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Pemex Observes 62nd Anniversary Amid Debate On Mexico's Leadership Role In Global Oil Markets

by LADB Staff
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President Ernesto Zedillo's administration celebrated the 62nd anniversary of the state-run oil company PEMEX amid growing debate on whether Mexico is properly exercising its new leadership role in the global oil market. Mexico has gained clout in the oil market because of its joint initiatives with Saudi Arabia and Venezuela during the past two years that led oil-producing nations to reduce the supply of crude oil on the market. The three countries launched their efforts in March 1998, when global oil prices had fallen sharply (see SourceMex, March, 25 1998). Global oil producers subsequently reduced production and exports in 1998 and again in early 1999 (see SourceMex, June 10, 1998, March 24, 1998). The reductions contributed significantly to depleting global oil inventories, which caused prices to skyrocket by the first quarter of 2000. For Mexico, the effect of the price increase has been dramatic. Mexican crude oil was selling at an average of more than US$27 per barrel as of March 2000, triple the average price of US$9 per barrel in March 1998.

Reactions mixed to proposals to boost oil output

Concerned about the impact of high prices on the global economy, industrialized countries began to lobby Mexico and other producers to push for increasing global oil supplies. But the US, Japan, and Western European nations did not have to go to great lengths to convince the Mexican government, which shared some of their concerns. "Prices that are too low, just like prices that are too high, have negative repercussions on world economic growth and affect our own growth," Zedillo said in a March 18 speech commemorating the PEMEX anniversary. "What interests us is having prices that can be sustained in the long term." The administration's decision to support a production increase has received mixed reactions. The decision has been condemned by presidential candidate Cuauhtemoc Cardenas of the center-left Partido de la Revolucion Democratica (PRD). "It seems absurd, stupid, and contrary to our national interest for the government to reject the possibility of additional revenues," Cardenas told supporters at a rally in Monterrey in early March. "If there was nothing to spend the money on, increasing oil exports might be logical," said Cardenas, who is also representing other small parties in the July 2 presidential election. "But I've never seen anybody whose product is selling at a high price say, 'I want you to pay me less.'" But the administration's decision received immediate support from business leaders Hector Rangel Domene of the Asociacion de Banqueros de Mexico (ABM) and Jorge Marin Santillan of the Consejo Coordinador Empresarial (CCE). "The backlash from a US economic downturn, with higher interest rates, rebounding inflation, and a much higher cost of servicing Mexico's debt, would be worse than foregoing a possible revenue surplus," Rangel and Marin said in a joint statement. The major oil producers have generally agreed to boost output when the existing supply-reduction agreement expires the end of March, but they have not agreed on how much to increase output. This decision is among the key topics for discussion at the upcoming meeting of the Organization of Petroleum Exporting Countries (OPEC) in Vienna March 27. Non- OPEC members such as Mexico and Norway are expected to have major input into the decision. Once the decision to boost production is implemented, supplies could increase by between 1 million and 1.5 million barrels per day, said
Energy Secretary Luis Tellez. Still, he said, the agreement to boost production should initially have little impact on prices, since the extra supplies will go toward replenishing depleted inventories.

**Strong market boosts PEMEX’s revenues**

Meanwhile, the strong oil market sharply increased Mexico’s revenues last year and is expected to contribute even more this year. The government reported oil-export revenues at US$8.85 billion in 1999, compared with earlier projections of US$5 billion (see SourceMex, February 9, 2000). Because of the expected strength in the oil markets this year, the Zedillo administration proposed a slightly higher budget in 2000 than in 1999 (see SourceMex, November 17, 1999). The higher oil-export revenues have increased funds available to the federal government. Conservative projections released by the Secretaria de Hacienda y Credito Publico (SHCP) indicate oil-export revenues will exceed the government’s initial expectations by 12.55 billion pesos (US$1.36 billion). The forecast assumes that prices will decline later in the year and will average about US$18 per barrel during the course of 2000. The SHCP projection also assumes that the Mexican currency will average a relatively stable 9.60 pesos per US$1.00 this year. Debate has been extensive on how the government should spend the unexpected oil-export revenues. Finance Secretary Jose Angel Gurria Trevino said at least 7.62 billion pesos (US$825 million) will be used to restore cuts in public-works programs announced earlier this year. Those reductions were part of the administration’s amended budget, which sought to compensate for the increased social spending approved by the Congress in 2000 (see SourceMex, January 12, 2000, March 8, 2000). The administration has also hinted at spending additional oil revenues on social programs. The opposition parties do not object to spending oil-export revenues in this manner, but are wary about how the government will spend the funds. The strongest concern is that they will go to help the presidential candidacy of Francisco Labastida of the governing Partido Revolucionario Institucional (PRI). Recent public-opinion polls show Labastida facing a tough challenge from Vicente Fox of the center-right Partido Accion Nacional (PAN).

**Privatization becomes presidential-campaign issue**

In his address on PEMEX’s anniversary, Zedillo reiterated his support for Article 27 of the Mexican Constitution, which guarantees that PEMEX will remain a national asset. But one of the legacies of Zedillo’s government will be the failure to partially privatize Mexico’s petrochemical plants. The efforts failed because of strong opposition from the PRD and several factions of the PRI (see SourceMex, October 23, 1996, April 29, 1998, April 24, 1999). Even though the Constitution guarantees that PEMEX will remain a public entity, privatization is still a campaign issue. This is because Fox’s statements regarding the state-run company have been ambivalent. He has supported the constitutional provision that designates oil the patrimony of all Mexicans, but he has also said PEMEX will continue to be corrupt as long as the government remains in charge. Labastida has used Fox’s ambivalence to attack the PAN candidate. Without mentioning names, but clearly alluding to Fox, Labastida said in a campaign speech that "those who would privatize PEMEX should be unmasked domestically and abroad." Cardenas, whose father, Lazaro, nationalized the oil industry in 1938, has often repeated his position that PEMEX should remain a government entity. "This vast historical resource is more threatened than ever, both internally and externally," Cardenas said during one campaign stop. While PEMEX has been a major source of revenue for the government, the company is also a liability because of its high debt. The daily newspaper El Universal reported the combined debt payments of PEMEX and the Comision Federal de Electricidad (CFE) from 2001 to 2023 is expected to total almost US$45 billion. [Note: Peso-dollar
conversions in this article are based on the Interbank rate in effect on March 22, reported at 9.29 pesos per US$1.00] (Sources: El Financiero, 02/17/00; The New York Times, 02/18/00; Excelsior, 02/21/00, 02/23/00; The Dallas Morning News, 02/18/00, 03/03/00; La Jornada, 02/16/00, 02/17/00, 02/22/00, 02/23/00, 03/03/00, 03/10/00; El Economista, 02/18/00, 03/03/00, 03/13/00; Novedades, 02/16/00, 02/17/00, 02/23/00, 02/28/00, 03/09/00, 03/15/00; El Universal, 02/28/00, 03/15/00, 03/17/00; Associated Press, 02/15/00, 03/18/00; Reuters, 02/15/00-17, 02/19/00, 02/22/00, 03/09/00, 03/12/00, 03/13/00, 03/18/00; Notimex, 02/28/00, 03/18/00; Reforma, 02/16/00, 02/21/00, 02/28/00, 03/02/00, 03/03/00, 03/20/00; The News, 02/21/00, 03/20/00, 03/21/00)

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