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In Controversial Move, Government Disbands Regional Electric Power Company

by LADB Staff

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In a drastic move that drew mixed reactions around Mexico, President Felipe Calderon's administration shut down the financially troubled state-run regional electric utility Compania Luz y Fuerza del Centro (LFC) and temporarily turned over its operations to the country's largest utility, the Comision Federal de Electricidad (CFE). The Sindicato Mexicano de Electricistas (SME), with the support of center-left parties, immediately denounced the move as an effort to break the union. The business community, academics, and industry watchers wholeheartedly supported the decision, saying LFC had been a drain on the federal Treasury and its inefficiency was hurting the economy. The chief opposition party, the Partido Revolucionario Institucional (PRI), conditionally endorsed the move but warned the Calderon administration that under no circumstances should the company be turned over to the private sector.

The Calderon government took control of the LFC by sending hundreds of police officers to take over the company's headquarters in Mexico City and other installations on the night of Oct. 11. The president explained the decision in a nationally televised address on the evening of Oct. 12, saying the LFC was continually incurring high debts while consistently providing poor service to consumers. "Today we have to correct those things that don't work in the country," Calderon said.

Decision puts government at odds with union

There is some substance to the charge that the Calderon government was using the move to punish the SME. The administration took over the electric utility company just days after issuing statements questioning the election of the new LFC leader, Martin Esparza. The Secretaria del Trabajo y Prevision Social (STPS) refused to recognize Esparza's election on the grounds that it was tainted by irregularities, including allegations that the final count was padded with phantom votes of deceased SME members. The union, in turn, charged the STPS of meddling in its internal affairs. Esparza's rival, Alejandro Munoz Resendiz, backed the government allegations, pointing out that at least 3,500 more votes were cast than the number of union members on the rolls.

In a television interview with prominent journalist Joaquin Lopez Doriga, Munoz called for a new election, but at that time he urged the government not to intervene directly in the conflict because it was an internal union dispute. Still, some observers suggested that the Calderon government had sought to intervene all along, plotting for several months to remove the union from company operations. "The government of Felipe Calderon took advantage of an internal SME conflict to intervene," said Inter Press Service. "The ultimate goal is to plan the disappearance of the company and with it the organization to which its employees belong." Esparza made similar comments, suggesting that the takeover was a precursor to privatization of the LFC. "The social base of the SME came out to stop the business owners who want the LFC," said the union leader. "But this company is not for sale." The SME contends that the Calderon administration intends to cede its developing

fiber-optics network to private companies, including firms owned by former energy secretaries Ernesto Martens and Eugenio Canales Clariond, both of whom served in former President Vicente Fox's administration. Fiber optics are used increasingly to replace copper wire for electrical transmission because of their ability to transfer power long distances with little maintenance.

Despite the SME allegations, the Calderon administration insists that there are no plans to cede the LFC in any form to private interests. Officials said two options are under consideration: having the CFE assume the operations permanently or creating an entirely new state-owned company to provide electricity to Mexico City and surrounding communities. "I would like to be very emphatic about this matter," Calderon said. "Electrical service will not be privatized in any form, not in the center of the country or anywhere else." Interior Secretary Fernando Gomez Mont later repeated the same pledge. "The state will continue to provide this service, as mandated by the Mexican Constitution and the applicable laws," said the interior secretary.

Gomez Mont also emphasized that the LFC takeover was not intended to weaken the labor sector in Mexico. "This is not a move against unionism," said the interior secretary. "This was a decision based entirely on our country's economic situation." Despite Gomez Mont's statements, the administration suggested that the SME was partly to blame for the LFC's economic problems and poor service because the union extracted major concessions from management that made operations unprofitable and inefficient. "Practically all LFC decisions had to be taken with consideration for union demands and not in the interest of users," said Gomez Mont, who noted that conditions established by the labor contract resulted in a type of co-management between executives and the SME. Furthermore, the Calderon government said the company's structure prevented it from meeting consumers' needs. For example, Gomez Mont noted that the LFC received almost 68,000 complaints about poor service between January 2006 and September 2009. An additional 16,000 complaints were related to billing errors during the same period.

Calderon emphasized that the decision to liquidate the company went beyond the simple inefficient operation of a public utility. The president said that, because of the inefficient operation, LFC was unable to provide almost 1,000 megawatts to businesses in Mexico City and surrounding areas. This, according to government calculations, prevented the creation of 100,000 new jobs and a GDP growth of as much as 1% for the central region of the country. Because of this, said Gomez Mont, the administration had to take drastic action. "It is necessary to liquidate a company that has created a gap in public finances, especially at this time of international crisis," he said. Other experts suggested that the company had operational problems that contributed to its financial woes. For example, a large number of consumers have obtained free electricity by tapping into the LFC lines through devices known as "diablitos." In some cases, the taps are installed with the knowledge of LFC workers. Alejandro Pedraza, coordinator of programs for the Alianza para el Ahorro de Energia, said the problem is more common in Mexico City and other areas served by the LFC than in the rest of the country, which is served by the CFE.

Public reaction mixed

There was much public debate on the appropriateness of the Calderon administration's action. The public at large did not know what to make of the situation, and this was reflected in public-

opinion polls taken after the government's move to dissolve the LFC. In a public-opinion poll by the Mexico City daily newspaper *El Universal*, 48% supported the move and 43% were opposed. And respected pollster Maria de las Heras, who publishes her data in *Milenio.com*, said early polls suggested reluctant support for the government's action. "It is important to note that, while public opinion is in favor of the LFC liquidation, there is no agreement on the manner and timing under which it was conducted," said de las Heras. "Four of every 10 persons interviewed were not in agreement with the manner in which it was done, and 33% did not believe the time was right to take the action." Some commentators accused the government and the mainstream media of spreading misinformation, which was limiting public opposition to the action. For example, Jose Lopez Sosa, columnist for Mexico's English-language online newspaper *The News*, took issue with the allegation that SME members had received extravagant benefits. The benefits awarded to SME members, he said, were on a par with those given their counterparts in the *Sindicato Unico de Trabajadores Electricistas de la Republica Mexicana (SUTERM)*, which represents CFE workers.

Lopez Sosa said the high cost of electricity charged by the LFC is in part because of a high consumption tax charged by the federal government. "Unfortunately ignorance is winning the fight against reality, even among the most respectable press organizations in the country," said the columnist. But other commentators and academics sided with the government's decision, saying the action was economic and not political. "The reality is that this was a company that was totally unproductive and had generated an unsustainable deficit of about 40 billion pesos [US \$3.1 billion] per year," Luis Apperti wrote in *Milenio.com*. "With this level of unproductivity and inefficient labor, it could not continue to exist in its present form." Apperti's viewpoint is in line with Mexico's most prominent business organizations like the *Consejo Coordinador Empresarial (CCE)*, the *Confederacion de Camaras Industriales (CONCAMIN)*, and others. CCE officials said the money spent on heavily subsidizing an inefficient operation like the LFC could instead go directly to programs that serve the poor. "I believe that the decision to disband the LFC has something to do with the desire of Mexicans to create more efficiency in the electrical sector and in energy in general," Isabel Studer, director of the business school at the *Centro de Dialogo y Analisis sobre America del Norte* at the Mexico City campus of *Tecnologico de Monterrey*, said in an interview with *SourceMex*.

The government's ability to fill the gap created by eliminating the LFC could also have some impact on public perception. In the days following the takeover, power outages were reported in several Mexico City neighborhoods and in the four contiguous states that were served by the LFC. "The outages were caused by the same problems that have plagued the system," said Luis Hernandez Navarro, a columnist for the Mexico City daily newspaper *La Jornada*. "But the problems were worsened because the electricians who knew how to deal with them had been fired." But the outages occurred before the CFE fully took over LFC operations on a temporary basis. "Electrical service is back to normal," CFE director Alfredo Elias Ayub later said on national television. Action legal or illegal? Beyond the question of whether the action was appropriate, there has been some debate on whether the government acted legally in the LFC case.

The Calderon administration contends its decision was made within the framework of Article 16 of the *Ley Federal de Entidades Paraestatales*, which allows the government to eliminate a state-run company or unit when its continued existence is harmful to the national economy and the public interest. "The LFC was facing an unsustainable financial situation. Its costs were double its

earnings," said the Mexico City daily newspaper El Sol de Mexico. "This year, for example, we had to subsidize the company with more than 42 billion pesos [US\$3.2 billion], which is in addition to the money obtained from consumer utility payments." The SME and its supporters counter that Calderon's decision broke other laws dealing with labor and employment. Cuauhtemoc Cardenas, founder of the Partido de la Revolucion Democratica (PRD), said the government violated the rights of workers who were affected by eliminating the LFC. "It has been very easy for the government to throw 41,000 workers out on the street," Cardenas said in an editorial in La Jornada.

The government has set aside 20 billion pesos (US\$1.5 billion) in severance pay for LFC employees. In addition, many workers might be rehired or offered retraining opportunities. Cardenas said these measures were a mere band-aid. "The compensation is eventually going to be exhausted because there are no jobs, and there won't be any jobs in the near future, because [the Calderon government] is employing a recessive policy that has led to economic stagnation." The government and the SME briefly entered into negotiations to further address the situation, but Esparza withdrew after a few days. He demanded that Energy Secretary Georgina Kessel, Finance Secretary Agustin Carstens, and Interior Secretary Gomez Mont participate in the talks.

Esparza and other SME leaders have led a series of demonstrations in Mexico City, including a large march to the presidential palace of Los Pinos in the aftermath of Calderon's announcement. Organizers said 60,000 people took part in the march, while the government said there were only 15,000 participants. But the SME leader's inflexible position has put him at odds with a small faction of the membership, which supports Alejandro Munoz. Munoz, who initially supported Esparza's protests, later criticized the union leader for withdrawing from the negotiations.

Political fallout uncertain

Esparza has also appealed to the Mexican Congress to file a complaint against the Calderon government for violating the Constitution. But most of his support has come from the center-left parties, which include the PRD, the Partido del Trabajo (PT), and the Partido Convergencia por la Democracia (PCD). "We will support the SME by pushing for a constitutional complaint through the Chamber of Deputies to reverse this decision," said Deputy Alejandro Encinas, coordinator of the PRD in the lower house. Similar comments came from PT Deputy Jaime Cardenas, who accused the Calderon government of violating international treaties dealing with labor rights. He said he would ask the body to determine whether to consider action against Labor Secretary Javier Lozano Alarcon. Some PRI members like Deputy Heliodoro Cardenas came out in support of the SME, warning that his party would not tolerate actions that would "weaken the autonomy of unions and their gains." But expressions of support from individual PRI legislators were sporadic.

Experts agree that any constitutional complaints against the president will not progress without the full institutional support of the PRI, which is considered the main power broker in Congress. The PRI, the governing Partido Accion Nacional (PAN), and the Partido Verde Ecologista Mexicano (PVEM) have strongly supported Calderon's decision. PRI Sen. Francisco Labastida, who chairs the energy committee (Comision de Energeticos) in the upper house, said dissolving the LFC was inevitable because of the combination of the economic crisis and the company's inefficiency. Labastida qualified his support for Calderon's decision, however, by warning the president against

privatizing the LFC. Labor organizations that have traditionally been allied with the PRI, including the SUTERM, have so far remained on the sidelines and not openly supported the SME.

The only solid labor support has come from the independent Union Nacional de Trabajadores (UNT), which has threatened to call a series of general strikes to show solidarity with the SME. Deputy Josefina Vazquez Mota, who heads the PAN delegation in the lower house, called for the government to take on all institutions like the SME, which have "clear and transparent rules." But political observers agree that Calderon and the PAN risk major political fallout unless the policies of denouncing privileges, combating inefficiency, and protecting consumers are applied consistently. Syndicated columnist Denise Dresser said this concept should apply to all public and private monopolies, to the LFC as well as Telmex, to the SME as well as the CCE, to the provision of electricity as well as financial services. "Felipe Calderon is going to have to demonstrate a wide boldness not a selective boldness," said Dresser. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on October 21, 2009, reported at 12.95 pesos per US\$1.00]

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