Mexican President Proposes Opening State Oil Company To Private And Foreign Investment; U.S. Corporations Line Up To Return

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Mexican President Enrique Peña Nieto and his Institutional Revolutionary Party (PRI) have proposed constitutional changes and legislation that would for the first time since 1938 allow foreign companies to explore for and produce oil in Mexico. While this is not the full-scale privatization of the oil industry desired by conservative business interests in Mexico and by U.S. and other foreign oil companies, it is a big step toward opening up the industry in a country where the government's ownership of the oil has been virtually sacrosanct. Even with these dramatic changes, the state-owned Mexican Petroleum Company (PEMEX) will, at least in theory, remain the dominant force in the Mexican oil industry. The oil industry proposal is also linked to opening up the electric power industry, and legislation on that will also be forthcoming from the president.

The president, the PRI, and other parties argue that permitting private and foreign investment is necessary in order to fund the industry's modernization. At the same time, Exxon, Chevron, and Royal Dutch Shell have expressed their interest in participating in the Mexican oil business. For some this will be a return to the oil fields that they once controlled 65 years ago, before Mexico nationalized the industry. One could say that the greatest achievement of the Mexican Revolution of 1910-1940 is being reversed as profits from the country's most precious resource will again flow into the coffers of U.S. corporations.

A Clever Strategy

Peña Nieto has cleverly positioned his party and his proposal, which calls for sharing profits with foreign companies, midway between the conservative National Action Party (PAN), which has called for privatizing the company through the sale of shares or the granting of concessions, and the left-of-center Party of the Democratic Revolution (PRD), which rejects any measures that would open the company to large-scale private and foreign investment. Andrés Manuel López Obrador who was the PRD's second -place presidential candidate against Peña Nieto in 2012 and has since gone on to form his own political organization, the Movement for National Regeneration (MORENA) also strongly opposes Peña Nieto's proposal. Peña Nieto's plan, which will radically transform the Mexican oil industry if it passes, thus appears to be the more moderate of the two alternatives now put before the Mexican Congress.

The president can expect to win enough support not only from his own PRI, but also from the PAN, and probably also from enough PRD legislators to pass the constitutional amendments and new laws that are needed to make his proposal a reality. The Green Ecologist Party (PVEM), which despite its name is a satellite of the PRI and not an authentic Green party, will also support the measure. The leftist Workers Party (PT) of Maoist origin and the middle-class Citizens Movement (MC), which together have only a few votes in Congress, are intransigent opponents who have called the idea of opening up the industry to private, foreign investors "treason."

Continuing the Neoliberal Trend

The proposal of Peña Nieto continues the neoliberal policies initiated by President Carlos Salinas de Gortari (1988-94) who carried out the privatization of hundreds of the approximately 1,000 state-owned companies that existed when he came to office. Salinas sold off to private and foreign investors, among many other enterprises, the Mexican National Railroads to Southern Pacific and Kansas City railroads—and the Mexican Telephone Company (TELMEX) to a consortium comprising Mexican magnate Carlos Slim, France Télécom, and Southwestern Bell Telephone. After Salinas, the drive to continued privatization stalled, largely because of the tremendous national sentiment in favor of retaining the country's oil in the government's hands and the existence of an organized movement against privatization.

Why is Peña Nieto now in a position to procede with privatization where other PRI and PAN presidents have failed? First, Peña Nieto, as we have argued before, is on a roll. Even before becoming president, he succeeded in getting the major opposition parties to join his own in the "Pact for Mexico," a political compact based principally on a series of political and economic reforms which he then moved ahead to pass. Since being elected president he has succeeded in passing a Labor Law Reform bill, an Education Reform bill, and then a highly contested Telecommunications Reform Bill. He jailed on charges of embezzlement the controversial labor and political leader Elba Esther Gordillo, the head of the Mexican Teachers Union (el SNTE). He has also proposed to give pensions to all Mexican workers over 65 years of age, though that has yet to become a bill. These reforms and proposed reforms have been popular with large sections of the Mexican elite and middle class as well as with much of public at large, giving his administration tremendous momentum at this time.

Second, the left opposition to privatization has suffered a series of defeats. The principal party with a nationalist economic program, the PRD, has seen its candidates Cuauhtémoc Cárdenas and López Obrador go down to repeated defeats in national elections several times (though two of those defeats, one for Cárdenas in 1988 and one for López Obrador in 2006, may have been the result of fraud). The nationalist economic program has been rejected overwhelmingly by the voters.

At the same time, the anti-privatization movement has suffered a defeat. The Mexican Electrical Workers Union (SME) that headed up the National Front against Privatization was virtually destroyed by former President Felipe Calderón of the PAN when he used police and army troops to occupy the Mexican Electrical Company facilities, liquidated the company and fired 44,000 workers in 2009. With the SME preoccupied with fighting for the jobs of the 16,000 members who did not accept their severance, the front has been dormant. Calderón also persecuted Napoleón Gómez Urrutia, head of the Mexican Miners and Metal Workers Union (SNTMMRM), forcing him into exile in Canada while working with Grupo Mexico mine company to destroy the important union local at the Cananea Copper mine, thus keeping that union too preoccupied with defending itself and making it less likely to take up the privatization issue.

Back to the Future

Mexican oil was once in private hands, the very hands that today desire to return. Oil was first discovered and developed in Mexico in the period between 1900 and 1910. The two biggest figures in the industry at the time were the American Edward L. Doheny owner of the Huasteca and Mexican oil companies, and by the Englishman Weetman Pearson, Lord Cowdray, who created the Mexican Eagle Petroelum Company. Doheny sold his interest to the Standard Oil Company of New Jersey and Lord Cowdray sold his to Royal Dutch Shell.

So, by the 1920s Mexican oil was in the hands principally of those two and a number of other foreign oil companies. Mexican communities in the *Faja de Oro*, the Gold Belt along the Gulf Coast, feel aggrieved by the foreign companies because of the environmental damage they caused, while workers experienced intense exploitation and low wages, as well as segregation that kept them from moving into skilled or management positions. The country as a whole resented the fact that so many of Mexico's natural mineral and petroleum resources as well as its industries and agricultural exports were in the hands of foreign capital, mostly American, English and French.

The Nationalization of the Oil Industry

The Mexican Revolution of 1910 to 1940 was fought principally over the demand of the peasants for land taken from them over time by the great haciendas, but it was also a nationalist revolution against foreign ownership of the country's resources and industries. In 1917, the Constitutionalist forces led by Venustiano Carranza called a convention at which the Constitution was rewritten. Article 27 of the new Constitution of 1917 stated that the nation owned the natural resources and held the power to expropriate them, though it required indemnification of the former private owners. President Plutarco Elías Calles ordered the foreign companies to register their properties and limited their concessions to 50 years, but under constant threat of invasion by the United States throughout the 1920s, Mexican leaders hesitated to act on their legal right to nationalize until 1938.

President Lázaro Cárdenas (1934-1940), taking advantage of the European War, finally acted to nationalize the oil industry on March 18, 1938, paying the foreign corporations on the basis of the low estimates of value they had earlier presented to justify their low tax payments. While Soviet Russia had earlier nationalized the Baku oilfields in 1918, Mexico's was the first major Latin American nationalization of oil, followed later by Argentina in 1949, Brazil in 1953, and Venezuela in 1976. (Argentina had actually fisrt nationalized its oil fields and created a state oil company in the period of 1918-1922, but at that time its oil industry was not very significant.))

The Power of PEMEX

Mexico's nationalized oil fields, pipelines, port facilities, and refineries were combined into the Mexican Petroleum Company (PEMEX) which came to be the largest and most important sector of the country's economy for several decades. Only since the 1980s have manufacturing, tourism, and out-of-country workers' remittances come to represent as large a proportion of the economy. PEMEX is today the world's seventh largest oil concern. Some 70 percent of PEMEX profits are turned over to the Mexican government to meet its budget, making up one-third of the government's entire revenues. Critics of Peña Nieto's plan for private and foreign participation in the industry argue that if the government taxed the wealthy and the corporations appropriately it would not have to rely upon PEMEX; and that by taking the company's revenues for government operating expenses, it has kept PEMEX from modernizing.

PEMEX incomes and expenses have always been surrounded by mystery because the highly corrupt corporation has been such a source of embezzlement by politicians, government officials, labor union leaders, and organized crime. PEMEX collects dues for the corrupt and authoritarian Mexican Petroleum Workers Union (STPRM), lets contracts to the union, and makes other payments. Many union officials are involved as individuals in business deals with the company or its officials. Union officials sell union jobs to workers who also become beholden to the officials who hired them.

The most famous recent case of PEMEX and STPRM corruption was Pemexgate, when the PRI illegally ordered the STPRM to support the presidential campaign of Francisco Labastida in 2000. Those accused were not found guilty of the most serious charges, though some were found guilty of electoral fraud; the PRI was fined US$90 million for its role. Company and union officials also work with criminal organizations that siphon petroleum out of the pipelines. How many hundreds of millions of dollars flow out of the oil fields and into the pockets of parasites all along the line may never be known, but the sums must be astronomical.

Peña Nieto’s constitutional and legislative changes opening up Mexico’s oil industry to private and foreign investors will not solve the economic problems of the majority of Mexicans, but it will create an opportunity for a lot of business people in Mexico and in America of make money. As we wrote at the opening of this article, in a sense, the Mexican Revolution’s most historic achievement is being undone. The oil may still formally belong to all of Mexico, but its wealth will accumulate in a few hands there and in the U.S.