

2-1-1995

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Recommended Citation

LADB Staff. "Government Moves to Open Railroad , Satellite System To Private Sector." (1995). <https://digitalrepository.unm.edu/sourcemex/3384>

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Government Moves to Open Railroad , Satellite System To Private Sector

by LADB Staff

Category/Department: Mexico

Published: 1995-02-01

During January, President Ernesto Zedillo's administration moved ahead with plans to privatize Mexico's railroads, satellites, and petrochemical facilities. In the Emergency Economic Plan announced in early January to deal with the devaluation of the peso, Zedillo announced the government's intention to expedite the privatization of state enterprises. The Zedillo administration hopes to immediately generate new revenue, while substantially reducing state expenditures by allowing private companies to perform tasks previously conducted by government agencies (see SourceMex, 01/04/95).

As an initial step, on Jan. 18 Zedillo sent the legislature a set of reforms to Article 28 of the Mexican Constitution, allowing direct participation of the private sector in Mexico's railroad industry and satellite communications system. The constitutional changes which were approved on Jan. 26 after extensive debate by the Senate in effect remove the state-run railroad Ferrocarriles Nacionales (Ferroviales) and Mexico's satellites from the list of "strategic" enterprises.

Senator Eduardo Andrade, a member of the governing Institutional Revolutionary Party (PRI), emphasized that the modifications to Article 28 do not change the ownership of Ferroviales and the satellite communications system, which he said will remain part of Mexico's national patrimony. The changes are designed mainly to attract new capital into these enterprises, while allowing the government to avoid making needed investments in the modernization and expansion of the services targeted for privatization. Indeed, when presenting the proposal to the legislature, Zedillo appealed for support by explaining that private investors could bring new capital and boost the efficiency of both enterprises "to best serve the needs of society."

The president said his administration could no longer provide the attention needed to efficiently run the railroad and satellite systems, since under the new emergency economic program, his government is firmly committed to reducing state expenditures. According to the Journal of Commerce, the Zedillo administration is seeking to attract about US\$14 billion in private investment for Ferroviales in 1995. In fact, the proposal to bring private investors to the railroad system expands on a program implemented by former president Carlos Salinas de Gortari, through which support services such as repair of tracks, locomotives, and engines were awarded as concessions to private companies (see SourceMex, 12/01/93).

Zedillo also pledged that his administration would continue to ensure that any private company hired to operate the railroad continues to provide service to rural communities that depend heavily on rail transportation. In the case of the telecommunications system, Zedillo said concessions would be offered to private companies or conglomerates to operate and manage satellite systems. He emphasized that the federal government would retain ultimate control of the satellite system to

safeguard national security and sovereignty and to ensure compliance with all relevant international laws and communications treaties.

The privatization initiatives have created concern among the labor sector in Mexico that private companies which will be given the liberty to make decisions on personnel will lay off many of the workers currently employed by the government. For example, in a statement on Jan. 24, Antonio Castellanos Tovar, director of the railway workers union (Sindicato de Trabajadores Ferrocarrileros de la Republica Mexicana, STFRM), said the union has accepted the partial privatization of Ferronales as a necessary step to deal with the devaluation on the peso. On the other hand, Castellanos urged the Zedillo administration to ensure that any privatization of Ferronales does not violate the labor rights of the current work force of 55,000 workers, nor the rights of the country's 45,000 retirees.

The privatization of Ferronales, the satellite system, and petrochemical plants does not necessarily mean that these enterprises will be placed in the hands of foreigners. Given the past "strategic" nature of these companies, the Zedillo administration is expected to strongly consider bids from Mexican nationals, or partnerships that include the strong participation of one or more Mexican companies. In fact, Victor Manuel Terrones, president of the National Manufacturing Industry Chamber (Camara Nacional de la Industria de Transformacion, Canacintra) told the daily newspaper La Jornada on Jan. 19 that a number of Mexican companies have already expressed interest in bidding for concessions in Ferronales and petrochemical plants. According to Terrones, several Mexican companies have already invested in transportation- and engineering-related areas, making bids on the concession or sale of Ferronales a natural area in which to expand investment.

Similarly, Terrones said a recovery in the global petrochemical market has increased the attractiveness of the PEMEX petrochemical plants for the private sector. On a related matter, the Chamber of Deputies in late January turned down efforts by the Zedillo administration to fully open the banking sector to foreign investment. The legislature instead approved a weaker initiative that further opens the financial sector to private investors, but sets strict limits on new foreign participation in the Mexican banking sector. The Zedillo legislative initiative which was brought directly to the Chamber of Deputies by Finance Secretary Guillermo Ortiz Martinez on Jan. 25 would have allowed as much as 100% foreign ownership in Mexican financial institutions. Ortiz played a key role in the reprivatization of Mexico's banks, beginning in 1992, and the initial opening of the Mexican financial sector in 1994. "We want banks to be well-capitalized so they can make loans," an official with the Finance Secretariat (Secretaria de Hacienda y Credito Publico, SHCP) told reporters on the day the legislation was proposed. According to the SHCP source, the further opening of the banking sector was designed to create new sources of capitalization for Mexican banks, which have had to raise interest rates and reduce loans because of the devaluation of the peso.

In rejecting Zedillo's initiative, however, Mexican legislators said restrictions on foreign investment were needed in order to "protect the Mexican financial system" and "safeguard national sovereignty." Under the reforms approved by the Chamber of Deputies, foreign banks will be able to hold only a combined 25% share of the Mexican banking sector. Additionally, foreign institutions will be prohibited from acquiring banks that have a 6% or greater share of the Mexican banking market, which means that such large banks as Bancomer, Banamex, and Banca Serfin and

even medium-sized institutions such as Banorte, Banco del Atlantico, and Banco Union are off limits to foreigners. The reforms passed by the legislature, however, do provide some incentives to attract foreign investment into economically troubled Mexican banks and convert them into full affiliates of the parent company. The new banking rules are scheduled to take effect on July 1. (Sources: Journal of Commerce, 01/09/95, 01/23/95; Notimex, 01/24/95; Knight-Ridder Financial Information, 01/25/95; Agence France-Presse, 01/26/95; Reforma, 01/26/95; La Jornada, 01/19/95, 01/20/95, 01/27/95; Notimex, 01/27/95; El Financiero International, 01/30/95)

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