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Mexicans Angered by Increase in Gasoline Prices
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Mexicans are outraged over a government decision to raise gasoline prices—a move the government says is the result of the elimination of subsidies and of recent trends in the global oil market. Oil prices stabilized and increased slightly during December, in part because of an agreement reached by members of the Organization of Petroleum Exporting Countries (OPEC) to put a cap on production (SourceMex, Dec. 7, 2016).

Two other factors led to shortages at the beginning of 2017: Fuel thefts, which have reduced supplies at some distribution centers, and an outdated storage and infrastructure system, which has prevented the government from keeping a higher inventory of imported gasoline.

Moving to a free market
The increase in gasoline prices, which rose by as much as 20% in some areas on Jan. 1, is just the first of several possible price hikes anticipated this year. In a statement announcing the increases, the finance ministry (Secretaría de Hacienda y Crédito Público, SHCP), said Magna, as the most widely used grade of gasoline in Mexico is known, would increase by more than 14% to an average of about 15.99 pesos (US$0.76) per liter, while Premium grade would rise by about 20% to an average of 17.79 pesos (US$0.84) per liter. The price of diesel increased by 16.5% to 17.05 pesos (US$0.81) per liter. These prices were scheduled to remain in place until Feb. 3. After that, the maximum price will be set twice a week until Feb. 18, when it will be set daily according to market conditions.

The gradual price ceilings are a prelude to Jan. 1, 2018, when the government is scheduled to fully deregulate prices as part of the plan to create open competition for service stations. While most of the gas stations operating in Mexico carry the logo of the state-run oil company PEMEX, a handful of private operations have started to sell gas in the country (SourceMex, July 13, 2016).

Administration officials acknowledge that prices have increased because subsidies have been removed, allowing costs to follow the free market instead of becoming subject to an artificial ceiling. Pricing will no longer be a government decision but rather “a result of what happens in the market,” Finance Secretary José Antonio Meade said in a radio interview.

In some circles, the decision was considered an appropriate first step to implement a market mechanism to fuel sales in Mexico. “It was a difficult decision to liberate the prices of gasoline to reflect the real cost of the product,” columnist Luis Enrique Mercado wrote in the daily newspaper Excélsior. “This was a move that was necessary to avoid making the same mistake as in recent years by devoting billions of pesos to subsidize fuels.”

Widespread protests erupt
The government’s decision to raise gasoline prices prompted angry demonstrations throughout Mexico, with unions, civic organizations, and other groups banding together to block important highways when the new pricing went into effect during the first week of January. Some of the demonstrations were led by local officials from the center-left opposition, the Partido de la
Rевolución Democrática (PRD), Partido del Trabajo (PT) and Movimiento Regeneración Nacional (Morena). The road blockades affected all regions of Mexico, including major highways in Mexico City and the states of México, Sonora, Puebla, Morelos, Chihuahua, Jalisco, Michoacán, Hidalgo, Querétaro, Veracruz, Chiapas, Tamaulipas, and Quintana Roo. Protesters have also blocked distribution and storage centers in five northern and one western state, further contributing to a shortage of gasoline, according to officials.

The protesters also made their discontent known through acts of vandalism on hundreds of service stations around the country, with the heaviest damage reported in Mexico City and the states of Chiapas, México, and Veracruz.

Many demonstrators reminded President Enrique Peña Nieto of the pledge he made in January 2015 that so-called gasolinazos, which are monthly increases in gas taxes, would end with the energy reforms that Congress approved in 2013 and 2014 (SourceMex, Dec. 18, 2013, and Aug. 6, 2014). The monthly taxes were implemented in January 2008 (SourceMex, Jan. 16, 2008) to fund programs for states and municipalities. To compensate for the taxes, the government also subsidized gasoline, but the public rarely noticed the subsidies. The disparity in prices that Mexicans were paying at the pump was particularly evident in early 2015, when the cost of gasoline remained high in Mexico even with a drop in global prices (SourceMex, Jan. 7, 2015).

Opposition legislators have also weighed in, blaming the president and legislators from the governing Partido Revolucionario Institucional (PRI) and the pro-business opposition Partido Acción Nacional (PAN), which strongly promoted the energy reforms. “Peña Nieto, the PRI, and the PAN told us that prices would come down, but they misled the public,” said PT Sen. Manuel Bartlett Diaz. “There is no competition and there won’t be any competition, and the energy reforms make us dependent on the US.”

There are different opinions on the extent that the energy reforms are tied to the increase in gas prices. Some analysts point out that the changes in the energy sector are indeed directly responsible for the latest price increase, which they described as Peña Nieto’s gasolinazo. “This gasolinazo is the offspring of the energy reforms approved by almost all the political parties. In a unanimous voice, the supporters of the reforms saw these changes as a solution to improve the lives of Mexicans,” columnist Ernesto Villanueva wrote in Proceso.com, which is published online by the weekly news magazine Proceso. “Prices will drop, they told us again and again. And now they tell us that this increase in prices is a temporary measure to synchronize ourselves to the international market to the benefit of society.”

“The truth is much different. PEMEX has been operated as a cash box to fund the government by successive administrations,” Villanueva wrote. “PEMEX was never the problem, [the problem is] the manner in which the state-run company was managed without internal accountability and regulations.”

Others said the problem is related to the inadequate infrastructure in the energy sector.

The price increase “has nothing to do with the energy reforms,” said former PAN Sen. Juan Bueno Torio. “We were already importing 50% of the gasoline, 75% of the petrochemicals and 38% of the natural gas we consume even before the reforms. The problem is that PEMEX has been neglected, and its refineries operate at 45% of capacity.”
Still, others said the public has a mistaken perception of the true purpose of the changes to the energy sector. “The energy reforms were not implemented to reduce the price of fuels in the domestic market, but to boost production, which has been falling for several years because of a lack of investment and technology,” financial columnist Rubén Aguilar Valenzuela wrote in the daily business newspaper El Economista. “The changes also intend to boost our exports of crude oil, which have declined by about 50%, and thus increase the revenues associated with these sales.”

Columnist Salvador Camarena wrote in El Financiero, “As Mexicans, we will be paying more for fuel. Naturally, the increases (which will differ in 90 different zones), have been received with great anger by the population.”

According to Camarena, the Peña Nieto government’s response to the critics is to point out that oil prices in Mexico are relatively cheap in comparison to similar economies around the world. “They have said that the price increases are the bitter medicine that we must take now in order to reap the benefits down the road, and that the elimination of subsidies will result in strong savings for the public treasury.”

The protests and blockades that took place before and after the new gas prices were implemented forced Peña Nieto to hold a special press conference at the presidential residence of Los Pinos on Jan. 4 to explain the decision. Calling the measure “painful and difficult,” the president said, “If we had not taken this step now, the future consequences and effects would have been even more painful.”

To make matters worse, serious shortages of gasoline were reported in at least 10 states during the last days of December. The shortages were most noticeable in the states of Aguascalientes, Guanajuato, Michoacán, Zacatecas, Oaxaca, Chihuahua, Guerrero, Morelos, Jalisco, Puebla, Tlaxcala, Durango, and San Luis Potosí.

Government officials blamed the shortages in part on panic buying, a situation that was only worsened by blockades in these states. Officials also attributed the tight supplies to the theft of fuel from some distribution sites. The theft of fuel from pipelines and distribution centers is a problem that the government has been unable to solve despite increased security and other efforts to address the problem (SourceMex, Jan. 6, 2010,April 18, 2012, May 20, 2015). The higher prices and shortages have only contributed to additional thefts. According to a report on the national television network Televisa, resellers were offering Magna grade on the black market in Puebla at 9 pesos (US$0.40) per liter, which is about 40% below the price at the pump.

**Inflation becomes a concern**

The increase in gasoline prices have led to concerns about inflationary pressures, even though officials have offered reassurances that any increases in the cost of goods and services would be minimal. The central bank (Banco de México) had targeted annual inflation at 3% for 2017, but consumer prices have already far surpassed that level because of depreciation in the Mexican peso. The Mexican currency has been hammered by concerns about the impact of US President-elect Donald Trump “economic policies on Mexico (SourceMex, Nov. 16, 2016, and Dec. 7, 2016).

Analysts said the increase in gasoline prices exacerbates the inflation concerns, prompting some financial organizations to raise their forecasts for consumer prices. Grupo Financiero Banorte, for example, raised its estimate to 4.7% from 4.3% after the rise in gasoline prices. The brokerage
company Grupo Finamex also plans to raise its inflation projection to 4.5% from a previous estimate of 3.7%.

“In the very short term, these [price increases] will result in inflationary pressures for consumers throughout 2017, and we’ll see a deceleration of internal demand,” Banorte economist Alejandro Cervantes told Reuters.

Observers said the higher prices would hurt working families. “The timing of the [increase in gasoline prices] enacted by the SHCP comes at a bad moment for Mexico,” said the online news site SinEmbargo.com. “According to the [poverty monitoring organization] Consejo Nacional de Evaluación de la Política de Desarrollo Social (CONEVAL), one of every five persons in Mexico received a minimum wage that was so low that they could not acquire the basic goods.”

Some business organizations were also concerned about the impact of the higher gasoline prices on the productive sector and on consumers. Oliverio Cruz Gutiérrez, a delegate for the bread industry chamber (Cámara Nacional de la Industria Panificadora, CANAINPA) in Michoacán state, said the higher cost of fuel would cause the price of bread to increase by 20%.

In Mexico City, the organization that represents small businesses (Cámara de Comercio, Servicios y Turismo en Pequeño de la Ciudad de México, CANACOPE-SERVYTUR) projected that the price for the basic basket of consumer goods would increase by 10% in the capital once the higher fuel prices are passed on to consumers.

“We are concerned that the government is passing on the cost of the higher fuel prices to the consumer,” said the employers’ organization Confederación Patronal de la República Mexicana (COPARMEX). COPARMEX argued that the government could bring down the price of gasoline by reducing the excise tax (Impuesto Especial Sobre Producción y Servicios, IEPS), which accounts for 40% of the final cost for gasoline. “We have to think about a reduction of 50% from its current level,” COPARMEX president Gustavo de Hoyos Walther said in an interview with Aristegui Noticias.

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