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In late April, the Chamber of Deputies approved several measures designed to open strategic areas of the Mexican economy to domestic and foreign investors that were previously closed to those sectors. Among the initiatives approved during April were measures to expand private participation in the national railroad Ferrocarriles Nacionales de Mexico (Ferronales), civil aviation, satellites and telecommunications, and transportation and distribution of natural gas. All of the privatization measures are expected to gain easy approval in the Senate as well. The legislation is consistent with Mexico's commitment to the US and multilateral lending institutions to expedite privatization of government enterprises. The privatization program not only reduces government spending but also is intended to attract much needed direct foreign investment into key sectors of the Mexican economy (see SourceMex, 02/01/95, 02/08/95).

The measures to privatize Ferronales and the civil aviation sector received broad support in both legislative chambers, although a delegation of the Democratic Revolution Party (PRD) in the Chamber of Deputies raised strong reservations about the speed in which the privatization was proceeding. In fact, during one of the debates on privatization, 70 members of the PRD walked out of the Chamber of Deputies and marched to Los Pinos presidential residence to present their protests in person to President Ernesto Zedillo. PRD Deputy Jesus Ortega told reporters that members of his party were very concerned that Zedillo was pushing for rapid approval of the measures without allowing a careful analysis.

In the end, the PRD deputies voted to support legislation to privatize areas of Ferronales, civil aviation, and the telecommunications industry. However, the PRD legislators opposed the bill that would open strategic areas of the natural gas industry to up to 100% private investment. PRD legislators, who were joined in opposing the measure by members of the Labor Party (PT), said the greatest concern was that the opening of the gas and oil industry to private investment was a direct violation of Article 27 of the Mexican Constitution, which designates these natural resources as the national patrimony of all Mexicans. They noted that any changes or transfer of any function related to the oil and gas industries represented a violation of Article 27.

The opposition from members of the PRD and PT was insufficient to defeat the legislation, since the bill was overwhelmingly approved by members of the governing Institutional Revolutionary Party (PRI) and the National Action Party (PAN). Nevertheless, to appease the PRD and PT concerns, members of the Zedillo administration emphasized that Pemex would continue to control the exploration, exploitation, and processing of natural gas reserves, as well as the production of basic petrochemicals. On the other hand, administration officials argued that private investors must be brought into the natural gas industry, since the government does not have the resources to expand operations to meet the expected doubling of demand over the next several years. Energy Secretary Ignacio Pichardo told reporters that a principal element of the privatization is to attract foreign

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investment for expansion of the network of natural gas pipelines, especially in the northwestern and southeastern areas of Mexico that are not currently served. During April, Pemex announced plans to begin drilling 30 natural gas wells in northern Mexico by year-end 1995 (see SourceMex, 04/26/95).

Currently, Pemex provides 90% of the 3.6 million cubic feet a day of natural gas used in Mexico, while the other 10% is imported from Texas, California, New Mexico, and other southwestern US states. Under the legislation, the government would grant 10- to 20-year concessions to domestic or foreign companies to transport, distribute, and store natural gas. Any pipelines built would be owned by the state-run oil company Pemex. Pichardo said another benefit of the privatization would be increased investor confidence in the market for secondary petrochemicals, as well as a more open system of import-export and marketing of natural gas. In contrast to the opposition to privatizing areas of the natural gas sector, PRD and PT members offered relatively strong support to initiatives to further open the national railroad, satellite communications, and civil aviation to the private sector, including foreign investors.

During debate on the bill to further open Ferronales to private investment, PRD legislators urged the Zedillo administration to seek input from the railroad workers union (Sindicato Nacional de Trabajadores Ferrocarrileros de la Republica Mexicana, STFRM). For its part, the Zedillo administration promised to ensure that companies awarded concessions respect the rights of 55,000 current workers and another 52,000 retirees. STFRM leader Victor Flores Morales strongly endorsed the privatization effort, but also asked the Zedillo administration to give preference to companies based in Mexico. He raised the possibility that the union itself would place its own bids for the concessions.

According to the bill, the companies earning the concessions would be given the right to set rates. The approval of rates must be based on the amount needed to maintain quality, taking into account the resources required to allow private companies to provide secure and stable operations. However, any rates would be subject to review by the federal competition commission (Comision Federal de Competencia). Under the legislation, the Mexican government would retain key regulation rights, such as taking steps to ensure continued service to communities that depend heavily on railroad cargo and passenger transportation. Additionally, government regulators will guarantee that any service concessioned to a private company operate safely and efficiently. Ferronales had already begun the privatization process in 1994, awarding 10-year contracts to several conglomerates to operate repair services for locomotives and rail cars (see SourceMex, 01/05/94).

The new privatization law approved by the Mexican Congress would expand concessions to 50 years and open private investment to most direct and indirect operations of the railroad. Several US railroads, including Union Pacific Railroad, have already expressed interest in bidding for the concessions to provide services. Union Pacific has already prepared the groundwork for its bids by forming a partnership with Mexican construction and engineering company Empresas ICA (see SourceMex, 03/01/95).

In a third measure, the Senate approved on April 28 legislation intended to expedite the deregulation of the telecommunications industry by waiving entrance fees for many companies that

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want to compete in the market. New entrants in 1997 who use cable-based technology, such as fiber optics, will not be charged concession fees under the new laws. On the other hand, the bill reserves the government's right to charge fees to companies planning to offer wireless communications, such as cellular phone services. The government had considered charging new participants entrance fees of up to hundreds of millions of dollars. But officials said last week that charging such fees would restrict competition.

Finally, the Chamber of Deputies also approved legislation to open many civil aviation operations to private investors. The new law, however, also imposes a new structure to regulate fares and routes. PRI legislator Oscar Cardenas said the measure received strong support because of the possibility of further attracting private funding into infrastructure projects, including airport construction and expansion. According to some observers, the greatest impact of the legislation will be to create a structure for establishing maximum and minimum fares, which will help reduce fare wars and allow smaller regional carriers to survive. (Sources: Notimex, 04/20/95, 04/21/95; United Press International, 04/25/95, 04/26/95; El Universal, 04/27/95; La Jornada, 04/07/95, 04/17/95, 04/18/95, 04/21/95, 04/28/95; Associated Press, 04/24/95, 04/26/95, 04/28/95; El Nacional, 04/28/95; El Financiero International, 04/24/95; 05/01/95)

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