	
	SUB-TOTAL		<u>514</u>	<u>10,570</u>	<u>540</u>
	TOTAL		<u>1,416</u>	<u>30,550</u>	<u>1,080</u>

BASADO EN PRECIOS VIGENTES EN _____ 19____

PREPARADO Y SOMETIDO A LA COMISION ADMINISTRADORA
DEL PETROLEO DEL MINISTERIO DE ECONOMIA Y COMERCIO EL _____
DE _____, 19____

REFINERIA TEXACO DE HONDURAS, S.A.
GERENTE GENERAL

Al Banco Central De Honduras

ANNEX IX
Page 1 of 1

**SOLICITUD DE CREDITO DOCUMENTADO NO. DE REF _____
PARA COMPRA DE CRUDO**

LUGAR Y FECHA _____

SEÑORES:

SIRVANSE EMITIR POR CUENTA DE COMISION ADMINISTRADORA DEL PETROLEO (MINISTERIO DE ECONOMIA)

UN CREDITO DOCUMENTADO IRREVOCABLE: REVOCABLE POR CORREO AEREO CABLE A FAVOR DE _____

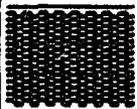
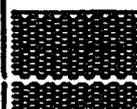
VALOR CARTA DE CREDITO _____
(EN NUMEROS) _____ (EN LETRAS) _____

PARA CUBRIR PEDIDO DE: _____ FECHA DE EMBARQUE: _____

ESTA CARTA DE CREDITO DEBE ESTAR ABIERTA: _____

EL PLAZO DEL CREDITO DEBE SER DE _____ DIAS A CONTAR DE LA FECHA DE _____. EL PAGO O PAGOS DEBERAN EFECTUARSE CONTRA ENTREGA DE LOS DOCUMENTOS DESCRITOS A CONTINUACION Y MARCADOS CON UNA X:

FACTURA COMERCIAL AUTENTICADA POLIZA O CERTIFICADO DE SEGURO
 CONOCIMIENTO DE EMBARQUE NEGOCIABLE NO NEGOCIABLE GUIA AEREA
 FACTURA CONSULAR LEGALIZADO GUIA TERRESTRE

CO DI GO		APERTURA		PRIMERA REVISION(A)		SEGUNDA REVISION(B)		TERCERA REVISION(C)	
		BARRILES	MO. NACIONAL	BARRILES	MO. NACIONAL	BARRILES	MO. NACIONAL	BARRILES	MO. NACIONAL
	ISTMO CEUTA RECON LAGOTRECO RECON								
	VALOR CD APERTURA(0.25%) CAMBIO(1.0%) OTROS GASTOS(1.0%) TOTAL								

EL SEGURO DEBE CUBRIR LOS RIESGOS SIGUIENTES: _____ HASTA: _____
EL DESPACHO DE LA MERCADERIA DEBE VERIFICARSE POR VIA: TERRESTRE MARITIMA AEREA

FOB FAS CIF CAF _____
EMBARQUES PARCIALES PERMITIDOS SI NO _____
PUERTO DE INGRESO _____

MANIFESTANDO A USTEDES ESTAR CONFORME CON LAS CONDICIONES ESTIPULADAS AL REVERSO DE LA PRESENTE, NOS SUSCRIFIMOS MUY ATENTAMENTE

FIRMA AUTORIZADA DEL SOLICITANTE

Al Banco Central De Honduras

**SOLICITUD DE CREDITO DOCUMENTADO NO. DE REF _____
PARA COMPRA DE PRODUCTOS REFINADOS**

**ANNEX X
Page 1 of 1**

LUGAR Y FECHA

SEÑORES:

SIRVANSE EMITIR POR CUENTA DE COMISION ADMINISTRADORA DEL PETROLEO (MINISTERIO DE ECONOMIA)

UN CREDITO DOCUMENTADO IRREVOCABLE: REVOCABLE POR CORREO AEREO CABLE A FAVOR DE

VALOR CARTA DE CREDITO

(EN NUMEROS)

(EN LETRAS)

PARA CUBRIR PEDIDO DE: _____

FECHA DE EMBARQUE: _____

ESTA CARTA DE CREDITO DEBE ESTAR ABIERTA:

EL PLAZO DEL CREDITO DEBE SER DE _____ DIAS A CONTAR DE LA FECHA DE _____. EL PAGO O PAGOS DEBERAN EFECTUARSE CONTRA ENTREGA DE LOS DOCUMENTOS DESCRITOS A CONTINUACION Y MARCADOS CON UNA X:

FACTURA COMERCIAL AUTENTICADA POLIZA O CERTIFICADO DE SEGURO
 CONOCIMIENTO DE EMBARQUE NEGOCIABLE NO NEGOCIABLE GUIA AEREA
 FACTURA CONSULAR LEGALIZADO GUIA TERRESTRE

CO DI GO		APERTURA		PRIMERA REVISION(A)		SEGUNDA REVISION(B)		TERCERA REVISION	
		BARRILES	MO. NACIONAL	BARRILES	MO. NACIONAL	BARRILES	MO. NACIONAL	BARRILES	MO. NACIONAL
	GASOLINA-EXTRA GASOLINA-REG. D.P. KEROSENE DIESEL OIL FUEL OIL LEAD								
	FLETE SEGURO	██████████		██████████		██████████		██████████	
	VALOR CD								
	APERTURA(0.25%)	██████████		██████████		██████████		██████████	
	CAMBIO(1.0%)	██████████		██████████		██████████		██████████	
	OTROS GASTOS(1.0%)	██████████		██████████		██████████		██████████	
	TOTAL								

EL SEGURO DEBE CUBRIR LOS RIESGOS SIGUIENTES: _____

HASTA: _____

EL DESPACHO DE LA MERCADERIA DEBE VERIFICARSE POR VIA: TERRESTRE MARITIMA

AEREA

PUERTO DE INGRESO _____

FOB _____

FAS _____

CIF _____

CAF _____

EMBARQUES PARCIALES PERMITIDOS SI NO
 MANIFESTANDO A USTEDES ESTAR CONFORME CON LAS CONDICIONES ESTIPULADAS AL
 REVERSO DE LA PRESENTE, NOS SUSCRIBIMOS MUY ATENTAMENTE

 FIRMA AUTORIZADA DEL SOLICITANTE

Al Banco Central De Honduras

SOLICITUD DE CREDITO DOCUMENTADO NO. DE REF _____
 PARA COMPRA DE FLETE Y SEGURO DE CRUDO

ANNEX XI
 Page 1 of 1

LUGAR Y FECHA _____

SEÑORLS:

SIRVANSE EMITIR POR CUENTA DE COMISION ADMINISTRADORA DEL PETROLEO (MINISTERIO DE ECONOMIA)

UN CREDITO DOCUMENTADO IRREVOCABLE: _____ REVOCABLE _____ POR CORREO AEREO _____ CABLE _____ A FAVOR DE _____

VALOR CARTA DE CREDITO _____

(EN NUMEROS)

(EN LETRAS)

PARA CUBRIR PEDIDO DE: _____

FECHA DE EMBARQUE: _____

ESTA CARTA DE CREDITO DEBE ESTAR ABIERTA: _____

EL PLAZO DEL CREDITO DEBE SER DE _____ DIAS A CONTAR DE LA FECHA DE _____. EL PAGO O PAGOS DEBERAN EFECTUARSE CONTRA ENTREGA DE LOS DOCUMENTOS DESCRITOS A CONTINUACION Y MARCADOS CON UNA X:

FACTURA COMERCIAL AUTENTICADA POLIZA O CERTIFICADO DE SEGURO
 CONOCIMIENTO DE EMBARQUE NEGOCIABLE NO NEGOCIABLE GUIA AEREA
 FACTURA CONSULAR LEGALIZADO GUIA TERRESTRE

CO DI GO		M O N E D A N A C I O N A L			
		APERTURA	PRIMERA REVISION(A)	SEGUNDA REVISION(B)	TERCERA REVISION(C)
	FLETE-ISTMO				
	FLETE-CEUTA RECON				
	FLETE				
	SEGURO-ISTMO				
	SEGURO-CEUTA RECON				
	SEGURO				
	VALOR CD				
	APERTURA(0.25%)				
	CAMBIO(1.0%)				
	OTROS GASTOS(1.0%)				
	TOTAL				

EL SEGURO DEBE CUBRIR LOS RIESGOS SIGUIENTES: _____

HASTA: _____

EL DESPACHO DE LA MERCADERIA DEBE VERIFICARSE POR VIA: TERRESTRE _____ MARITIMA _____

AEREA _____

PUERTO DE INGRESO _____

EMBARQUES PARCIALES PERMITIDOS SI _____ NO _____

CIP _____

CAF _____

MANIFESTANDO A USTEDES ESTAR CONFORME CON LAS CONDICIONES ESTIPULADAS AL REVERSO DE LA PRESENTE, NOS SUSCRIBIMOS MUY ATENTAMENTE

 FIRMA AUTORIZADA DEL SOLICITANTE

SECRETARIA DE ECONOMIA

REPUBLICA DE HONDURAS

COMISION ADMINISTRADORA DEL PETROLEO (CAP)

ANEXO AL OFICIO CAP - 310-87

CALCULO DEL VALOR CIF DE LAS IMPORTACIONES A RECIBIR POR
LA REFINERIA TEXACO DE HONDURAS, SA

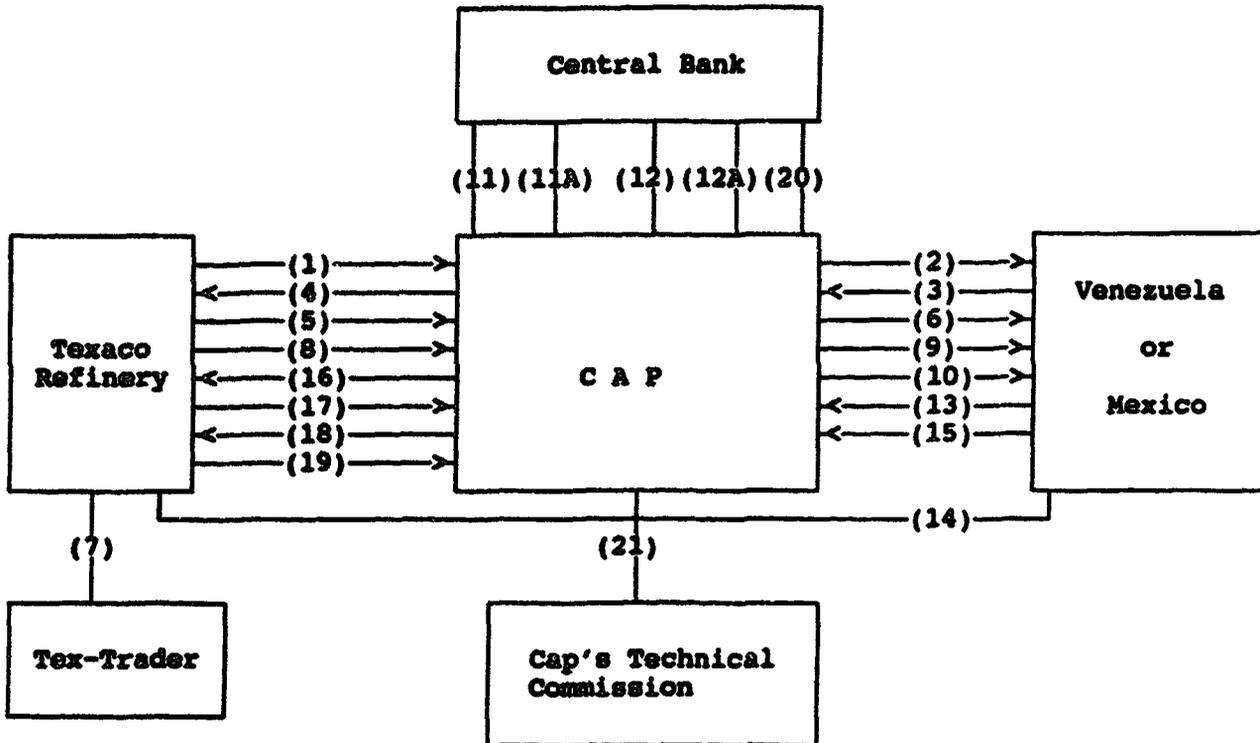
ENTRE EL _____

Productos	Cantidad (Bbls)	Unitario Fob (\$/Bbl.)	Total Fob (\$)	Flete (\$)	Seguro (\$)	Valor Cif (\$)
GASOLINA 95 OCTANOS	10,000	25.20	252,000.00	14,088.00	95.80	266,163.80
GASOLINA 87 OCTANOS	5,000	24.00	120,000.00	6,872.90	45.70	126,918.50
ESPIRITU DE PETROLEC (D.P. KEROSENE)	6,000	23.67	142,000.00	9,079.40	54.40	151,133.80
DIESEL OIL	35,000	23.26	814,000.00	55,851.10	313.10	870,164.20
T O T A L	56,000	23.71	1,328,000.00	85,871.40	509.00	1,414,384.40

Notas:

- 1) Precios Fob: Curacao S/Platt's a la fecha más recargo financiero según prime rate vigente.
- 2) Flete: \$.13.00 T/L.
- 3) Seguro: 0.036% S/Fob + Flete.
- 4) \$5.619.70 menos que lo solicitado.

PRESENT CRUDE INFORMATION FLOW CHART



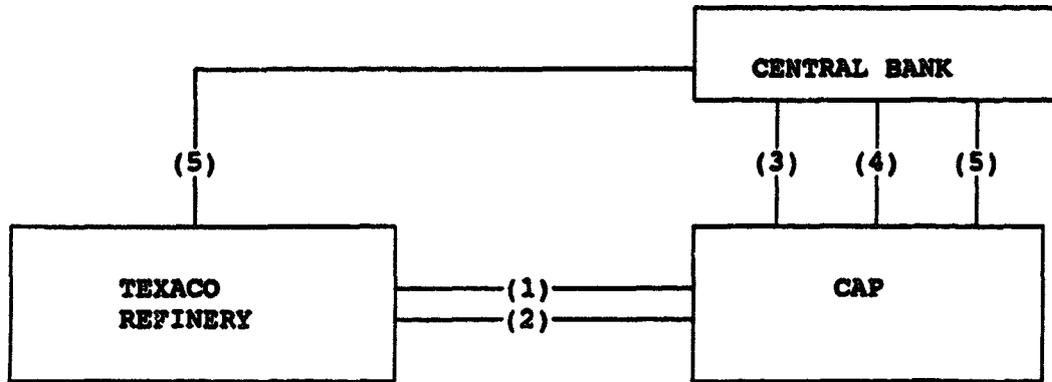
PRESENT CRUDE INFORMATION FLOW CHART
(Note for Page 1 of This Annex)

1. **Texaco notifies CAP by Telex of their crude requirements by the 10th of the month prior to the month of the shipments, including proposed loading date ranges. This telex includes the crude requirements for the next three months.**
2. **Telex notification to Seller of Texaco's proposed loading date range.**
3. **Telex notification by Seller to CAP agreeing to loading date ranges or requesting a different loading date.**
4. **Telex to Texaco by CAP requesting acceptance of loading date range proposed by Seller.**
5. **Texaco's telex of acceptance to CAP.**
6. **CAP's telex confirmation to the Seller.**
7. **Ship nomination communication between Texaco Refinery and Tex-Trader.**
8. **Texaco's telex advice to CAP on ship nomination.**
9. **CAP's advice to Seller on ship nomination.**
10. **CAP's notification to Seller on independent inspectors.**
11. **CAP's letter request to Central Bank to open LOC for crude purchase (FOB). Amendments requested in writing as required.**
- 11A. **Central Bank acknowledges CAP's LOC requests. Necessary amendments are also acknowledged. Central Bank initiates action to secure LOC with correspondent Bank.**
12. **At Texaco's request, CAP requests Central Bank to open LOC for payment of freight and insurance on crude shipment.**
- 12A. **Central Bank acknowledges LOC request.**
13. **Telex invoice from Seller to CAP with final loaded quantity and price, including any financing charges incurred.**

14. **Crude cargo accompanied by corresponding Bill of Lading.**
15. **Seller forwards to CAP shipping documents and quantity/quality reports approximately 15 days after loading.**
16. **CAP forwards to Texaco copy a shipping documents and quantity/quality reports for verification.**
17. **Texaco notifies CAP actual quantity received and the total value of the cargo calculation which by difference of CAP's FOB and financing charges is the total Excedente or surplus. The amount of the Manejo is also shown.**
18. **CAP forwards to Texaco an invoice for payment of crude, Excedente (surplus remaining) and 1.5% Manejo (handling fee).**
19. **Payment of crude, Excedente and 1.5% Manejo by Texaco to Central Bank through CAP.**
20. **Central Bank provides CAP with information of all costs related to the LOC. CAP prepares liquidation report.**
21. **Report "Projection de Costos e Intgresos Anualizados REFTEXSA" forwarded to all members of CAP's Technical Commission.**

Source: CAP and Mission Developed.

PRESENT REFINED PRODUCTS INFORMATION FLOW CHART



(Also for LEAD)

Notes:

1. Monthly telex to CAP by Texaco of finished products import requirements for the next three months.
2. Texaco's written request to CAP to open LOC on their behalf in favor of Tex-Trader for the CIF cost of refined products.
3. CAP's letter request to Central Bank to open LOC for the CIF cost of refined products. Amendment requested in writing as required.
4. Central Bank acknowledges CAP's LOC request. Necessary amendments are also acknowledged. Central Bank initiates action to secure LOC.
5. Central bank provides the Texaco Refinery with information of all costs related to the LOC. CAP is provided a copy. CAP prepares liquidation report.

Source: CAP and Mission Developed.

CHRONOLOGY OF TEXACO PAYMENT FOR CRUDE

	<u>VEN</u> <u>CRUDE</u>	<u>MEX</u> <u>CRUDE</u>
● Loading date	May 13	July 2
● CAP sends letter to Texaco Refinery with pertinent documentation plus two separate invoices, one for the FOB value of the cargo and a separate one to cover the "1.5% Manejo." A receipt, as acknowledgement of payment, is also enclosed with the letter.	July 7	Aug 30
● Texaco remits check to CAP under cover letter. Check is for the total amount of the two invoices.	July 11	Aug 30
● CAP endorses the check and forwards it to the Central Bank with pertinent instructions for deposit.	July 11	Aug 31
● Payment to sellers as per credit terms of contract.	July 13	Aug 2
● Payment made: Days from loading date.	60	30

**EXAMPLE OF THE DEVELOPMENT OF THE EXCEDENTE
FOR CRUDE CARGO THAT LOADED MARCH 2, 1989**

A. CHRONOLOGY OF CARGO

FEBRUARY 25 - Refinery advises CAP of estimated prices of the crude cargoes scheduled for loading in March.
MARCH 2 - Cargo loading date.
MARCH 5 - Cargo discharged in Refinery booked at estimated price.
APRIL 15 - Refinery closes books for March.
APRIL 17 - Refinery advises CAP of the total value of the crude including Excedente. The final amount of the Manejo is also advised.
APRIL 29 - CAP invoices Refinery.
APRIL 30 - Refinery pays CAP for the crude cargo.

B. ESTIMATED PRICE DEVELOPMENT

Proposed volume: 180,000 Barrels of Isthmus
Price Build-up: FOB Isthmus 29.900 Lps./Bbl.
Finance Charge @ 8.5% 0.210 Lps./Bbl.
✓ Est'd. Excedente 21.884 Lps./Bbl.
✓ Proposed Price 51.994 Lps./Bbl.

Total Value: 9,358,920 Lps.
1.5% Manejo: 140,383.80 Lps.

Refinery uses this proposed price to book the crude on arrival.

C. REFINERY INCOME STATEMENT FOR MARCH 31 CLOSING

	<u>Lempiras</u>
General Sales	100,500,450
Cost of Sales	<u>93,260,000</u>
Gross Profit	7,240,450
Operating Costs	4,730,450
Non-Operating Charges	<u>10,000</u>
Profit Before Tax	2,500,000 ^o

Included in the Cost of Sales is the amount accrued for the March 2 crude cargo. Based on that accrued amount for the cargo, there are also accrued amounts for the D14/54 and D85 taxes and the Manejo, both associated with that cargo. There is also a gross surplus that is made up of additional amounts for the D14/54 and D85 taxes and the Manejo and the resultant net surplus (portion of the total Excedente).

The D14/54 tax used last year has now been eliminated. An Arencelaris tax is now included.

D. REFINERY'S ADVICE TO CAP OF CRUDE CARGO VALUE

Actual volume per bill of lading:	179,924 Barrels
	<u>Lempiras</u>
Cargo as originally booked @ 51.994	9,354,968.45
Net surplus from month end closing	<u>1,930,246.51</u> [#]
Amount to be paid to CAP for crude	11,285,214.96
Associated Manejo on cargo @ 1.5%	<u>169,278.22</u>
Total amount due to CAP for cargo	<u>11,454,493.18</u>

Notes:

- [#] Price determined in the Refinery annualized Spreadsheet calculation of the estimated Excedente.
- [#] Price used by Refinery to accrue a value for the crude cargo until total actual determination is made after month end closing.
- [#] The before tax profits is fixed at 833,333.33 Lempiras per month.
- [#] The net surplus is distributed equally over each crude cargo that will be paid before the next month's closing date.

Source: Mission developed.

**TEGUCIGALPA, D.C.
(FECHA)**

**SEÑOR
VICE PRESIDENTE & GERENTE GENERAL
REFINERIA TEXACO DE HONDURAS, S.A.
INGENIERO MANUEL J. CRESPO
PUERTO CORTES**

ESTIMADO INGENIERO:

**ADJUNTO REMITIMOS DOCUMENTACION REFERENTE A ANTICIPO DE EXCEDENTE
COMO SIGUE:**

**FACTURA COMERCIAL NO. _____
RECIBO DE FACTURA NO. _____**

**EL PAGO DEBERA HACERSE EN MONEDA DE CURSO LEGAL MEDIANTE CHEQUE
CERTIFICADO, EMITIDO A FAVOR DE LA COMISION ADMINISTRADORA DEL PERTOLEO
(CAP)**

ATENTAMENTE

**MINISTRO
MINISTERIO DE ECONOMIA**

Secretaría de Economía y Comercio

República de Honduras

RECIBO ANTICIPO DE EXCEDENTE

RECIBIMOS DE REFINERIA TEXACO DE HONDURAS, S.A. LA CANTIDAD DE LPS _____ POR CONCEPTOS DESCRITOS EN NUESTRA FACTURA COMERCIAL QUE A CONTINUACION DETALLAMOS:

Valor-Lempiras

FACTURA COMERCIAL NO. _____

TEGUCIGALPA, D.C., (FECHA)

MINISTRO
MINISTERIO DE ECONOMIA

Secretaria de economia y Comercio

Republica de Honduras

FACTURA COMERCIAL

FACTURA NO. _____
TEGUCIGLPA, D.C. _____

CARGO POR ANTICIPO DE EXCEDENE MAS COMISION DE MANEJO DE 1.5% CUYO VALOR DESCRIBIMOS A CONTINUACION:

ANTICIPO DE EXCEDENTE	Lps. _____
COMISION DE MANEJO DE 1.5%	Lps. _____
VALOR TOTAL DE FACTUR	Lps. _____

POR: _____
**COMISION ADMINISTRADORA
DE PETROLEO**

CALCULO DE EXCEDENTE ESTIMADO (ANUALIZADO)
(En Miles)

<u>INGRESOS</u>	<u>Barriles</u>	<u>Lempiras</u>	<u>Total lempiras</u>
Ventas Locales de Productos	xxx	xxx	
Exportaciones de Fuel Oil menos Impuesto (1%)	xxx	xxx	
Otros Ingresos	---	<u>xxx</u>	
TOTAL DE INGRESOS	xxx		xxx
<u>COSTOS</u>			
IMPORTACION DE CRUDO			
Crudo Venezolano, FOB	xxx	xxx	
Crudo Mexicano, FOB	<u>xxx</u>	<u>xxx</u>	
TOTAL de Crudo, FOB	xxx	xxx	
Flete y Seguro		xxx	
Costo Financiero		<u>xxx</u>	
Total de Crudo, CIF		xxx	
Manejo de Gobierno (1.5% cif + Excedente)		xxx	
D14/54 (5% CIF + Excedente) + 12% Recargo		xxx	
D85 (5% CIF + Excedente)		xxx	
Demora + Comisiones Bancarias (Demora)		xxx	
Comisiones Bancarias Sobre Flete		xxx	
Gastos de Inspectores		<u>xxx</u>	
COSTO TOTAL DE IMPORTACION DE CRUDO			xxx
IMPORTACION DE PLOMO			
Costo de Importacion + Comisiones Bancarias (CIF)		xxx	
D14/15 (10% CIF) + 12% Recargo		xxx	
D85 (5% CIF)		<u>xxx</u>	
COSTOS TOTAL DE IMPORTACION DE PLOMO			xxx
IMPORTACION DE PRODUCTOS			
Costos de Importacion (CIF)	xxx	xxx	
D14/15 (10% CIF) + 12% Recargo		xxx	
D85 (5% CIF)		xxx	
Arancelarios + 12% Recargo		xxx	
Consularios (8% FOB incl. Costo Financiero)		xxx	
Demora + Comisiones Bancarias (Demora)		xxx	
Comisiones Bancarias (Productos)		<u>xxx</u>	
COSTOS TOTAL DE IMPORTACION DE PRODUCTOS			xxx
COSTOS DE REFINERIA			
Costo Total de Operaciones		xxx	
(Ingresos)/Costos no Operacionales (neto)		xxx	
Utilidad Bruta de Refineria		<u>xxx</u>	
COSTOS TOTAL DE REFINERIA			<u>xxx</u>
TOTAL DE COSTOS			xxx
EXCEDENTE (TOTAL de INGRESOS menos TOTAL de COSTS)			<u>xxx</u>

COMISION ADMINISTRADORA DEL PETROLEO

RESUMEN COMPRA-VENTA DE PETROLEO CRUDO Y RECONSTITUIDO
(PERIOD: de ENERO -)

No. Carta de Crédito	Fecha de Embarque	No. Barriles Netos	Valor Venta (Miles/Lps)	F.O.B. Valor Compra g/ (Miles/Lps)	Excedente Pagado Pot La Refineria (Miles/Lps)	Precio Venta Promedio Lps/Bbls.	Precio Compra Promedio Lps/Bbls.	Comision Manejo (Miles/Lps)
43/87	11-01-87	120,304	15,639.8	4,761.9	10,857.9	130.00	39.75	234.6
61/87	14-02-87	129,983	12,380.6	4,683.5	7,697.1	95.28	36.05	185.7
95/87	06-03-87	137,429	7,161.2	4,813.6	2,347.6	52.11	35.03	107.4
113/87	21-03-87	<u>130,632</u>	<u>13,680.8</u>	<u>4,731.7</u>	<u>8,949.1</u>	104.73	36.22	<u>205.2</u>
TOTALES HAST LA FECHA		518,294	48,862.4	19,010.7	29,851.7			732.9

g/ Incluye Costo Financiero a la Tasa Preferencial Vigente a la fecha del conocimiento de Embarque.

Secretaria de Economia y Comercil

Republica de Honduras

CAP. _____

Tegucigalpa, D.C.

**Señor Vicepresidente y Gerente General
Refineria Texaco de Honduras, S.A.
Ingeniero Manuel J. Crespo
Puerto Cortés.**

Estimado Ingeniero:

Adjunto encontrará copia de la documentacion referente a nuestra venta de _____ barriles netos de Petroleo _____ el cual fue embarcado el dia _____ en el _____ arribando el dia _____.

La documentacion que se remite incluye:

- _____ **Factura Comercial No. CAP- _____**
- _____ **Recibo por facturas anteriores**
- _____ **Factura Comercial _____ No. _____**
- _____ **Bill of Lading**
- _____ **Acuse de Recibo del Capitán**
- _____ **Certificado de Origen y Autenticidad _____**
- _____ **Mainfiesto de carga**
- _____ **Aviso de Listgo**
- _____ **Informe del Inspector:**

- _____ **Reporte del Tiempo**
- _____ **Reporte de Calidad**
- _____ **Reporte de Cantidad**
- _____ **Reporte del Buque**

El vencimiento de nuestra Carta de Crédito _____ es al dia _____ apreciando se sirva gestionar el pago a la mayor brevedad posible a fin de poder cumplir con nuestra obligacion con el Banco Central de Honduras sin ninguna demora en la fecha indicada.

El pago deberá hacerse en moneda de curso legal, mediante Cheque Certificado emitido a favor de la Comision Administradora del Petroleo (CAP).

Atentamente,

**Name of Minister of Economy
Ministerie de Economía**

FACTURA COMERCIAL

No. CARTA DE CREDITO _____ FACUTURA NO. _____
TEGUCIGALPA, D.C. _____
FECHA _____

CONSIGNADO A REFINERIA TEXACO DE HONDURAS, S.A. POR LA VENTA FOB DE PETROLEO MAS COMISION DE MANEJO DE 1.5%, CUYA CANTIDAD, VALOR Y REFERENCIAS DESCRUVUNIS A CIBTUBYACUIB:

PUERTO DE EMBARQUE
FECHA DE EMBARQUE
NUMERO DE EMBARQUE
BUQAUE TANQUE TRANSPORTADOR
NACIONALIDAD BUQUE TANQUE

BARRILES BRUTOS:

BARRILES NETOS:

TONS LARGAS BRUTAS:

TONS. LARGAS NETAS:

CODIGOS

--- ---- PRECIO FOB (BBL.NETO)
___ COSTO FINANCIERO ___ %x ___ DIAS
___ PRECIO - FOB MAS CONSTO FIN.
___ EXCEDENTE
___ TOTAL PRECIO
___ COMISION DE MANEJO (1.5%)
___ VALOR TOTAL DE FACTURA

L/B	US\$/B	LEMPIRAS	\$US

POR- _____
COMISION ADMRA, DE PETROLEO

Secretaría de Economía y Comercio
República de Honduras

RECIBO POR LPS

Recibimos de la Refinería Texaco de Honduras, S.A. la cantidad de Lps. _____
_____ por los conceptos descritos en nuestra
factura comercial y que a continuación detallamos:

<u>Descripción</u>	<u>Valor/Lps</u>
Factura Comercial No. CAP- _____	

Name of Minister of Economis

Ministarie de Economia

Secretaria de Economia y Comercio

Republica de Honduras

CALCULO PRECIO DEL CRUDO DE VENEZUELA Y COSTO FINANCIERO
(cd. _____)

I. CALCULO PRECIO CRUDO _____ a _____ API

Description \$ / Barril

Precio Crudo _____ a _____ API

Más:

Ajuste por ___ décuna de gradis a ___ cebtavos
de dolar por cada décima de gravedad API _____

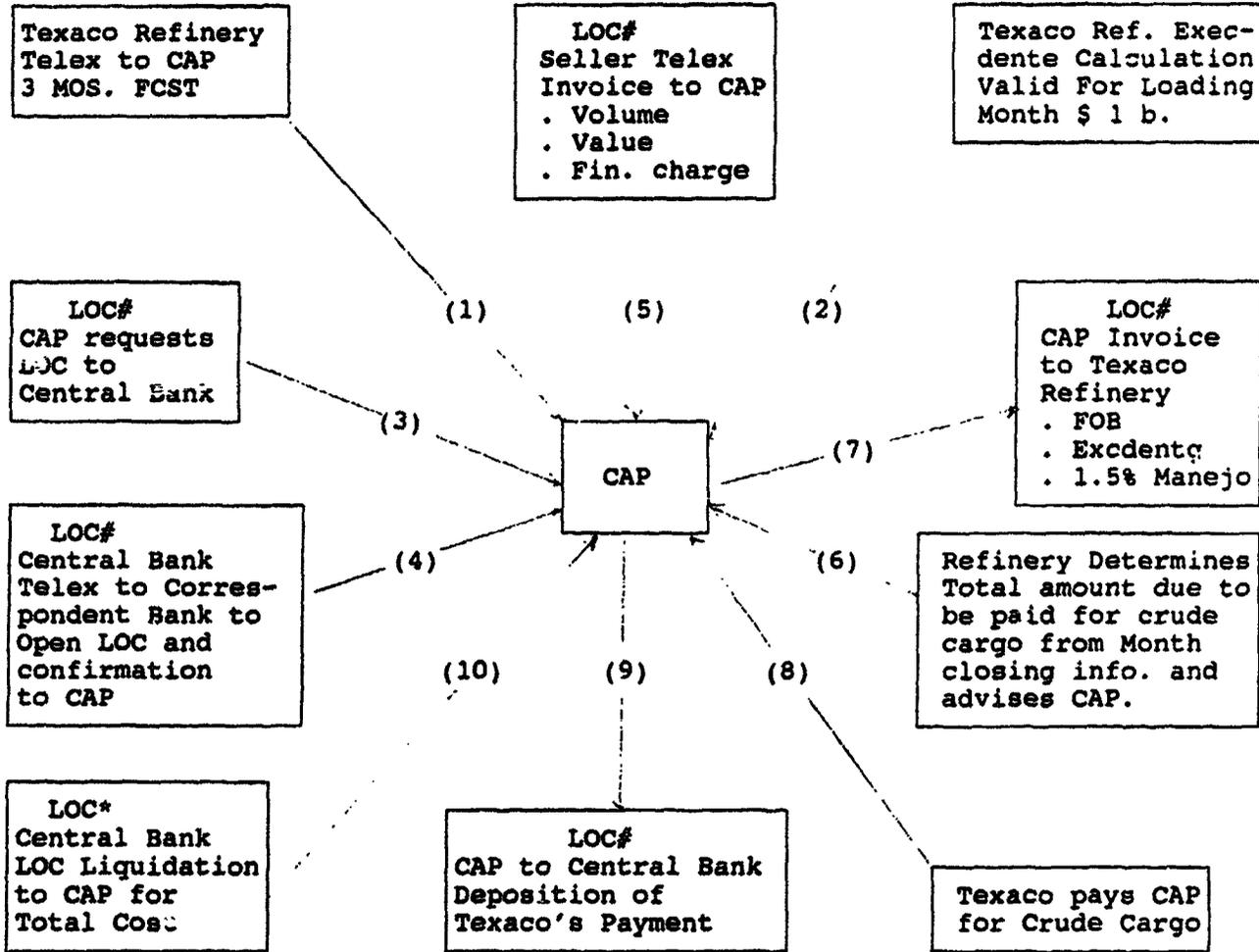
PRECIO Crude _____ a _____ API _____

II. CALCULO COSTO FINANCIERO

Costo Fob \$ X Prime Rate X 30 dias
360 dias

\$ _____ X % X 30 dias - \$ _____
360 dias

PROPOSED FRAMEWORK FOR CRUDE INFORMATION FLOW CHART



The LOC# (Letter of Credit No.) will tie all invoicing and payments together, except for the three months forecast and the calculation of the actual "Excedente" for the year.

Although CAP is not involved in the payment of LOC for refined products and crude freight and insurance, similar flow charts can be used to gather the data necessary for the preparation of statistical reports.