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Mexican Government Awards First Multiple-Services Contracts

by LADB Staff
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President Vicente Fox's administration has awarded its first two multiple-services contracts (contratos de servicios multiples, CSMs) to a Spanish-Argentine joint venture and to a Brazilian-Japanese-Mexican consortium. The contract awards are the administration's latest step in seeking private investment in exploration and extraction of natural gas in the Burgos Basin in northeastern Mexico. The Fox government has divided the region into seven parcels, each of which will be opened separately to private companies (see SourceMex, 2003-02-19).

Repsol-YPF won the contract for the largest of these areas, the Monterrey-Reynosa parcel, after two major competitors US-based Exxon Mobil and French oil company Total withdrew from the process. The Cuervito parcel, located primarily in Nuevo Leon state, was later awarded to a consortium comprising Petrobras of Brazil, Teikoku of Japan, and D&S of Mexico. The government plans to award contracts for the remaining parcels before the end of 2003.

Sensing some opposition to the plan, the Fox administration went to great lengths to highlight the partnership of D&S with the Brazilian and Japanese companies. "The participation of the Mexican company in the second bid is a reflection of the significant role that Mexican companies will have in the CSMs," said Sergio Guaso, who is in charge of the CSMs program at state-run oil company PEMEX.

Opposition legislators threaten lawsuit

The participation of primarily foreign interests in the exploitation of gas in the Burgos Basin, however, raises the possibility of a showdown with opposition parties in Congress, which contend that the contracts violate the Mexican Constitution (2002-06-26, 2002-07-31). After the first contract was awarded to Repsol-YPF, some legislators from the former governing Partido Revolucionario Institucional (PRI) pledged not only to bring the matter before Mexico's highest court (Suprema Corte de Justicia de la Nacion, SCJN) but also to seek legal action against the Fox government.

"We are going to demand that those responsible [for the CSMs] face charges," said PRI Sen. Manuel Bartlett, a frequent critic of the administration's proposals to open up the energy sector to private investment. "We'll take this to the courts if this is what they want."

The center-left Partido de la Revolucion Democratica (PRD) was less combative than the PRI but expressed strong concerns. PRD senators said they were planning to summon PEMEX director Raul Munoz Leos to present more information about the contracts. "We are concerned that the administration has launched a rapid privatization of the exploitation of hydrocarbons," PRD senators said.
The Fox administration and the center-right Partido Accion Nacional (PAN) defend the multiple-service contracts as a means to gain access to much-needed capital to extract the natural gas from the Burgos Basin. The participation of the private sector would save PEMEX at least 15% in the cost of extraction, officials said. Even with its strong advocacy for the program, the Fox administration is not certain about the legal ramifications of the CSMs. This was reflected in conflicting statements from PEMEX.

In one instance, Munoz Leos told reporters that the CSMs would pass the constitutional muster because they do not directly violate the provision that preserves natural resources as the patrimony of all Mexicans. But PEMEX officials later told representatives of private energy companies that it was possible that the SCJN would declare the contracts unconstitutional.

**Critics warn of unrest similar to Bolivia**

Critics from the Congress and civil society also warn that the Fox government may face unrest similar to that in Bolivia if it insists on opening up the natural gas, oil, and electrical-power sectors to private investors.

Bolivian President Gonzalo Sanchez de Lozada was forced to resign in mid-October because of a major controversy regarding his government's plans to export natural gas to the US and Mexico (see NotiSur, 2003-10-24). The Bolivian president's resignation came just weeks after he traveled to Mexico to promote negotiations on a supply contract with Mexico. "I came here to expedite the process," Sanchez de Lozada said during a state visit to Mexico in September. "We are negotiating to become long-term suppliers, for 20 to 25 years."

Jose Miguel Gonzalez, an officer with the Asociacion Mexicana de Energia Electrica (AMEE), said Mexico had been planning to construct five storage facilities to hold gas imports from Bolivia, but these plans have been placed on hold indefinitely.

At a rally in Mexico City, academics Gilberto Lopez, Ana Esther Cecena, and Oscar Gonzalez said some of the same companies that had been hired to export the gas from Bolivia to Mexico and the US also submitted bids to participate in the CSMs. Prominent among these companies is Repsol-YPF, which had planned to export natural gas to ports in Michoacan and Baja California states to help ease an expected shortage in the US and Mexico.

A large share of the gas shipments to Baja California would have been sold to the US-based utility company Sempra to help with the operation of a power plant near Tijuana to supply electricity to California. Sempra was also negotiating to supply Bolivian gas directly to the US market. "We cannot allow the same foreign companies that tried to appropriate gas resources in Bolivia...to gain control over the resources in the Burgos Basin," said Cecena, who teaches political science at the Universidad Nacional Autonoma de Mexico (UNAM). She cited some estimates that predicted that the US deficit in natural gas would double in 2020.

Cecena said the uprising in Bolivia was a strong model for Mexican civil society to defend its natural resources. "This is also a sign of the failure of neoliberalism in Latin America, which tried to impose an economic model at the expense of national interests." Some Mexican organizations applauded...
the Bolivian uprising, which included heavy participation by indigenous groups. "This is an incentive for the indigenous and popular movements in Mexico to defend our natural resources at a time when the Fox government, the PAN, and some members of the PRI insist on the privatization of electricity and petroleum," said Carlos de Jesus, head of the Asamblea Nacional Indigena Plural por la Autonomia (ANIPA).

Interior Secretary Santiago Creel downplayed these concerns, saying the situations in Mexico and Bolivia are entirely different. "One cannot draw conclusions from a situation that has nothing to do with our circumstances in Mexico," said Creel.

Private sector says CSMs would help provide stable gas supply

The CSMs have the strong backing of the private sector, particularly AMEE. "The CSM project is one of the few vehicles we have to guarantee a steady supply of natural gas," said AMEE president Eduardo Andrade. The availability of natural gas is a concern for private companies both in the short and the long term. Many business organizations would like the Fox administration to take steps to guarantee supplies, which would help address the problem in the long term. For the immediate future, the government is being urged to create some system that would stabilize prices.

The Camara Nacional de la Industria de Transformacion (CANACINTRA) went as far as to guarantee the creation of 200,000 new jobs if the Fox government would implement a scheme that ties natural-gas prices to the costs of production in Mexico, and not to movements in the US market. The CANACINTRA request is not unprecedented because the Fox administration took steps both in 2001 and 2002 to reduce the price of gas for the private sector (see SourceMex, 2001-01-17 and 2002-03-06).

Private analysts say Mexico would be best served if it eliminated the link of Mexican natural-gas prices to the volatile Texas market. "The actual price formula and the dependence on imports limits our competitiveness and exposes our economy to the risks of the external market," the Centro de Estudios Economicos del Sector Privado (CEESP) said in a recent report. (Sources: El Financiero, 08/08/03; Reforma, 07/30/03, 08/01/03, 08/07/03, 08/08/03, 08/27/03, 08/29/03, 09/17/03, 09/18/03; El Sol de Mexico, 08/04/03, 09/03/03, 10/08/03 Agencia de noticias Proceso, 10/14/03; The Herald, 09/15/03, 09/22/03, 10/15/03, 10/20/03; Notimex, 08/05/03, 10/20/03, 10/21/03; Reuters, 10/16/03, 10/22/03; La Cronica de Hoy, 07/30/03, 10/02/03, 10/23/03, 10/24/03; 10/01/03, 10/03/03, 10/13/03, 10/15/03, 10/20/03, 10/22-24/03, Milenio Diario, 09/15/03, 09/26/03, 10/01/03, 10/02/03, 10/06/03, 10/13/03, 10/20/03, 10/24/03; Associated Press, 10/24/03; El Universal, 07/31/03, 08/06/03, 08/08/03, 08/26/03, 09/09/03, 09/17/03, 09/23/03, 09/26/03, 10/02/03, 10/24/03, 10/29/03; La Jornada, 08/19/03, 08/20/03, 08/26/03, 09/22/03, 09/26/03, 10/29/03)

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