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LADB Staff

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Venezuela's Decision To Nationalize Cement Industry
Includes Mexican Company Cemex

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Mexico's cement giant CEMEX is likely to withdraw from the Venezuelan market, following President Hugo Chavez's decision to nationalize the country's cement industry as part of his campaign to gain control of strategic sectors of the economy. As part of the privatization process, Venezuela has offered to buy shares in the three major cement companies, all subsidiaries of foreign interests, but analysts say CEMEX is more likely to sell its full assets in CEMEX Venezuela to the Chavez government rather than accept a minority partnership in a company it created.

There were some concerns in Mexico that the move could reignite a conflict between Mexico and Venezuela at a time when relations appear to be gradually returning to normal. But the government of President Felipe Calderon has proceeded with caution and has refrained from making the type of harsh criticisms that caused a break with Venezuela during former President Vicente Fox's administration. The Chavez government announced the nationalization of the cement industry in early April, offering to create "mixed enterprises" through the purchase of controlling shares in the private cement companies operating in Venezuela.

In particular, this move affected the three major companies operating in the South American country, all of which are multinational operations. In addition to CEMEX, they include French company LaFarge SA and Switzerland's Holcim Ltd. In justifying the move, the Venezuelan government criticized the cement manufacturers for exporting a large share of the cement produced in Venezuela rather than selling it on the domestic market. There was also criticism that the cost of the cement sold by the three companies in the domestic Venezuelan market was too high. The Chavez administration's priorities include an increase in construction of affordable housing (NotiSur, September 29, 2000 and November 30, 2007). Such a goal would require access to affordable building materials, including cement. "According to my information, the prices that CEMEX was charging for cement in Venezuela were considered too high," said Salvador Munuzuri, a law professor at Universidad Nacional Autonoma de Mexico (UNAM). "Regardless of the validity of the argument, the Venezuelan government is within its right to nationalize the cement industry as long as the move is conducted according to international law."

CEMEX unlikely to accept minority partnership

CEMEX officials had considered a year ago the possibility that the Chavez government would nationalize the cement industry (SourceMex, April 18, 2007). The Venezuelan government has entered into negotiations to acquire shares in CEMEX, LaFarge, and Holcim, but analysts said the Mexican company is unlikely to accept an offer by which it would become a minority partner. "In general, CEMEX does not hold minority stakes because one of its central investment requirements is to be able to add value via its experience and the way it runs a company," the Mexico City-based Ixe bank brokerage said in a research note.
Venezuelan government sources said the Chavez government has offered to buy about 60% of the shares in CEMEX's operations in the South American country. If CEMEX opts not to become a minority partner in Venezuela, officials said the Chavez government is willing to pay a fair price to acquire the company's entire operations. "The Venezuelan government could offer to buy as much as 100% of the shares of the Mexican company if it decides not to participate in a mixed enterprise," Roy Chardeton, Venezuela's ambassador to Mexico, said in an interview with the Mexico City daily newspaper La Jornada.

There is some concern in Mexico that the move to nationalize CEMEX could set a precedent that could affect other Mexican companies with operations in Venezuela, including Grupo Maseca, Grupo Bimbo, Mabe, Telmex, and Grupo FEMSA, among others. Those companies established and expanded their operations in Venezuela because of the Group of Three (G-3) free-trade agreement, completed in 1994 (SourceMex, May 18, 1994). In 2006, the Chavez government opted out of the agreement (SourceMex, May 17, 2006). The withdrawal of Venezuela from the G-3 accord left Mexican interests in Venezuela without adequate legal protection, said the Mexico City consulting company IQOM. This concern prompted some business organizations to press the Calderon administration to enter into dialogue with the Chavez government to clarify the rights of Mexican businesses operating in that country, and in particular CEMEX. "We ask our government to use official channels to clarify the [legal] position regarding CEMEX in Venezuela," said COMCE president Valentin Diez Morodu. Chardeton said, however, that the Mexican business sector is overreacting to the nationalization of CEMEX Venezuela. "Mexican businesses are making a lot of money in Venezuela," said Chardeton, who noted that these interests would be allowed to continue to operate in his country as long as they respect the government's economic policies.

The Mexican Congress joined in the call for Calderon to ensure that CEMEX's rights are protected. "We demand that the Venezuelan government respect Mexican investors," said Deputy Marta Margarita Garcia Muller, a member of the governing Partido Accion Nacional (PAN). Members of the center-left Partido de la Revolucion Democratica (PRD) acknowledged Venezuela's right to nationalize the cement industry, but also demanded that CEMEX receive fair compensation. "We are looking for a satisfactory accord, where 49% of the cement company would remain in the hands of CEMEX and 51% under control of the Venezuelan government," said PRD Deputy Cuauhtemoc Sandoval.

**Calderon government vows to protect CEMEX rights**

The Calderon administration reassured the Mexican business sector and the Congress that it would work to ensure that the interests of CEMEX are protected. "Without a doubt, we have to defend the rights of CEMEX," said Economy Secretary Eduardo Sojo. The Mexican economy secretary lamented that Mexico lacked an agreement with Venezuela regarding the mutual promotion and protection of investments, an arrangement it already has with 23 other countries, including Argentina, Uruguay, Panama, and Cuba. Sojo said representatives of the Secretaria de Economia (SE) and Secretaria de Relaciones Exteriores (SRE) would meet with Venezuelan officials in the near future. The principal goal of consultations, he said, would be to ensure that CEMEX received the proper indemnization.
Mario Chacon, Mexico's ambassador to Caracas, who already held initial consultations with officials in the Chavez administration, will join the SE and SRE representatives. Despite the outcry regarding the CEMEX situation, the incendiary rhetoric that caused a break in relations between Mexico and Venezuela in 2005 was absent. That year, former President Fox became embroiled in a war of words with Chavez and former Argentine President Nestor Kirchner (2003-2007) regarding their positions on trade (SourceMex, November 16, 2005). Fox eventually patched up relations with the Argentine leader, but ties to Venezuela deteriorated.

The situation seems to have stabilized under the Calderon government. Even though the Mexican and Venezuelan leaders disagree on many policy areas, they have also found common ground on many other issues. Chavez said he and Calderon had a very cordial dialogue about several issues of mutual interest during a meeting in Guatemala in January, where they both were attending the inauguration of Guatemalan President Alvaro Colom (NotiCen, January 17, 2008). The two leaders met again at the Rio Group summit in the Dominican Republic in early March, where they discussed the need for Latin American countries to develop a common policy on energy and food, Chavez noted. "Our relations with Mexico are normal, entirely normal," the Venezuelan leader told reporters in Caracas at the end of March.

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