Governing Party, Center-Left Opposition Offer Plans for Energy Reform

Carlos Navarro
The chips are on the table now that the governing Partido Revolucionario Institucional (PRI) and the opposition center-left Partido de la Revolución Democrática (PRD) have rolled out their proposals to overhaul Mexico’s energy sector. The conservative Partido Acción Nacional (PAN) revealed its plan in July (SourceMex, July 31, 2013). The three proposals have a common goal—to ensure that any reforms to Mexico’s energy sector provide enough revenue to modernize the state-run energy companies, primarily oil company PEMEX, but also the electric utility Comisión Federal de Electricidad (CFE). The three parties also share another proposal: a national petroleum fund that would administer future oil and gas profits.

While some common ground exists in the three proposals, the major differences are on how modernization would be funded. The PRI and PAN proposals both support changes to the Mexican Constitution that would encourage and attract private investment, particularly in capital-intensive projects. The PRD’s proposal centers on a major overhaul of PEMEX, allowing the company budget and management autonomy.

PRI invokes name of Lázaro Cárdenas

An interesting point of contention is the PRI proposal’s use of the name of ex-President Lázaro Cárdenas del Río (1934-1940). In presenting the plan crafted by his administration, in consultation with PRI legislators, President Enrique Peña Nieto launched a series of television advertisements prominently featuring photos of Cárdenas, who nationalized Mexico’s oil industry during his tenure as president. One commercial points out that Cárdenas allowed the use of private contracts even after he nationalized the oil industry in 1938. The PRI-sponsored ad goes on to say that the Peña Nieto proposal is simply trying to eliminate a total ban on private participation in key activities like drilling and refining, which were enacted via a constitutional amendment in the early 1960s.

Some analysts said marketing experts from the big corporations, including the broadcast giant Televisa, likely provided assistance in creating the Peña Nieto administration’s campaign that used Lázaro Cárdenas. "This is not just a case of ‘expropriating’ the person most responsible for creating our nationalistic state … but also using him to justify the privatization of Mexico’s oil sector," columnist Jenaro Villamil wrote in Agencia de noticias Proceso (apro).

But there was also praise for the strategy. "The genius of the energy-reform proposal unveiled Monday by Mexican President Enrique Pena Nieto is that it taps the country’s pride in the oil sector’s nationalization to justify reopening the energy industry to private investment," columnist Raul Gallegos wrote in the World View Blog, published by Bloomberg news service. "The trouble with it is that—depending on the fine print—it could alienate the very investors it seeks to attract."

Still, the advertisement angered the PRD, particularly Lázaro Cárdenas’ son, Cuauhtémoc Cárdenas Solórzano, who criticized Peña Nieto and the PRI for misrepresenting his father’s intentions. "It is both false and offensive for the government to use the image of Lázaro Cárdenas to promote an
unpatriotic and traitorous proposal for energy reform among the Mexican people," Cuauhtémoc Cárdenas wrote in a front-page opinion piece in the Mexico City daily newspaper La Jornada.

Cuauhtémoc Cárdenas, who narrowly lost the disputed 1988 presidential election to ex-President Carlos Salinas de Gortari, was charged with presenting the PRD energy-reform proposal at a rally at the famed Monumento a la Revolución, which contains his father’s tomb. The PRD elder statesman repeated the charges that his father’s policy had been misrepresented and accused Peña Nieto of lying to the Mexican people. Cárdenas then urged citizens to take every opportunity in a broad range of public forums to oppose the president’s plan to make changes to the Constitution that would turn over Mexico’s oil patrimony to foreign companies.

Cárdenas’ call to action was tame compared with the confrontational demonstrations proposed by Movimiento Regeneración Nacional (Morena), created by former presidential candidate Andrés Manuel López Obrador after he left the PRD (SourceMex, Sept. 19, 2012). López Obrador has called on supporters to take to the streets to oppose any effort to privatize Mexico’s oil industry, especially the PRI and PRD plans.

**PRD, Morena clash**

While the PRD and Morena have both spoken out against opening Mexico’s oil sector to foreign companies, the PRD appears willing to leave the door open for dialogue with the other parties, even allowing for the continuation of current arrangements that permit PEMEX to offer limited contracts to private companies for selected activities. "With a public company that is well structured, transparent, and revitalized, we can decide what types of technological and business associations are worthwhile," said PRD Sen. Camacho Solís. "By following this path, we can obtain broad political and social support."

Some analysts agreed that the PRD is taking a pragmatic approach, which would be a good signal for the negotiations on energy reform that Congress is about to start. "The spirit of [Cuauhtémoc] Cárdenas’ reforms was no doubt nationalist but also modernizing, visionary, and pragmatic," said Gallegos. "A fundamental element of these reforms was that they guaranteed ownership and regulation of hydrocarbons by the state, while allowing private-sector participation."

Both the PRD and Morena have made it clear that the party rejects any changes to the Constitution that could open PEMEX further to private investment, but López Obrador has rejected any private participation whatsoever in PEMEX. The Morena leader has gone so far as to directly question the position of the PRI, the PAN, and the private sector that PEMEX needs the technological expertise of others to exploit and develop the country’s gas and oil resources. "The question that we have to ask ourselves is why we would share the earnings from what rightfully belongs to us," López Obrador said in one of his weekly messages on the Internet. "I have said this before ... it doesn’t require much science to extract petroleum. This is something that the technicians and workers in the oil industry have always managed to do."

There has been tangible friction between the PRD and Morena during the debate on energy reform. As the PRD was putting together its proposal, López Obrador announced four conditions for Morena to back the plan: abandoning the Pacto por México, rejecting any changes to Article 27 of the Constitution, opposing any move that hints at privatization, and pledging no increases in taxes.

López Obrador’s demands prompted a strong rebuke from PRD leaders, even though some agree with the philosophy behind them. In an interview on MVS radio network, PRD president Jesús...
Zambrano said López Obrador is not "the owner" of the effort to defend PEMEX as the patrimony of Mexicans. "He cannot impose conditions on us," said Zambrano, adding that López Obrador is no longer a member of the PRD.

Furthermore, Zambrano pointed out that the Pacto por México, an agreement that commits the major parties to work together on important legislative initiatives (SourceMex, Dec. 5, 2012), offers an important venue to discuss the various proposals.

**Details of the PRD plan**

The PRD's reform, announced during Cuauhtémoc Cárdenas’ speech at the Monumento a la Revolución on Aug. 19, centers on turning PEMEX and the CFE into truly autonomous companies with their own budgets and management teams. The proposal would also gradually lower PEMEX’s tax burden by 9% to about 62.5% by 2018, freeing up more resources to invest in exploration and production.

The PRD proposal would also overhaul the PEMEX administration, removing almost all government and union officials from the company's board. The petroleum workers union, the Sindicato de Trabajadores Petroleros en la República Mexicana (STPRM), has long been associated with corrupt practices, including embezzlement (SourceMex, Sept. 16, 1992, and March 6, 2013).

Sen. Luis Miguel Barbosa, PRD floor leader in the upper house, said his party’s plan is an effort to "modernize but not privatize" the Mexican energy sector. "Our proposal would turn PEMEX and the CFE into truly public enterprises that will continue to serve as engines for development of our country and our economy," said the PRD senator. "This plan promotes a transition in our energy sector while defending our country’s patrimony: petroleum, hydrocarbons, and electric energy."

The plan put forth by the center-left party also strengthens and more clearly defines the roles of two regulators: the Comisión Nacional de Hidrocarburos (CNH) and the Comisión Nacional de Energía (CNE). By strengthening the CNH, Mexico would be emulating the models used in Brazil, Norway, and Colombia, where a strong regulator helps support the state-run oil company. David Shields, a Mexico City-based energy analyst, noted that strengthening the CNH is one of the points of agreement reached by the signatories of the Pacto por México. He noted, however, that the proposal to strengthen the CNH was absent from the plan released by the PRI.

The PRD rally at the Monumento a la Revolución was, however, as much about opposing the PRI plan as it was about presenting the party’s own blueprint. "The government's initiative is a privatizing measure, regardless of how they want to sell it," Cárdenas said in his speech. "Without doubt, this is an initiative that hurts the interests of our country, it is an unpatriotic initiative."

Still, the PRI and the PRD broadly agree on the need to redefine PEMEX's role, allowing the state company the type of autonomy that Brazil’s Petrobras and Colombia’s Ecopetrol enjoy. "The Brazilian reform [in the 1990s] has tripled production and strengthened the state-run oil company," PEMEX director Emilio Lozoya said. "The same can occur if the PEMEX reforms are enacted. These reforms are good not only for the oil sector but also for our state-run oil company."

**PRI offers comprehensive proposal**

In presenting its energy-reform proposals on Aug. 12, the PRI emphasized a handful of themes, including the need for a comprehensive approach to ensure that Mexico’s future energy needs are
met. The plan offered proposals for crude oil, natural gas, electricity, petrochemicals, and renewable energy sources.

The centerpiece of the plan is developing a strategy to attract a major infusion of capital to modernize the energy sector and carry out all the activities necessary to boost energy supply, including deepwater exploration, infrastructure construction, and resource exploitation. Private companies, whether foreign or Mexican, would be offered the opportunity to negotiate profit-sharing contracts with the government to drill for oil and gas. Peña Nieto made it clear, however, that any oil and gas reserves would continue to belong to the Mexican state, although investors would get a share of the profits.

The Peña Nieto government said a successful energy reform could be a major impetus for economic development in Mexico. "If we actually manage to get the initiative that we presented passed, enriched by debate in Congress ... I’m sure that in the coming years, Mexico will enjoy—in a relevant, sensible and significant way—more jobs, greater economic dynamism, and sustained growth," the president said.

In presenting the plan, Peña Nieto said it was ironic that Mexico was so rich in natural resources and yet had to resort to imports for key energy needs. While a priority has been on the need to find new supplies of crude oil to make up for the rapidly dwindling reserves at the Cantarell oil field (SourceMex, March 7, 2007, and Aug. 1, 2012), the PRI appeared to be placing a major emphasis on natural gas. Despite large reserves in the Burgos basin in northeast Mexico (SourceMex, Oct. 29, 2003), the deep waters of the Gulf of Mexico (SourceMex, June 1, 2011), and the country’s vast shale fields (SourceMex, March 7, 2012), Mexico has had to import about one-third of its natural-gas supplies.

Under the Peña Nieto plan, new investment could boost Mexico’s natural-gas production to 8 billion cubic feet by 2018 and 10.4 billion cu ft by 2025, compared with the current levels of 5.7 billion cu ft. The increase in domestic supplies, said Peña Nieto, would reduce prices for consumers in Mexico.

The Peña Nieto government would also emphasize developing the country’s petrochemical infrastructure, since imports account for about 49% of petrochemical usage in Mexico. Annual petrochemicals imports amount to about US$21 billion.

The plan also puts a strong priority on the electrical sector, particularly a scheme to boost private electricity development. Under current practice, private companies are allowed to produce electricity for their own consumption (SourceMex, June 16, 1993, and May 22, 1996) and to sell to other businesses (SourceMex, Oct. 31, 2012). Because of this, one-third of the electric power consumed in Mexico is produced by the private sector.

Peña Nieto believes, however, that the industry would prosper if Article 27 of the Constitution were amended to allow private companies to participate in electricity generation for public consumption. This idea was proposed earlier by ex-President Ernesto Zedillo (SourceMex, Sept. 22, 1999), but the measure stalled in Congress (SourceMex, Feb 2, 2000).

Peña Nieto says private companies could supplement the electricity supply beyond that provided by the CFE, thus resulting in lower electricity prices. At present, the price of electricity is about 25% higher in Mexico than in the US, some analysts noted.
Public opinion remains key

The PRI, PRD, and Morena proposals seek to sway public opinion ahead of the congressional debate on energy reform, expected to begin sometime in September.

Some analysts suggest that the PRI agreed to requests from the PAN and PRD for Congress to approve comprehensive electoral reforms before the energy reforms are considered. The PRI agreed to this concession in part to obtain an agreement from the two opposition parties to remain in the Pacto por México. The two parties had threatened to withdraw from the agreement because of charges that the PRI was using government resources to support its candidates ahead of the local and state elections in July (SourceMex, May 1, 2013). "The opposition from the right and the left obtained its first concession in exchange for not breaking from the pact," analyst Ricardo Alemán wrote in a piece published jointly in the online political site La Otra Opinión and the Mexico City daily newspaper El Universal.

While the PRI has inserted ex-President Lázaro Cárdenas into its promotion strategy, some party members have also suggested that the purpose of the Constitution is misconstrued. Sen. César Camacho, floor leader of the PRI delegation in the Senate, suggested that the Constitution should not become an object of "juridical veneration" but should be considered an efficient instrument to serve the citizens. "As Mexicans, we share the certainty that we have the power to make important decisions," said Camacho. "Now is the time to take those steps. We can do it."

Since the energy reforms involve two important provisions of the Mexican Constitution, Articles 27 and 28, public opinion will be important to determine how Congress moves forward in the coming months. A handful of public-opinion polls have surfaced thus far, and the results vary widely.

A poll by polling company BGC, in partnership with the Mexico City daily newspaper Excelsior, showed that 58% of 400 respondents favored allowing private companies to extract oil and perform other energy-related activities. Similarly, a poll by prominent pollster Consulta Mitofsky among 1,000 households found that nearly 54% of respondents considered a reform to Mexico’s energy sector as viable and necessary for Mexico's economic development. A third poll, by Buendía y Laredo, was the most favorable to the PRI plan, with 62% of respondents agreeing that PEMEX needs reforms to improve its performance.

In contrast, a survey by the polling firm Parametría indicated that 49% of the 800 people polled rejected increased private involvement in PEMEX. Similarly, 53% of respondents said they felt that increased private involvement in production of electricity would be harmful to Mexico. The Centro de Estudios Sociales y de Opinión Pública (CESOP), a polling agency affiliated with the Chamber of Deputies, found that 54% of respondents opposed increased private participation in PEMEX, while only 36% expressed their support for further opening up the state-run oil company.

Finally, a survey by the Centro de Investigación y Docencia Económicas (CIDE) in 2012 indicated that a large majority of respondents (about 77%) viewed foreign investment as somewhat or extremely beneficial for Mexico—as long as the investment is not in the oil industry.

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