President Ernesto Zedillo Abandons Plans To Privatize Electric-power Sector During His Administration

LADB Staff

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President Ernesto Zedillo has abandoned plans to push for partial privatization of the electricity sector during the last year of his administration. Speaking to reporters at the global economic summit in Davos, Switzerland, in late January, the president said his plan would almost certainly be rejected this year because of political maneuvering ahead of the presidential elections in July 2000. The plan, announced in February 1999, proposed amendments to Articles 27 and 28 of the Mexican Constitution to allow private companies to invest directly in projects sponsored by the state-run power companies Comision Federal de Electricidad (CFE) and Luz y Fuerza del Centro (LFC). Zedillo has staunchly defended the plan on the grounds that the government lacks the funds needed to modernize Mexico's aging power-generating facilities (see SourceMex, February 3, 1999, April 28, 1999). The cost of modernizing the industry is now estimated at US$45 billion to $47 billion through 2007. The plan has been soundly rejected by some labor unions and the two major opposition parties, fearing that Mexico could lose control over its electric-power industry to private investors. To ease these concerns, Zedillo proposed that the state retain complete regulation over the CFE and LFC, even though private companies would still own up to 100% shares in any new projects constructed on behalf of the two companies. The compromise failed to appease the center-left Partido de la Revolucion Democratica (PRD) and the conservative Partido Accion Nacional (PAN), which have objected to the plan since its inception. Their strong objections forced the president to abandon efforts to gain congressional approval of the plan in the fall of 1999 (see SourceMex, September 22, 1999).

PAN & PRD opposition doom Zedillo's plan during election year

In January of this year, the president again attempted to convince Congress to consider his plan. "Without private investment, we will not be able to use these financial resources in areas even more important for the country and I mean social spending," Zedillo told legislators in mid-January in a final attempt to gain support for his proposal. "We want to spend more on education and health, which is why we must spend less on certain other things, such as electricity." But the PAN and PRD again rejected Zedillo's overtures and questioned the president's motives in pushing for quick approval. "The president fails to understand that his timetable and priorities, which are based on pledges to foreign investors, are different than the timetable and priorities of a multiparty legislative branch," said PRD Sen. Rosa Albina Garavito. Members of the governing Partido Revolucionario Institucional (PRI) criticized the opposition parties for using the electricity-privatization debate to advance their party interests during the electoral year. "They are placing these political-electoral considerations ahead of the interests of the country," PRI Sens. Amador Rodriguez Lozano and Dionisio Perez Jacome told the daily newspaper La Jornada. Zedillo could gain easy approval for his plan in the Senate, where the PRI is the majority party. But the proposal would have the opposite fate in the lower house, controlled by a coalition comprising the PAN, PRD, and two other opposition parties. "This privatization process cannot be carried out without amending the Constitution, and the Constitution can only be changed with a two-thirds majority in the Congress,"
Zedillo said, "Quite frankly, I must tell you that so far, we don't have this [support] and are unlikely to obtain it during my six-year term."

**Private sector urges president to forge ahead**

Private business organizations, meanwhile, were disappointed when Zedillo abandoned his effort to bring private capital to the electric sector. Jose Antonio Gonzalez Fernandez, president of the Mexico City chamber of commerce (Camara Nacional de Comercio, CANACO), raised concerns that a delay in developing the energy sector could affect Mexico's medium- to long-term economic growth. "Our country's electric sector is inefficient and too expensive," said Gonzalez Fernandez. Jorge Marin Santillan, president of the Consejo Coordinador Empresarial (CCE), urged the president to resume the effort in September, after the presidential election. "This would be an ideal time for Zedillo to use his political capital," said Marin Santillan. "By pushing through these reforms, he would leave a better situation for the next president." But in announcing that he was dropping the privatization effort, Zedillo said he hoped the process could be picked up by a successor. All three leading presidential candidates Francisco Labastida of the PRI, Vicente Fox of the PAN, and Cuauhtemoc Cardenas of the PRD support some plan to bring private investment into the electricity sector. And despite their opposition to considering the plan this year, legislators have not totally discarded support for bringing further private investment into power generation. But PRD Deputy Benito Osorio, who chairs the energy committee (Comision de Energeticos) in the Chamber of Deputies, said the government must make other structural changes to increase the efficiency of the electricity industry before any privatization scheme would be considered. Osorio proposed three reforms: *The CFE and LFC would both have to be taken off the government payroll and converted to quasi-independent agencies that manage their own finances. *The government would have to review and eliminate electricity subsidies, which prevent the government from recovering its production costs. *The CFE and LFC must restructure contracts with their labor unions to match those of private companies.

**Government announces new twist for private financing scheme**

While Zedillo's plan implies broad reforms to the CFE and the LFC, the government has already legally allowed limited privatization through the Produccion Externa de Energia (PEE). Under this scheme, a private company receives a concession to construct and operate a power plant for a limited period in return for selling energy to the CFE. After the concession period is over, the CFE assumes ownership of the plant. The government has used the PEE to finance construction of large facilities like the Samalayuca II thermoelectric plant in Chihuahua state and the Merida III power plant in Yucatan state. The Zedillo administration has now proposed modifying PEE rules to allow facilities constructed along the US-Mexico border under the PEE to be located either in US or Mexican territory. The CFE said this new scheme would apply to the Rio Bravo III plant, which will supply electrical power to Tamaulipas state. The CFE said bids for the Rio Bravo III facility, which will have a production capacity of 450 megawatts, will be opened sometime in mid-2000. The winning bidder would be required to supply power to the CFE for 25 years and would have the option of locating its facility either on US or Mexican territory or both. (Sources: La Jornada, 01/26/00; Reuters, 01/28/00, 01/30/00; Notimex, 01/14/00, 01/31/00; The News, The Dallas Morning News, Notimex, 01/31/00; Excelsior, 02/02/00)