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Congress Rejects Special Session to Debate Calderon's Energy Reform Plan

by LADB Staff
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The Mexican Congress decided against calling a special session to debate President Felipe Calderon's energy-reform proposal during the summer, prolonging the impasse on the fate of the state-run oil company PEMEX. Calderon's pro-business Partido Accion Nacional (PAN) remains at odds with the opposition on whether private entities should be allowed any participation in the Mexican petroleum industry.

The center-left coalition Frente Amplio Progresista (FAP) rejects any private participation in PEMEX, while the centrist Partido Revolucionario Institucional (PRI) would consider some involvement by the private sector in the oil company but has also rejected the president's plan. Some legislators raised the possibility that energy reform could be debated when the Congress begins its next regular session in September.

Opposition parties develop own proposals
The Calderon administration sent its proposal to the Congress in April in the hope that federal legislators would debate and approve the initiative before the end of the spring legislative session. Legislators from the FAP and the PRI complained, however, that the timetable presented by Calderon left too little time to deliberate on such an important issue. Instead, the Congress decided to hold a series of hearings and debates during the summer months (see SourceMex, 2008-04-30).

Among those participating in the debates were party presidents Beatriz Paredes of the PRI and German Martinez of the PAN and ex-presidential candidate Cuauhtemoc Cardenas of the Partido de la Revolucion Democratica (PRD), whose father, former President Lazaro Cardenas, nationalized Mexico's oil industry in 1938. Participants in the debate merely reiterated the positions of their parties.

Administration officials were counting on Congress to call a special session to vote on the reforms at the conclusion of the debates, which were to take place within a 70-day timeframe. Energy Secretary Georgina Kessel even told the press that she anticipated that Congress would begin debate on the Calderon plan in a special session in late July. Similar comments came from PAN Sen. Santiago Creel, who told reporters that the Senate energy committee (Comision de Energeticos) was planning to sit down in late July to consolidate the proposals from all parties and bring a unified plan to the floor for a vote. But two other influential senators who serve on the energy committee, Francisco Labastida of the PRI and Graco Ramirez of the PRD, disputed the comments from Kessel and Creel, saying there were no plans to move forward with a vote on energy reform this summer.

Legislators opted not to call the special session, although Ramirez raised the possibility that the energy committee could begin discussions on some aspects of energy-reform legislation in August.
and possibly bring a bill to the floor in September at the earliest. The biggest problem for the Congress is reconciling the different positions on energy reform. The PRD and its allies in the FAP, the Partido del Trabajo (PT) and the Partido Convergencia por la Democracia (PCD), are in broad agreement that private participation in PEMEX should be banned entirely, although some members of the coalition have said in the past that they might be open to hiring private companies to conduct deepwater exploration and drilling to help PEMEX boost its reserves (see SourceMex, 2008-01-30). PRI must reconcile its own divisions Ramirez has said that the PRD and the PRI might develop a joint proposal that would stand as a clear alternative to the plan presented by the Calderon government.

The big obstacle is that the PRI must first reconcile divergent positions within the party. Some PRI legislators support many aspects of the Calderon plan, including proposals to allow private companies to enter into services contracts with PEMEX. Others are adamantly against this proposal and have views closer to those of the FAP. Because of this, the PRI is attempting to forge a plan that takes into account all the viewpoints. The only consensus among the PRI factions is a rejection of the Calderon plan as it stands. "[Floor leader] Manlio Fabio Beltrones has consulted with the PRI delegation in the Senate about the Calderon proposal and we have rejected it in its current form," PRI senators said in mid-May. "We are working on a plan that will significantly modify the president's proposal."

Among the proposals the PRI is considering is creating independent PEMEX subsidiaries to perform refining duties, carry out deep-sea drilling, and manage the natural-gas operations. These entities would have greater independence than subsidiaries created during the administration of former President Carlos Salinas de Gortari (see SourceMex, 1992-07-01). The PRI would have to reconcile this position with the PRD, which does not support creating subsidiaries. The PRD contends that subsidiaries create redundancies in PEMEX, thus increasing its operation costs.

The PRI delegations in the Chamber of Deputies and the Senate said they would not offer any formal proposal until all the forums were completed by the end of July. Some party legislative leaders were also awaiting a legal opinion on whether the Calderon proposal violates the Mexican Constitution. "What we are going to try to do is study it a lot and very well so that if it winds up in the Supreme Court it won't come apart there," said Deputy Emilio Gamboa Patron.

The discussions between the administration and the PRI on energy reform have been filled with controversy. In mid-July, Beltrones accused the administration of playing dirty in order to gain the upper hand in the debate. The PRI senator said he has been alerted that the Centro de Investigacion y Seguridad Nacional (CISEN) has been gathering information on him to find his "weaknesses." The CISEN denied the allegations. PRD staunchly opposes any private participation in PEMEX The PRD delegation is also putting together its own proposal on energy reform, emphasizing preserving PEMEX as a state-run monopoly.

The PRD plan has one goal similar to that presented by the Calderon administration and the PRI: to overhaul the fiscal status of the company to allow it to keep a large share of its profits, which would be spent on exploration and put into its operations. Through the years, the Congress has given
PEMEX increasing financial autonomy (see SourceMex, 2005-07-20 and 2007-09-19), but a significant share of the company's profits are still used to fund the federal treasury.

Proposals floated by the PRD and the FAP would allow PEMEX to keep the lion's share of its profits, estimated at US$20 billion in one year, for drilling, extraction, petrochemical production, maintenance of pipelines, and infrastructure. Under the proposal, the company's expenditures would be monitored closely by the congressional accounting watchdog (Auditoría Superior de la Federación, ASF) to ensure that funds are not diverted to projects not related to the oil industry.

The ASF has also endorsed greater budget autonomy for PEMEX. In a report issued in mid-June, the agency said the company is in serious danger of defaulting on its debt obligations in the medium term unless it is allowed to keep more of its revenues. "An integral solution to this problem would need to be accompanied by greater budget autonomy and management for PEMEX and a more stable source of public revenue," said the ASF report.

Similarly, a report from the Centro de Estudios de las Finanzas Publicas (CEFP), affiliated with the Chamber of Deputies, said PEMEX barely broke even in the first quarter of 2008 despite record-high global oil prices. This is because a large share of the company's earnings continues to flow into the Mexican treasury. Additionally, a lack of refining capacity in Mexico means that PEMEX has to pay the high global prices to import gasoline, which could be produced at home, said the CEFP.

The Calderon government has taken steps toward creating some financial autonomy for PEMEX. In a proposal presented in May, the administration offered Congress a plan to reduce taxes on production and exploration activities at the Chicontepec reserve, in the shallow waters of the Gulf of Mexico, just off the coast of Veracruz. In 2006, the government estimated the cost of developing Chicontepec at about US$36.7 million (see SourceMex, 2006-03-22).

Calderon's proposal for Chicontepec received mixed reactions in the Congress, with the plan endorsed by key PRI legislators and rejected by the PRD. "This change to the tax regime is necessary," said PRI Deputy Jorge Estefan Chidiac, who chairs the finance committee (Comisión de Hacienda) in the lower house. "These wells won't be developed unless there's a change to the tax regime because they won't be affordable."

The PRD views the plan with suspicion, particularly because it does not rule out the participation of private entities in the project. The party contends that the participating companies would benefit from the lower taxes. "This special tax regime is the clearest example of how the Calderon government is planning to share the profits from the oil industry with multinational companies," said Sen. Ramirez.

**Energy experts say reform urgent**

Several oil-industry experts contend that a change in the financial autonomy of PEMEX might not be sufficient to save the company. "The ideal structure would be for PEMEX to participate in partnerships and share its investments, which would greatly reduce its risks," said David Shields, an independent oil-industry consultant based in Mexico City. Shields said the need for partnerships is especially important, given the country's limited reserves. "Mexico is not Saudi Arabia, which..."
owns vast reserves that could last 50 or 100 years, that would allow it to manage its oil industry in a political or geopolitical manner," said the consultant.

Some industry sources suggested Mexico might have trouble attracting private-sector interest even under the Calderon plan, which was scaled down to gain support from the opposition parties. "The limited participation in refining proposed by Calderon is not attractive for the world's large oil companies," said the Mexico City daily newspaper Excelsior. The newspaper said this type of activity is not profitable for companies like Exxon, Shell, or even Brazil's state-run oil company Petrobras. "It is not convenient for them to invest large sums of money on one client," said Excelsior, quoting Roger Tissot, former Americas director at PFC Energy.

Others warned Mexico not to wait too long to make meaningful changes to the oil industry. "If we look at this realistically, Mexico could become a net importer of oil in the span of five to 10 years," said syndicated columnist Sergio Sarmiento. "Only a miraculous discovery of a huge reserve would allow us to escape this fate."

The need to develop new sources of crude is urgent as evidenced by the sharp decline in the Cantarell oil complex, which has supplied the majority of Mexico's crude-oil production (see SourceMex, 2002-12-11 and 2007-03-07). In a recent report, the Secretaria de Energia (SENER) said the decline has been especially significant since mid-2007, when reserves plummeted by one-third. Average production amounted to slightly more than 1 million barrels per day in May compared with more than 1.6 million bpd in the same month last year, said SENER.

"This is not a good sign," said George Baker, head of energia.com, a Houston-based energy consultancy. "But it does at least strengthen the government's position that there is an approaching crisis in oil production."

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