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Mexican Government Keeps Gasoline Prices Unchanged in First Half of February

by Carlos Navarro
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The Mexican government announced at the beginning of February that the price of gasoline would remain unchanged for the first half of the month, a welcome development for consumers who were reeling from a hike of up to 20% in some areas at the beginning of the year (SourceMex, Jan. 4, 2017). The increase, a function of the government’s efforts to tie the retail price for gasoline in Mexico to the free market, was one of several price hikes anticipated for 2017. The move to free up prices was linked in part to the elimination of subsidies.

In announcing the decision, officials initially insisted that prices were responding to market conditions and not to pressure from consumers and opposition political parties. The initial round of increases in January was met with intense and sometimes violent demonstrations in many parts of the country to protest what critics described as the gasolinazo.

Officials at the finance ministry (Secretaría de Hacienda y Crédito Público, SHCP) later acknowledged that some subsidies were injected into the market to keep the price stable for Feb. 4-17. By lowering the tax on production and services (Impuesto Especial sobre Producción y Servicios, IEPS), the SHCP was able to keep gasoline prices from increasing. “We reduced the tax rate slightly, using excess earnings,” said Miguel Messmacher, deputy secretary for revenues at the SHCP. “If we hadn’t made any modification to the IEPS during the first week of February, the price of Magna grade gasoline would have increased 70 centavos (US$0.03) per liter.

With the price structure unchanged through Feb. 17, the maximum cost at the pump will stay at 15.99 pesos (US$0.78) per liter for Magna grade, 17.79 pesos (US$0.83) per liter for Premium grade, and 17.05 pesos (US$0.83) for diesel. Beginning on Feb. 18, changes in gasoline prices will occur on a daily basis. The SHCP will report what the prices are, and the Energy Regulatory Commission (Comisión Reguladora de Energía, CRE) will publish them on its website. When the gradual freeing of fuel prices begins on March 30, existing prices in all regions of the country will be announced on the official CRE site.

**A domino effect**

An increase in the cost of gasoline could have repercussions on inflation, raising the cost of basic foodstuffs and other essential products for low- and middle-income families. For example, the initial increase of 20% in fuel costs in January caused an increase of as much 20% in the price of tortillas during the month. According to news reports, the price of tortillas increased by 1 to 3 pesos (US$0.05 to US$0.14) per kilogram after the hike in gasoline prices.

“With increases as high as 18% to 20% in the price of tortillas, the print media and the social networks began to use the term tortillazo along with gasolinazo, especially after the [price monitoring agency] Sistema Nacional de Integración e Información de Mercados (SNIIM) reported increases above the average price of 13.12 pesos (US$0.64) per kg. in seven of every 10 cities,” said...
Proceso.com, which is published by the weekly news magazine Proceso and the daily news agency Agencia de Noticias Proceso (APRO).

Officials for the tortilla industry said they are working to prevent sharp increases in the price of the Mexican staple. “We are waiting to see how prices behave so we can develop a joint strategy to achieve savings, including common purchases, to attain savings in the face of increases in the price of gasoline, heating oil, and electricity,” said Lorenzo Mejía, president of the Unión Nacional de Industriales de Molinos y Tortillerías (National Union of the Mills and Tortilla Makers Industry, UNIMATAC).

Some observers said the most important task for President Enrique Peña Nieto, whose popularity has sunk due to the gasolinazo, is to ensure that gas prices do not get out of hand, which could have negative repercussions for the nearly half of Mexico’s population that lives in poverty. In addition to foodstuffs, the gas prices could affect public transportation, utilities, and other costs, sources said.

“If the cost of mainstays of the Mexican diet such as tortillas, eggs, milk, and chicken starts to soar, an already unpopular government can expect snowballing protests,” the British newspaper Financial Times said in mid-January.

**Electricity prices rise for industry, high-use consumers**

While the SHCP managed to keep the price of gasoline from increasing during the first half of February, the price of another important source of energy—electricity—went up for the second consecutive month for commercial and industrial consumers and for high-use residential customers.

Even though the price increase did not affect most residential users, the increase to industry could have repercussions on consumers as the business sector passes on the price hike to them.

In January, the government-run electrical utility Comisión Federal de Electricidad (CFE) increased electric rates for the industrial sector by as much as 4.5%, and for the commercial-retail sector by up to 3.5%. The cost for high-usage residents (Tarifa Doméstica de Alto Consumo, DAC) was raised by 2.6%. In February, the same rates increased by as much as 8.4%, 5.8%, and 3.8%, respectively.

According to the CFE, a double-digit increase in the cost of natural gas in January was the main reason for the hike in the price of electricity that month.

“The adjustment ... is related to the increases in the cost of fuel,” the CFE said in a press release. “The price of natural gas that the CFE uses to generate electricity increased by 77% in December of 2016 in comparison with the same period in 2015 ... These prices are used in the formula developed by the SHCP to calculate electricity rates.”

According to the CFE, power bills did not increase for 99% of Mexican consumers in January.

“The electricity rates for low-consumption clients remain the same despite the increase in the cost of fuel used to generate electricity and the depreciation of the peso in relation to the US dollar,” the CFE noted in January when the first increase was implemented.

If electricity prices continue to increase, some observers say, the high costs could contribute to price hikes for consumer goods at the retail level.
“Electricity is expensive in Mexico,” energy consultant Jarrett Leinweber wrote in the English-language news site Mexico News Daily on Feb. 4. “On average, electricity prices are 25% higher than in the United States and Canada for commercial and non-subsidized residential users.”

According to Leinweber, whose expertise is renewable energy, the cost of electricity increased between 22% and 35% for businesses in 2016 and by 22% for users that pay the Tarifa DAC. The CFE created the DAC to encourage energy conservation and penalize high consumption. Clients who consume more electricity must pay higher rates. “DAC must be avoided at all costs,” said Leinweber. “It is the most expensive utility rate in Mexico and remains one of the highest utility rates in all of North America.”

Production of renewable energy in 30 countries around the world now costs the same or less than electricity produced by fossil fuels, according to a recent report from the World Economic Forum. For Mexico, increased investment in alternative energy could help reach this grid parity. The secondary laws that were approved in relation to energy reforms enacted in 2013 stipulate that Mexico must meet at least 25% of its electricity needs through sources other than hydrocarbons, coal, and natural gas (SourceMex, Dec. 18, 2013, Aug. 6, 2014, Dec. 2, 2015).

“Mexico is one of the sunniest countries in the world. The overall cost to install a solar system in Mexico is about 35% less compared with the US and Canada,” said Leinweber. “This, combined with rising power prices, makes generating and consuming clean, solar energy less expensive than purchasing it from the grid.”

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