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President Felipe Calderon, Senate Clash Over Energy Policy

by LADB Staff

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President Felipe Calderon's administration and the Mexican Senate clashed again regarding several aspects of the country's oil policy, including the president's nominee to take over the state-run oil company PEMEX. Additionally, the Senate is angry that Calderon has not fully implemented the energy reforms approved by the federal legislature in October 2008, including a directive that PEMEX lower its production costs. Some legislators are also suspicious about Calderon's intentions, saying that the president might be scheming to implement a back-door privatization for PEMEX.

Legislators unhappy with new PEMEX director

Calderon's decision to appoint Juan Jose Suarez Coppel to replace Jesus Reyes Heroles as PEMEX director unleashed a storm of controversy, with even members of the president's governing Partido Accion Nacional (PAN) questioning the move. Suarez Coppel's appointment was part of a Cabinet reshuffle announced in early September (SourceMex, September 9, 2009). Members of all parties in the Senate questioned whether Coppel, who had been the PEMEX finance director, was the right choice to lead the company, given its shaky financial situation. Some detractors took their criticisms a step further, accusing Suarez Coppel of corruption during his tenure as PEMEX finance director.

The critics pointed out that the nominee used his position to benefit the interests of several powerful financial figures, including former finance secretary Francisco Gil Diaz, who served under ex-President Vicente Fox. "As financial director, he served the interests of the ex-finance secretary as well as those of entrepreneurs Roberto Hernandez, former president of the administrative council at Banamex, and Juan Marcos Issa, who is linked to the [illicit] business activities of former first lady Marta Sahagun's sons," said Jesusa Cervantes in a piece published by Agencia de noticias Proceso (apro). Sahagun's sons, Manuel and Jorge Bibriesca Sahagun, are said to have received favorable treatment or otherwise used government contacts for personal enrichment (SourceMex, February 22, 2006).

The apro report said Suarez Coppel also gave a procurement contract to the company Global Drilling, run by his cousin Alfredo Coppel. "That company had already failed to meet contractual obligations and therefore did not qualify to participate in PEMEX auctions. Yet, it received resources and new contracts from PEMEX," said Cervantes. Corruption was commonplace at PEMEX during the years when the Partido Revolucionario Institucional (PRI) controlled the government, and PRI legislators did not press this point in their opposition to Suarez Coppel's appointment.

Instead, the PRI's biggest complaint had to do with the new director's role in PEMEX policies that have put the company in its current precarious position. PRI Sen. Francisco Labastida Ochoa, who chairs the energy committee (Comision de Energeticos) in the upper house, said Suarez Coppel had major input in Chapter 12 of the Ley Federal de Derechos, a policy that contributed to PEMEX's poor

financial state. "They imposed a fiscal regimen on PEMEX that obligated the state-run oil company to produce 3.5 million barrels of oil per day," Labastida said in an interview.

During the times when PEMEX did not meet the production quota, it was assessed a fee of 75% of the value of the amount in shortfall. "There is no fiscal regimen more absurd and irrational than this one," said Labastida. The senator said the emphasis on overproducing helped expedite the demise of the Cantarell oil field in Campeche Sound, which could dry up in the next several years (SourceMex, December 11, 2002 and March 07, 2007). "To the extent that we damage our capacity to produce petroleum, we will not have energy resources. And, to the extent that our petroleum production declines, our oil-export earnings will suffer," said Labastida. Calderon has legal upper hand Despite the strong concerns about Suarez Coppel, Labastida acknowledged that there is little the Congress can do directly about this appointment. Although this post is on par with a Cabinet position, congressional ratification is not required. This prompted many legislators to urge Calderon to rescind the appointment.

PRD Sen. Pablo Gomez described Suarez Coppel as "the worst person" to head PEMEX. Sens. Graco Ramirez of the PRD and Ricardo Monreal of the Partido del Trabajo (PT) suggested that the appointment was a political reward to business leaders who had supported Calderon in the past. Ramirez and Monreal said these groups want to turn over some PEMEX operations to foreign interests. PAN senators did not speak publicly about the appointment, but there were reports that many members of the center-right delegation in the Senate were disgruntled about the move. "The president's decision even caused some discomfort among members of his own party, who suggested that Suarez Coppel did not have the qualifications to be PEMEX director," said the Mexico City business daily newspaper El Economista.

The newspaper said that many PAN members said Calderon ignored their suggestion that PAN Sen. Fernando Elizondo Barragan be given the post. Calderon rejected all demands that he withdraw Suarez Coppel's appointment, although he did not make any public statements about the decision. He informed the Senate through Sen. Ruben Camarillo, who serves as secretary on the energy commission. For some analysts, Suarez Coppel's appointment means that the Secretaria de Hacienda y Credito Publico (SHCP) intends to exercise even more control of PEMEX than it does at present. "PEMEX is allowed to keep a profit when the finance secretariat doesn't need the money," said Mexico City based oil-industry analyst David Shields. "And the Treasury needs more revenues now." Labastida promised that the Senate energy committee would monitor Suarez Coppel's performance very closely. "We lack the legal faculties to take action [against this appointment]," said Labastida, who said legislators would watch the performance of PEMEX "through a magnifying glass."

Congress unhappy with Calderon's failure to fully implement reforms

The PRI senator also took the opportunity to press Calderon on his failure to fully implement the oil-industry reforms that the Congress approved in October 2008 (SourceMex, October 29, 2008). Opposition legislators have criticized the president for failing to fully implement the measures that would give PEMEX more independence. "We want to see the energy reforms that were approved put into effect, and we are not going to let our guard down," said Labastida.

Labastida acknowledged that the percentage of income that PEMEX is transferring to the federal Treasury had fallen to 68% of its total income in 2008 compared with 74% in 2007. But the Calderon government and PEMEX executives have done little to reduce skyrocketing production costs, which have more than cancelled out the surplus that PEMEX has left for investment purposes. The senators said PEMEX's huge expansion was not part of the reforms approved in 2008. In its Sept. 14 edition, the Mexico City daily newspaper Reforma pointed out that PEMEX had greatly increased the size of its administration, finance, and operations departments. "The PEMEX corporate body now comprises seven different general directorates, each with its subdirectorates and departments," said the report.

The entire PRI delegation in the Senate is also pushing for the Calderon government to implement the reforms. In a resolution approved on Aug. 21, Calderon was given 45 days to fully implement the 2008 energy reforms. Otherwise, PRI senators said they would bring a complaint under the Mexican Constitution against the president for failing to comply with a law passed by the legislative branch. The resolution noted that the technical bankruptcy that PEMEX is experiencing is the result of "omissions and the application of a mistaken strategy" by the Calderon government.

The Calderon administration is planning to propose a new set of comprehensive reforms for Mexico's oil industry. The reforms are intended to promote the production of quality fuels at competitive prices, which could help support the Mexico's economic sectors that are crucial to the country's development. Opposition legislators reacted with skepticism to Calderon's proposal, saying that the administration cannot offer a second set of reforms when it has not complied with the first step. "If he is talking about a privatization of PEMEX in the second phase, we will ask him to forget that notion," said Sen. Manlio Fabio Beltrones, a PRI leader in the upper house. "He already has sufficient instruments at his disposal to modernize PEMEX." Similar comments came from Sen. Silvano Aureoles, deputy floor leader for the PRD in the upper house. "The defense of petroleum as patrimony of all Mexicans is not a taboo or a myth," said the PRD senator. "It is a demand from the citizenry."

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