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Zedillo Seeks Constitutional Reforms to Enhance Electricity Sector

by LADB Staff

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President Ernesto Zedillo's administration has proposed reforms to the Mexican Constitution to allow direct private investment in the state-run electrical company Comision Federal de Electricidad (CFE). The president was scheduled to send the proposal to the Chamber of Deputies Feb. 3. Zedillo has not announced full details of the proposal, although he offered reassurances that it will not involve selling existing CFE assets or reducing the government's regulatory powers. Instead, the proposed reforms to Articles 27 and 28 of the Constitution are expected to create conditions for private companies to invest directly in new CFE projects.

"We must take a step forward, recognizing that if we don't make the correct decisions today, the electricity infrastructure will be insufficient in a few years and become an obstacle to the growth of the economy and the creation of jobs," Zedillo said in a letter to the Chamber of Deputies.

The Secretaria de Energia (SE) projects that Mexico will need an additional 13,000 megawatts of power to meet the growing needs of the population. According to the SE, the country needs investments of at least US\$25 billion to build the power plants to meet these needs. In recent years, the CFE has allowed some private participation in the electrical sector. During former president Carlos Salinas de Gortari's administration, the federal government pushed through a plan, the Programa de Productores Independientes (PPI), to allow private companies to build power plants to supply their own electricity needs and to sell surplus power to the CFE (see SourceMex, 06/16/93).

"The program has allowed us to construct facilities like Merida II, Hermosillo, and Rio Bravo," said Energy Secretary Luis Tellez. Zedillo's plan to expand private investment in the electrical sector became apparent in late January with the sudden resignation of CFE director Rogelio Gasca Neri. Gasca Neri, who cited personal reasons for his departure, was known to oppose Zedillo's plan. "I think his differences with Tellez were the main reason he stepped down," a top CFE official told Reuters news agency. Gasca Neri was replaced by Alfredo Elias Ayub, who as director of Aeropuertos y Servicios Auxiliares (ASA) has played a significant role in the partial privatization of Mexico's major airports.

PRD deputy openly opposes proposal

But Zedillo's proposal to allow private investment in the CFE has already met some resistance, principally from Deputy Sergio Benito Osorio of the center-left Partido de la Revolucion Democratica (PRD). Osorio said the administration's move to expand private investment in the electrical sector is not based on economic or technological factors, but is intended to meet the goal of integration of the US, Mexican, and Canadian electricity sectors under the North American Free Trade Agreement (NAFTA).

Osorio raised concerns that private participation in the CFE could result in higher electricity rates for Mexican consumers. Under current law, the CFE is the only entity allowed to sell electrical power to residential and commercial customers. Furthermore, said Osorio, the CFE could potentially cover the costs of new plant construction, as long as it is given autonomy to determine its own budget independent of the federal budget. Osorio noted that the CFE had a profit of US\$1 billion in 1997.

But not all PRD legislators have opposed the move outright. Sen. Ernesto Navarro said he would keep an open mind regarding the proposal as long as Energy Secretary Tellez and CFE director Elias agree to testify before the Senate regarding the changes. "They have not clarified what legal changes they want to promote the modernization of the electrical industry," said Navarro.

As expected, the proposal has been endorsed by the major business organizations and by legislative leaders for the governing Partido Revolucionario Institucional (PRI) and the pro-business Partido Accion Nacional (PAN). The Confederacion de Camaras Industriales (CONCAMIN) recently urged the Zedillo administration to allow private companies majority shares in any new CFE projects. CONCAMIN president Jorge Marin said private participation could guarantee electricity rates in the short run, particularly for business users.

Labor organizations are divided over the plan. The measure has been endorsed by the pro-government Confederacion de Trabajadores de Mexico (CTM), but the Sindicato Unico de Trabajadores Electricistas de la Republica Mexicana (SUTERM) has openly rejected the plan. (Sources: Notimex, 01/28/99; The News, 01/28/99, 01/29/99; Reuters, 01/26/99, 01/27/99, 02/02/99; El Economista, 01/26/99, 01/28/99, 01/29/99, 02/03/99; El Universal, 01/27/99, 01/28/99, 02/02/99, 02/03/99; Novedades, 01/28/99, 01/29/99, 02/03/99; La Jornada, 01/29/99, 02/03/99)

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