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Governing PRI Divided Over Proposal to Privatize Petrochemical Plants

by LADB Staff

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A controversial proposal to privatize Mexico's petrochemical industries has exposed a major rift within the governing Institutional Revolutionary Party (PRI). Disagreements over whether to sell the petrochemical complexes were especially evident at the PRI's 17th annual party convention in Mexico City in late September. Convention participants voted overwhelmingly for a resolution calling on the government to suspend the proposed privatization. The resolution demanded that President Ernesto Zedillo's administration reaffirm Article 27 of the Mexican Constitution, which designates petroleum as the national patrimony of all Mexicans.

The resolution, however, appears to be in major conflict with statements issued by members of Zedillo's administration, which has sought to reassure foreign investors that the sale of the country's 10 huge petrochemical complexes which together include 61 separate processing plants will go forward. The disagreements appear to have caught some members of the party in the middle, especially PRI president Santiago Onate Laborde and Energy Secretary Jesus Reyes Heroles. In the case of Onate, the PRI leader has pledged his support for President Zedillo but remains accountable to the party at large. Onate's conflict was evident in two seemingly conflicting statements he made during the last week of September.

At a meeting in Jalisco, Onate defended the PRI's resolution to cancel the privatization plan. He said the party was merely reaffirming its commitment to defend Article 27 of the Mexican Constitution, which reserves hydrocarbons in every form solid, liquid, and gas as the exclusive patrimony of the Mexican people. Several days later, however, Onate assured reporters in Acapulco that the PRI's move to adopt "revolutionary nationalism" will not distance the party from the Zedillo administration. Energy Secretary Reyes Heroles's conflict has not been as much in the public eye as Onate's dilemma. Reyes Heroles's secretariat is in charge of overseeing the privatization of the petrochemical plants.

Ironically, Reyes Heroles at one time served as president of the PRI's national ideology committee, which has consistently taken a strong stance in defending Article 27 of the Constitution. On the other hand, the Zedillo administration especially Finance Secretary Guillermo Ortiz Martinez and PEMEX director Adrian Lajous Vargas argue that privatizing the plants will attract the foreign investment needed to modernize the facilities. Lajous, in particular, has emphasized the need to attract foreign capital to the petrochemical industry. "I have consistently offered my opinion regarding the need for significant structural changes in the petrochemical sector to guarantee faster growth for this industry," said Lajous at a hearing in the Chamber of Deputies.

Still, given the strong opposition, the administration has decided to delay the sale of the facilities to allow a special committee to draw up an approach that will both comply with the Mexican

Constitution and still attract the foreign investment needed to modernize the plants. According to news reports, the administration and the Congress are discussing a proposal that would change the percentage of foreign control over the petrochemical plants. Under the plan, the government would retain at least a 51% ownership in the facilities, leaving 49% or less control in the hands of private investors. In recent statements, administration spokespersons said several key entities, including the comptroller's office (Secretaria de Contraloria), will have to review any proposals that change the original privatization plans.

According to deputy energy secretary Jorge Navarrete, the administration would like the review process to take as little time as possible, although the decision is entirely in the hands of the comptroller's office. On the other hand, administration officials have ruled out any decision on the privatization before 1997. Columnist Emilio Zebudua of the daily newspaper La Jornada pointed out that the Zedillo administration is faced with having to convince legislators to support any solution to the privatization dilemma. "Any juridical-administrative scheme drafted by the executive branch will have to receive support from a majority in Congress," said Zebudua.

While many legislators have expressed concern about the possibility of foreigners taking over Mexico's petrochemical sector, a number of Mexican companies such as Resistol, Celanese and Grupo Idesa are in a good position to gain at least partial concessions (see SourceMex, 04/24/96). Some potential foreign investors have already expressed displeasure about the government's delay in privatizing the facilities. For example, Manfred Hoffman, president of the Mexican-German chamber of commerce and industry, said German investors are not necessarily concerned about possible restrictions on their investments, but are more concerned about a delay in actually opening up the privatization process. Hoffman warned that, because of the continuing delay in the privatizations, German chemical companies are already looking at investment possibilities in other countries.

US Ambassador James Jones was more blunt in his statements. Jones said "it would be a bad idea" for Mexico to halt the privatization process. He said that US investors are already placing their capital in other countries such as Venezuela, which are "more advanced" in their management of the petroleum sector. Jones's comments caused an immediate uproar in Mexico. The strongest reaction came from Andres Lopez Obrador, the president of the opposition Democratic Revolution Party (PRD). "We request that the US ambassador stop sticking his nose into our country's business," Lopez Obrador said. The backlash forced the ambassador to withdraw his statements. "We (the US) recognize the sensitivity of energy issues in Mexico," said Jones. "Only Mexico can decide whether or not it should privatize Pemex."

Meantime, La Jornada columnist Zebudua said many foreign investors regard the privatization as a test of the Zedillo administration's influence. "Investors regard the privatization of the petrochemical plants not only as a strategic, but as a symbolic move," said Zebudua. "What's at stake for foreign investors is the (neoliberal) economic model itself."

In addition to the disagreements among the PRI members, traditional constituencies are divided about whether the government should proceed with the sale. Labor unions continue to offer the staunchest opposition to the privatization. On the other hand, several key business organizations

are urging the administration to find a way to continue the process without violating the Constitution. The labor sector's protests have been led by the petroleum workers union (Sindicato de Trabajadores Petroleros de la Republica Mexicana, STPRM), which has raised two concerns: the constitutional question and the possibility that any private buyers will reduce the size of the work force at the petrochemical plants.

In a recent interview with the daily newspaper La Jornada, STPRM leader Pablo Pavon Vinales warned the administration not to "challenge" public sentiment by proceeding with the privatizations. Two days after Pavon's interview, the STPRM announced the union had already taken preliminary steps to challenge the privatization in the Mexican Supreme Court (Suprema Corte de Justicia de la Nacion). Federal deputy Jorge Wade of the PRI, who also represents the STPRM in the Chamber of Deputies, called on the Zedillo administration to prove its claim that because of a budget crisis the government has reduced expenditures on the petrochemical sector by US\$8 billion in recent years. The STPRM has also received strong support from umbrella labor organizations, such as the Congreso del Trabajo, (CT) and the Confederacion Mexicana de Trabajadores, (CTM).

CTM leader Fidel Velazquez said union workers would take whatever steps are necessary to stop the privatization, including blockades on the petrochemical plants. Meanwhile, on the other side of the coin, three major business organizations issued a joint statement in late September urging the Zedillo administration not to abandon the privatization of the petrochemical facilities. The three organizations the employers confederation Confederacion Patronal de la Republica Mexicana (COPARMEX), the coordinating organization of exporting businesses Coordinadora de Organismos Empresariales de Comercio Exterior, (COECE), and the manufacturing-industry group Camara Nacional de la Industria de Transformacion (CANACINTRA) said Zedillo would be wrong to cave in to political pressures from members of his own party who are worried about the 1997 congressional elections.

The divisions over the privatization of the petrochemical plants are also clearly evident in the two distinct positions of the major opposition parties. Cuauhtemoc Cardenas, one of the founders of the PRD, remains the most vocal opponent of the privatization. Cardenas's father, former president Lazaro Cardenas nationalized the Mexican petroleum industry. Party leaders and the PRD delegations in the Senate and the Chamber of Deputies have been unanimous in their rejection of the privatization plan. "There is no economic justification to sell the petrochemical plants," the PRD said in a communique. "Some PRI leaders have taken an attitude of wanting to give away our national patrimony." The PRD's position was summarized in a column written by political columnist Martha Robles of the daily newspaper Excelsior. "We are talking about one of our country's most viable industries," said Robles. "We would be allowing others to gain from its existing and potential advantages."

Robles urged the government to consider the strategic nature of the petrochemical industry. "If we sell the petrochemical plants today, tomorrow we may have to pay high costs for products such as fertilizers, which are so key for our economy," said Robles. Still, despite the PRD's opposition to the sale of the plants, Cardenas acknowledged the need to increase investments in the petrochemical facilities. "Many Mexicans, including myself, would be willing to help find a solution to this

dilemma as long as the government is willing to guarantee that the basic petrochemicals will remain under the control of the state," Cardenas said.

In contrast, the executive committee of the National Action Party (PAN) issued a statement in late September supporting the full transfer of the petrochemical industry to the private sector. The PAN said this could be accomplished through a "fine-tuning" of sections of Articles 27 and 28 of the Constitution, which would make more specific mention of what constitutes "strategic" activities reserved for the state. The PAN also called for a clear definition of how private businesses can participate in extraction, distribution, and marketing of energy products. PAN secretary general Juan Antonio Garcia Villa said the party supports the constitutional provision that reserves control of crude oil and other hydrocarbons to the state. (Sources: Agence France-Presse, 09/25/96; Novedades, 09/26/96; El Financiero, 09/26/96; The News, 09/26/97; 09/27/96; El Universal, 09/26/96, 09/27/96, 09/30/96, 10/01/96, Excelsior, 09/26/96, 09/29/96, 10/01/96, 10/02/96; La Jornada, 09/27/96, 09/30/96, 10/01/96, 10/02/96)

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