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LADB Staff

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President Felipe Calderon Eliminates Fuel Subsidies, Contributing To Increase In Price Of Basic Goods

by LADB Staff

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In a year when several key gubernatorial posts are up for election, the two leading political parties, the governing Partido Accion Nacional (PAN) and the opposition Partido Revolucionario Institucional (PRI), are blaming each other for the sharp increase in the price of basic products at the start of 2010. The third major political party, the center-left Partido de la Revolucion Democratica (PRD), is making sure that voters know that both the PAN and PRI are responsible for the spike in prices.

The increases are in part the result of a decision by Congress and President Felipe Calderon's administration to eliminate subsidies for fuel, which were implemented in early 2009. Subsidies implemented in January 2009 During the first days of January, the price of consumer goods in Mexico shot up significantly, with the cost of some foodstuffs increasing by about 25%. The Calderon administration acknowledges that its decision to allow gradual and sustained price increases for gasoline, diesel, heating oil, and other fuels at the start of the year might have been partly responsible for the price increases.

The government had implemented a price freeze for some sectors in January 2009 as part of an effort to help consumers cope with the economic downturn (see SourceMex, 2009-01-14). The Calderon government had been able to maintain the price freeze by subsidizing fuel products. But administration officials decided that the federal Treasury could no longer provide these subsidies if more money was to be devoted to anti-poverty programs like Oportunidades, which gives assistance to 26 million Mexicans. "If we had not changed this policy, the cost of supporting the price of gasoline and diesel would have approached 60 billion pesos (US\$4.7 billion), which is equivalent to the annual budget for the Oportunidades program," Finance Secretary Ernesto Cordero said in testimony before Congress.

The finance secretary pointed out that, even after two minor price increases in December and one on Jan. 1, gasoline and diesel prices sold by PEMEX were still about 12% below the average price for those fuels in the US. But some industries insist that eliminating the subsidies could doom some businesses. For example, Alfredo Escamilla Hernandez of Transportes Aleska told the Mexico City daily newspaper Reforma that the fuel-price increase threatens the survival of some trucking companies, as the cost of diesel makes up about 45% of their operating costs. Some truckers made their displeasure known about the increase in fuel prices, along with increased fees on toll roads, by blocking several highways in Hidalgo and Puebla states for a few days.

Edmundo Delgado Ramirez, president of the Confederacion Nacional de Comerciantes y Transportistas de la Republica Mexicana, said the organization was planning a nationwide stoppage in the near future to protest the price increases. Similarly, the Confederacion Nacional Campesina (CNC) complained that the higher fuel costs could bankrupt many agricultural producers. In a

statement, CNC president Cruz Aguilar said the subsidies for diesel declined by about 65% at the start of the year, which has greatly increased production costs. Higher food costs hurt the poor. Despite the government's commitment to programs like Oportunidades, the poor bear the cost in other ways, as food producers and transportation companies pass on the higher operating costs to the consumer.

Surveys by the Mexico City daily newspaper Reforma and others showed the index for basic products such as rice, beans, corn, eggs, sugar, and other foodstuffs increased by about 25% in the first days of 2010. "The crisis is not only felt in the pockets of Mexicans but also on the tables, which have less food," economist Liliana Flores Benavides told Milenio.com. "This causes a drastic deterioration in the quality of people's lives because they have less access to nutritional products." Administration officials argued that some price increases were the result of abuses by some businesses. During January, the consumer protection agency (Procuraduria Federal de Proteccion al Consumidor, PROFECO) started cracking down on price increases of items such as tortillas, which it said were not justified. "There is no deluge of price increases, but there are many abuses," said Finance Secretary Cordero, who noted that consumer prices normally take about three months to reflect increases in fuel prices.

The administration and private analysts argue that fuel costs alone should not be the justification for consumer prices to increase so suddenly. They noted that the 2010 budget approved by Congress contained increases in the value-added tax (impuesto al valor agregado, IVA), the income tax (impuesto sobre la renta, ISR), and special taxes on bank deposits, telecommunications, tobacco, beer, and beverages (see SourceMex, 2009-11-04). PRI, administration blame each other for price increases. The PRI, sensing an opportunity to earn political points with Mexican voters, has gone on the attack against the increased fuel prices, suggesting that this is the sole reason that prices have risen so sharply. "This government was dishonest and disloyal to the Mexican people when it promised that it would make every effort not to increase fuel prices," said Sen. Manlio Fabio Beltrones, who heads the PRI delegation in the Senate. Beltrones threatened to block Calderon's electoral- and political-reform proposals (see SourceMex, 2010-01-06) unless the president imposed an immediate freeze on fuel prices.

The administration and other PAN officials countered by criticizing Beltrones and other PRI members for failing to mention the tax increases approved with the 2010 budget. Interior Secretary Fernando Gomez Mont took issue with Beltrones' portrayal of Calderon as an uncaring president. "What I cannot accept is the insinuation that the president does not listen," said Gomez Mont. "He is an executive who is responsible, open to dialogue, and willing to take on difficult issues until a solution is found." National PAN leader Cesar Nava had even harsher words for Beltrones, PRI president Beatriz Paredes, and other leaders of the opposition party, criticizing them for adopting "an electoral stance." He accused them of making this an electoral issue ahead of the 2010 gubernatorial races rather than assuming part of the responsibility for the increase in prices.

There are 10 gubernatorial elections in 2010, with seven of those states in the hands of the PRI. The PRI is favored in most of those elections but is likely to face a very competitive race in Oaxaca, where the PAN and PRD have joined with the Partido Convergencia por la Democracia (PCD) and other parties to try to capture that seat. Two other states, Tlaxcala and Aguascalientes, are governed by

the PAN but could easily go to the PRI. The PRD appears unlikely to lose the gubernatorial seat in Zacatecas. The PRD's position regarding the price increases was mixed.

The center-left party joined the PAN in criticizing the PRI for failing to assume its responsibility in the tax increases. "The PRI negotiates in secret with Felipe Calderon and the PAN on economic measures that harm the Mexican people, and then it screams "thief, thief" in public to criticize the government," said PRD Sen. Tomas Torres. PRD Sen. Jesus Zambrano pointed out that the PRI and PAN dominated the negotiations on the 2010 budget that led to an increase in the IVA, ISR, and other taxes. "The statements of Manlio Fabio Beltrones and Beatriz Paredes are intended to show the public that the PRI does not bear any responsibility in the decisions that the executive branch is making to the detriment of the Mexican people," said Zambrano. But PRD Sen. Carlos Navarrette joined the PRI in demanding an immediate freeze on fuel prices. "If the president does not freeze the price of gasoline, natural gas, and energy, as it did in 2009, then the Congress will have to take action," warned Navarrette. Other observers pointed out that price increases have also been linked to the PRD. Mexico City Mayor Marcelo Ebrard came under strong criticism for increasing the price of a ticket for the Mexico City subway, the metro, from 2 pesos (US\$0.15) to 3 pesos (US\$0.23).

Jose Yuste, a columnist for the Mexico City daily newspaper Excelsior, said decisions by the Calderon government to allow gasoline prices to rise and by Ebrard to raise metro fares were necessary to prevent a worse fiscal crisis in the future. "In neither case can you say that the increases were totally negative," said Yuste. "For example, the federal government raised fuel prices to prevent much worse increases in the future." But added Yuste, "The problem with the increase in gasoline prices is the uncertainty of how much further it's going to go." [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan. 12, 2010, reported at 12.71 pesos per US\$1.00]

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