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# **PRI Candidate Enrique Peña Nieto Proposes to Expand Efforts to Open State-run Oil Company PEMEX to Private Investment**

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By Carlos Navarro

Taking a position similar to that of recent presidents from the Partido Acción Nacional (PAN) and his own Partido Revolucionario Institucional (PRI), presidential candidate Enrique Peña Nieto suggested that private investment is necessary to keep the state-run oil company PEMEX viable.

With this stance, Peña Nieto aligns himself with the neoliberal wing of the PRI, which sees private capital as a necessary tool for economic development. In clarifying his position, the PRI candidate also creates a clear contrast with the center-left coalition, led by its candidate Andrés Manuel López Obrador, which opposes private involvement in PEMEX. The center-left candidate has proposed that the state gain control of 50% of private pension funds to boost the amount of government funds available for PEMEX operations.

Peña Nieto outlined his position several times during November, including in a speech in Washington, an address to the powerful business organization, the Confederación de Cámaras Nacionales de Comercio, Servicios y Turismo (CONCANACO-SERVYTUR), and interviews with US and Mexican media.

Peña Nieto officially became the PRI candidate when his lone rival, Sen. Manlio Fabio Beltrones, dropped a potential primary challenge. This means that the candidacies for three of the major parties have now been decided. Earlier this month, Mexico City Mayor Marcelo Ebrard withdrew in favor of López Obrador after a special poll showed him behind his rival to head a center-left coalition led by the Partido de la Revolución Democrática. Ebrard would likely have shown a little more flexibility than López Obrador regarding private participation in PEMEX.

The PAN is expected to choose its candidate among Sen. Santiago Creel, former finance secretary Ernesto Cordero, and Deputy Josefina Vázquez Mota.

The PRI is running with the Partido Verde Ecologista de México (PVEM) and the Partido

Nueva Alianza (PANAL) in a coalition known as Compromiso por México. The PRD's partners in the Movimiento Progresista are the Partido del Trabajo (PT) and the Movimiento Ciudadano (MC).

Peña Nieto's position regarding the participation of private companies in PEMEX is similar to those adopted by ex-Presidents Carlos Salinas de Gortari and Ernesto Zedillo of the PRI and Vicente Fox and Felipe Calderón of the PAN.

Salinas de Gortari proposed the privatization of petrochemical plants, which became a reality during Zedillo's government. Almost a decade later, the PRI fully endorsed the move to bring private investment into PEMEX as long as the state retained control and ownership of the country's reserves of hydrocarbons.

The PAN has also promoted private investment in the oil sector. Fox, for example, implemented a system of multiple-services contracts (contratos de servicios múltiples, CSMs), by which private companies were hired to explore and extract natural gas from the Burgos Basin in northeastern Mexico. But industry observers noted that the CSM program was limited, and interest dried up.

Calderón sought to move beyond the CSM model by offering a broader package of incentives to private companies. The president's plan, with support from the PRI and the PAN, was ratified as part of an overhaul of PEMEX approved by Congress in 2008. Some center-left legislators challenged the scheme as a violation of the Constitution, but their arguments were not strong enough to convince the high court (Suprema Corte de Justicia de la Nación, SCJN) to rule against the plan. In August 2011, the Calderón government approved the first contracts under this new scheme.

The plan is especially important in the government's efforts to bring much-needed capital into exploration and development of deepwater wells, which in the long run could help replenish Mexico's dwindling reserves, which declined 21% between 2006 and 2010.

### ***Peña Nieto would emulate Brazilian model***

Peña Nieto, López Obrador, and the three PAN candidates agree that PEMEX is going to need capital to expand, but the position of the PRI and the PAN is widely different from that of the center-left coalition. The PRI and the PAN argue that private investment is essential to allow PEMEX to fully develop its resources. Furthermore, Peña Nieto has proposed to help develop more personnel to lead PEMEX in the future by raising government expenditures on science and technology to 12% of GDP over a 10-year period, compared with the current rate of 0.4% of GDP.

The former México state governor said he views PEMEX as an engine of economic development that would allow the country to grow beyond the average rate of 2% in the past 10 years. But he pointed out that Mexico does not have the financial resources to transform PEMEX in the

manner that is needed. "We have to take advantage of this opportunity to promote useful joint ventures between the state-run oil company and the private sector," said Peña Nieto. "We need to make PEMEX a tool for growth."

"If we continue to wait for PEMEX to develop infrastructure and its own productive capacity in the areas of exploration, production, refining, and basic petrochemicals, we are going to be waiting a long time," said the ex-governor in an interview on Foro TV.

In an interview with Bloomberg news service in New York, Peña Nieto suggested that he would like to use Brazil's state-run oil company Petrobras as a model to transform PEMEX. "We can do what Brazil did for its oil company...if we open shares to the public," he said.

"PEMEX represents a much larger investment for our country than all the companies listed on the Bolsa Mexicana de Valores (BMV) stock exchange," said Peña Nieto in an interview on Radio Red.

Peña Nieto's plan will likely require a constitutional amendment that would allow PEMEX to be listed on the Mexican stock exchange. In his interview with Bloomberg news service and later in his address to CONCANACO-SERVYTUR, the PRI candidate said his party is in the best position to push through such an amendment. "The party best suited party to implement a reform like this is the PRI," he said, pointing out that Calderón and the PAN were not successful in transforming PEMEX into companies like Petrobras and Norway's Statoil.

The Brazilian and Norwegian state-run companies have both sold shares on their respective stock markets, developed technology to produce oil in deep waters offshore, and increased production through international exploration.

Still, Peña Nieto acknowledged that he would have to win over skeptics in the center-left coalition and some members of his own party. "If we are able to set aside our ideological positions, we could emulate the advances that other country have made," he said.

López Obrador has not responded directly to Peña Nieto's statements, but he is expected to make state ownership of PEMEX a major part of the center-left coalition's campaign. The Movimiento Progresista recently released a position paper that proposed to fund PEMEX expansion through the use of worker pensions. Under the scheme, the government would place half of Mexico's private pension system under government control to expand the amount of funds available to the oil company.

### ***PEMEX could become issue in 2011 presidential race***

Some analysts believe the PEMEX question offers the Movimiento Progresista the best opportunity to present a contrast to Peña Nieto, who is ahead in many public-opinion polls. A poll released by the Mexico City daily newspaper El Universal in late November showed Peña Nieto with between 44% and 49%, depending on which candidate represents the PAN. Support

for López Obrador was in the teens, again depending on the PAN candidate. At present, Vázquez Mota has greater support than her two PAN rivals, receiving 24% support among poll respondents.

Critics of Peña Nieto have suggested that, despite his pledge to lead a transformed and more democratic PRI, the party remains autocratic and corrupt. A Peña Nieto government, they say, would favor the business sector over the needs of the population.

"I don't know if the multitudes that appear to comprise the high preference rates that Peña Nieto has in the polls are aware that his government would take Mexico a step backward," columnist Victor Flores Olea wrote in the Mexico City daily newspaper La Jornada.

Conversely, others wondered whether López Obrador would appoint the right people to manage the pension funds that would provide capital to PEMEX, especially in light of allegations that some appointees and collaborators during his term as Mexico City mayor (2000-2005) were said to be corrupt. "López Obrador should tell us that those worker funds, once they are in the hands of the state, will not be managed by the same corrupt people who were part of his Mexico City government," said nationally syndicated columnist Pablo Hiriart.

Hiriart also alluded to the PRI's alliance with PANAL, a party created by Elba Esther Gordillo and the Sindicato Nacional de Trabajadores de la Educación (SNTE). Gordillo was also viewed as an opportunist and a corrupt union leader. "Peña Nieto must tell us if this technological revolution that he proposes as part of his effort to transform PEMEX will be led by Prof. Elba Esther Gordillo," said Hiriart.

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