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In a unanimous vote, the Mexican Senate approved an initiative requiring the state-run oil company PEMEX to generate electricity in partnership with the state-run electrical utility Comision Federal de Electricidad (CFE). The proposal is one of several alternatives offered by the opposition parties to President Vicente Fox's plan to make comprehensive reforms to the electrical-power sector, including the possibility of opening public utilities to private capital (see SourceMex, 2003-10-08).

Fox has not made a formal energy-reform proposal and is not expected to do so at least until sometime in 2004. The plan approved by the Senate directs PEMEX to have the infrastructure in place to collaborate with the CFE to produce electricity within a period of eight years. Some senators from the governing Partido Accion Nacional (PAN) failed in an attempt to add language to the bill to make PEMEX's participation in the power-generating sector voluntary.

PAN senators also considered opposing the plan because of its narrow scope. "We will support the plan because it represents an advance," said PAN Sen. Jorge Nordhaussen Gonzalez. "But it doesn't go far enough in promoting a comprehensive reform to modernize and strengthen the sector."

Plan would help meet one-fourth of country's future needs

PRD Sen. Demetrio Sodi de la Tijera acknowledged that the proposal to allow PEMEX to produce electricity is not sufficient to meet the country's future demand for electricity. Sodi said, however, this was at least one step in the right direction while the various parties attempt to reach a consensus on the type of reforms that will be needed. "The creation of an entity that will add 4,000 or even 4,500 megawatts to our national capacity could help meet one-fourth of our country's additional needs," said Sodi.

PRI Sen. Manuel Bartlett Diaz, a frequent critic of Fox, pledged to block any efforts by the president to change the Mexican Constitution to expand the participation of foreigners in the Mexican power sector. "[Fox and his allies] want to reform the Constitution at all costs to turn over our energy resources to foreigners," said Bartlett. "They will not accomplish their goal."

To emphasize his commitment to block the Fox reforms, Bartlett has forged an informal alliance with former presidential candidate Cuauhtemoc Cardenas of the PRD to oppose further efforts to privatize the electrical sector. Even without constitutional reforms, foreign participation in the electrical sector is significant. Foreigners are allowed to produce electricity for their own use or to sell to private enterprises, but not to the public at large.

Statistics released in mid-September by the Comision Regulatora de Energia (CRE) show that foreign interests already account for installed capacity of 19,000 MW, 35% of Mexico's consumption.
French and Spanish interests are the most involved in the Mexican electricity sector, followed by companies from the US, Canada, and Japan.

There are conflicting polls on whether the Mexican public supports changes allowing private entities to provide electricity at large. In one survey by the polling company Bimsa, 63% of respondents opposed full privatization of the electrical industry. In a second survey by Consulta Mitofsky, only 33% of respondents opposed opening the electricity sector to private capital. One entity that has come out fully against privatization is the electrical workers union (Sindicato Mexicano de Electricistas, SME), which represents workers at Mexico's smaller state-run electrical utility company Compania Luz y Fuerza del Centro (CLFC).

SME leaders, with the support of the Union Nacional de Trabajadores (UNT), have threatened to call a strike if the government pushes forward with plans to privatize the electrical power sector. The other union, the Sindicato Unico de Trabajadores Electricistas la Republica Mexicana (SUTERM), is divided on the issue. SUTERM represents CFE workers.

The SME has also taken issue with the government's consumer subsidies for electricity because a large percentage is provided to private companies. "Of the 13.8 billion pesos (US$1.2 billion) the government allocates annually for electricity subsidies, about 7.7 billion pesos (US$680 million) go to the large industrial users," said SME leader Rosendo Flores. He recommended that these private subsidies be eliminated and the savings used to expand the country's electrical infrastructure.

**Critics see risks in financing of PEMEX plan**

The plan to enable PEMEX to produce electricity has raised questions regarding project financing. During the debate, some PAN senators questioned the possibility that the state-run oil company would use funds allocated for other projects, thus taking away from PEMEX's oil, gas, and petrochemical activities. Sen. Laura Garza Galindo of the former governing Partido Revolucionario Institucional (PRI) denied this was the case, saying PEMEX would have to raise funds through debt issues, either on international markets or through the country's retirement-savings program (Administradora de Fondos para el Retiro, AFOREs).

Some private analysts said the proposal to use AFOREs and other retirement funds in the Sistema de Ahorros para el Retiro (SAR) to finance large-scale projects for PEMEX and the CFE could backfire because of high financial risks. "There would be two possible losers, the retirees or the public at large, since one or the other is going to have to assume the losses," said a report form the Centro de Estudios del Sector Privado (CEESP).

The CEESP and other private organizations like the Camara Nacional de la Industria del Hierro y del Acero, (CANACERO) say the financial risks should be assumed by private investors, with the government remaining in a regulatory role. "As long there is no comprehensive reform to the energy sector, Mexico will lack the financial resources to produce sufficient electricity to extract the ample supply of metals within its territory," said CANACERO vice president Guillermo Vogel.
Some business leaders have urged the Congress to seriously consider proposals that would grant budgetary autonomy to the CFE, PEMEX, and other state-run oil companies. "Their hands are tied if they are always included in the general budget," said prominent business leader Carlos Slim Helu.

CFE director Alfredo Elias Ayub has endorsed the autonomy proposal, but only as part of comprehensive energy reform. Elias Ayub's position was spelled out in an energy proposal to PRI Senate leader Enrique Jackson. It promotes private participation in electricity generation but also creates mechanisms for the state to retain tight regulatory control over the electrical power sector.

Elias Ayub's proposal was put together with input from former CFE directors Rogelio Gasca Neri and Guillermo Guerrero Villalobos. It proposes a further opening of the electrical sector to private participants but seeks safeguards to ensure that the state retains regulatory control over the country's energy resources. "The reforms we are proposing to Articles 27 and 28 of the Constitution preserve the state's regulatory responsibility in the electrical sector," said Elias Ayub.

The CFE director said the plan also creates a legal framework by which private electricity producers are allowed to sell their surplus production to the state. Fox had proposed this early in his administration, but opposition legislators brought the matter to the high court (Suprema Corte de Justicia de la Nacion, SCJN). The court subsequently ruled the proposal violated the Mexican Constitution (see SourceMex, 2002-05-01). The CFE director said energy reforms could help the CFE deal with its debt, which has increased to about US$5 billion. "With a reform, we have the possibility of expanding without incurring further debt," said Elias Ayub. [Sources: Milenio Diario, 11/03/03, 11/05/03, 11/12/03; El Financiero, 11/05/03, 11/13/03; Notimex, 11/10/03, 11/14/03; The Herald, 11/19/03; Unomasuno, 11/03/03, 12/10/03; El Universal, 12/10/03; El Sol de Mexico, 12/10/03, 12/15/03; La Cronica de Hoy, 11/06/03, 12/10/03, 12/16/03; La Jornada, 11/14/03, 12/10/03, 12/13/03, 12/16/03; Milenio Diario, 12/10/03, 12/16/03]

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