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On March 17, the state-run oil company PEMEX celebrated its 61st anniversary amid concerns about the company's profitability in a depressed global oil market and its ability to perform with obsolete facilities and equipment. PEMEX was formed in 1938, when then president Lazaro Cardenas nationalized the oil industry, which had been under the control of US and British companies.

At a ceremony marking PEMEX's anniversary, President Ernesto Zedillo pledged to ensure that crude oil would remain the patrimony of all Mexicans. "This is an industry that will never cease to belong to all of us," Zedillo said at a ceremony at a refinery in Salina Cruz, Oaxaca state. As Zedillo was celebrating the PEMEX anniversary and the nationalization of the oil industry, tens of thousands of Mexicans demonstrated in Mexico City and other parts of the country to oppose the government's proposals to privatize Mexican petrochemical plants and the electricity sector.

Most protests were aimed at Zedillo's recent request to Congress to allow private participation in the Comision Federal de Electricidad (CFE) and the Compania de Luz y Fuerza del Centro (LFC) through modifications of Articles 27 and 28 of the Mexican Constitution (see SourceMex, 1999-02-03).

Electrical union leads huge protest in Mexico City

The largest protest against the privatization of the electrical sector was organized in Mexico City by the Sindicato Mexicano de Electricistas (SME). The SME and members of other unions affiliated with the independent Union Nacional de Trabajadores (UNT) marched on Mexico City's central square to demand that Zedillo drop his proposal to privatize the electrical industry.

lso participating in the protest were members of the center-left Partido de la Revolucion Democratica (PRD) and student organizations. The student organizations used the occasion to protest the federal government's failure to boost the budget for higher education, which has resulted in tuition increases. "Today, workers and students must unite," UNT secretary general Agustin Rodriguez told participants. "Public education as well as oil and electricity are a part of a wealth shared by all Mexicans and must be protected."

SME leader Rosendo Flores said the privatization of the CFE and the LFC could place the country's electricity supply in the hands of foreign interests. "For us, it is fundamental that they do not deliver the electricity sector to foreigners," said Flores. "We will lose sovereignty and independence." Protests were also held in Chiapas, Hidalgo, Michoacan, Tlaxcala, and Veracruz states.

PEMEX director complains about tax burden

The anniversary of PEMEX also brought attention to structural problems in the company and a split within the Zedillo administration on how to address these problems. In a speech at the ceremony in Salina Cruz, PEMEX director Adrian Lajous candidly criticized the government's long-standing

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policy of charging excessive taxes to the oil company to pad the federal budget. Lajous said the taxes and royalties paid by PEMEX last year are the equivalent of 114% of its profits.

PEMEX reported an after-tax loss of almost 10.6 billion pesos (US$1.09 billion) in 1998. The tight PEMEX budget has prevented the company from modernizing its plants and investing in new equipment and machinery. "This situation is unsustainable," said Lajous. "The current fiscal regimen is decapitalizing the oil industry, affecting its efficiency in capturing financial resources abroad and discouraging rational economic calculations within the company."

But Marco Provencio, a spokesman for the Secretaria de Hacienda y Credito Publico (SHCP), attributed the PEMEX losses last year primarily to the sharp decline in global oil prices, which reduced the revenues obtained from exports of crude oil. In contrast to the company's poor financial performance last year,

PEMEX reported a profit of 7.37 billion pesos (US$762 million) in 1997. Furthermore, Provencio said, PEMEX tax obligations to the government declined in conjunction with its bottom line. While the company's earnings declined by 15%, its tax liabilities dropped by 18%, the SHCP official noted. Still, Energy Secretary Luis Tellez Kuenzler acknowledged a need to change the country's tax codes to allow PEMEX to retain a larger share of its profits to devote to capital projects. "I am a strong proponent of a different tax policy for PEMEX," said Tellez.

But these changes are not likely without a comprehensive overhaul of all taxes, which would allow the government to find other sources of revenue to make up for the lost PEMEX payments. "As long as the country's overall system doesn't change, the government needs the funds and will continue to levy taxes in this way," said Tellez. Energy industry analysts said another cause of PEMEX's fiscal problems is the constitutional requirement that the oil company assume unprofitable projects.

In contrast, the large multinational oil companies like Shell, Exxon, and Amoco can devote the majority of their resources to projects that offer the greatest return for their investment. "With oil prices at their current levels, there is no practical reason to continue costly drilling at locations like Poza Rica or Madero," one analyst told the daily business newspaper El Economista.

The Mexican Constitution also prohibits PEMEX from entering into partnerships with private companies in areas that are considered strategic. In contrast, multinational companies are constantly forming joint ventures, which has reduced operating costs, analysts said.

Despite PEMEX's fiscal problems, however, the company has registered a steady increase in production of hydrocarbons during the 1990s. PEMEX production of crude oil totaled 3.554 million barrels per day in 1998, compared with only 3.128 million bpd in 1993. Gasoline production had reached 443,000 bpd by 1998, up from 417,000 bpd in 1993. Similarly, the company produced 4.579 million cubic feet of natural gas in 1998 compared with 3.575 million cubic feet in 1993.

The steady increase in crude-oil extraction by PEMEX and other major producers in recent years has contributed to a global oversupply. The oil glut, along with a slowdown in the global economy, has

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reduced oil prices by about 50%, according to estimates released by the Secretaria de Energia (SE). In 1998, Mexico and other global oil producers coordinated two separate campaigns to reduce oil output and exports to boost prices (see SourceMex, 1998-03-25, 1998-06- 10).

As part of its commitment, PEMEX reduced exports by about 200,000 bpd last year. New global accord could boost Mexico's oil-export revenues But last year's efforts failed to boost prices significantly, forcing major oil producers to consider further reductions in output and exports.

On March 12, the Organization of Petroleum Exporting Countries (OPEC) reached an agreement with non-OPEC members Mexico, Norway, Oman, and Russia to reduce exports by about 1.7 million bpd. Under the accord, Mexico committed to reduce oil shipments by 125,000 bpd. The agreement to lower global oil supplies, formalized by OPEC members on March 23, has already brought a price increase.

As of March 23, Mexican crude oil was selling at an average of US$11.65 per barrel, well above the target of US$9.25 set by the Zedillo administration when formulating the 1999 budget. Analysts said the recovery in the global oil market could bring Mexico's average oil-export price to about US$10.19 per barrel, compared with an average of US$8.40 per barrel in January and US$8.22 per barrel in February.

If the recent price increase is sustained, said analysts, Mexico will probably not have to make any cuts in the 1999 budget. The Zedillo administration cut public spending three times last year because of a shortfall in oil-export revenues. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on March 24, reported at 9.67 pesos per US$1.00] (Sources: Associated Press, Spanish news service EFE, 03/18/99; Excelsior, 03/18/99, 03/19/99; The News, El Universal, 03/19/99; Reuters, 03/18/99, 03/19/99, 03/22/99, 03/23/99; Novedades, El Economista, 03/18/99, 03/19/99, 03/22/99, 03/24/99; La Jornada, 03/19/99, 03/24/99)

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