Mexican government introduces bill to open up oil industry to foreign companies

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On Monday Mexico's ruling Institutional Revolutionary Party (PRI) unveiled legislation to allow the national oil company, Petróleos Mexicanos (Pemex), to enter into joint ventures and share profits with foreign oil companies to find and produce oil and natural gas.

The bill also seeks to open Mexico's national electric company to competition by allowing private firms, which presently must sell output to the government company, to directly produce and sell electricity to consumers.

The Mexican government also seeks amendments to the constitution to accomplish these ends.

The government touted the proposal as the biggest overhaul to the economy since the 1994 North American Free Trade Agreement (NAFTA). It claims the measures will spur economic growth by attracting billions of dollars in investment, improve competitiveness by lowering energy prices for domestic manufacturers and otherwise spur the rise of Mexico as a major economic power, at a time when other emerging powers such as Brazil are struggling.

In 1938 Mexican president Lázaro Cárdenas responded to seven months of strikes and occupations at the Shell and Standard Oil refineries and predatory conduct on the part of US and British oil conglomerates by nationalizing the Mexican oil industry under workers' management, through the oil workers' union. By making concessions to the working class, the Mexican bourgeoisie was able to obtain a measure of freedom from imperialist governments and foreign capitalists.

At the time, Article 27 of the Mexican Constitution was amended to provide that all natural resources were the property of the "nation" and that private exploitation could only be carried out through "concessions."

In 1960, this provision was further amended to provide that in the case of petroleum, and solid, liquid, or gaseous hydrocarbons, "no concessions or contracts will be granted."

This was the era of the "import substitution" model of growth, when the Mexican ruling elite pursued a policy of relative economic nationalism. Between 1950 and 1980 per capita GDP more-or-less tripled in Mexico.

These policies unraveled under the pressure of globalization, beginning in the 1980s, the proverbial "lost decade" for the Mexican economy. Despite a modest rebound since the mid-1990s, growth productivity has been sluggish for the last several decades. Mexico's per capita growth has only averaged a meager 1.1 percent annually over the last 25 years.

By the 1990s, the Mexican bourgeoisie turned to opening up the economy to international capital, including foreign oil interests. A backdoor form of privatization took place in stages through Pemex's contracting out to privately owned foreign companies and increasing shares of well drilling, maintenance and repair.

During the last decade, Pemex service companies were paid to do everything from exploration to drilling. Schemes were introduced by which contractors were paid according to the amount of oil produced, scaling payment to production. These fees were expressed as dollars per barrel, but not a share of the oil or gas produced, and with no relation to the price of oil on the international market.

As old fields became depleted, Mexican oil production fell 25 percent over the last ten years, and Mexico slipped from 7th to 10th largest producer of crude oil in the world.

The decline came even as Pemex ramped up annual investment spending fivefold to $20 billion a year over a decade ago. The federal government relies on royalties and taxes from Pemex for over a third of its revenue, limiting further investment. Remarkably, Mexico now imports half of its gasoline and natural gas.

Pemex has increasingly become tied to the profit interests of its bond holders—finance capital, the privately owned banks and institutions that own its debt—as well as its private contractors.

Declining production requires a turn to deep-water reserves in the Gulf of Mexico, and the world's fourth biggest reserve of shale oil and gas. These combined reserves are estimated at over 80 billion barrels.

Exploiting these reserves requires a huge injection of capital and the most advanced technologies, which only the oil majors presently have. The Mexican ruling elite has now decided to orient itself to the latter.

Mexico's rulers also seek a huge increase in production to supply the burgeoning energy needs of China and India, at a time when US oil imports from Mexico are declining.

In introducing the legislation, President Enrique Peña Nieto said the government would not give oil firms a share of the oil, but rather the cash equivalent of the oil they find and produce. In other words, Mexico will keep ownership of the reserves and instead share profits with oil companies that find and produce the oil. "The reform neither promotes nor contemplates production-sharing contracts" Peña Nieto insisted.

Such profit-sharing is similar to arrangements offered in Ecuador, Iran, Iraq and Malaysia. Iraq and Malaysia also offer production sharing; Brazil and Norway go further, allowing companies to own the oil itself.

The 1938 nationalization of the oil industry has been touted as the country's greatest accomplishment in school textbooks for decades. Workers in Mexico continue to view it as a blow against the domination of foreign capital. A recent national poll showed that 65 percent of Mexicans continue to oppose foreign investment in Mexico's petroleum industry.

Peña Nieto was forced to soft pedal the legislation in a televised address from his official residence on Monday. "What it seeks to do is reach profit-sharing contracts which allow the nation to keep total control over the oil," he insisted, saying that oil and gas reserves would remain under the exclusive ownership of the state.

"Pemex is neither being sold nor privatized," he insisted. Peña Nieto went out of his way to hail former President Cárdenas, who he mentioned eighteen times in his presenting his overhaul proposal.

Peña Nieto argued that his proposal was in the spirit of Cárdenas' reformist intentions, saying that the former president had originally intended Pemex to be able to work with foreign companies, given that the 1938 constitution permitted "concessions"; such partnerships only being prohibited by the constitutional amendment in 1960.

In the same breath, however, that Peña Nieto sought a constitutional amendment to again permit concessions, he denied concessions would be granted under the legislation.

"In no way is it a privatization. It is opening up the possibility for private capital to join public policies ... without going as far as concessions," added Cesar Camacho, chairman of the PRI.

Taking to the airwaves, Finance Minister Luis Videgaray said the government rejected the model of granting concessions to private firms as giving up too much of Mexico's control over oil. Mexico would instead opt for profit-sharing as a way for the country to reverse its steep decline in oil production without taking on vast amounts of debt.

The right-wing opposition party—the National Action Party (PAN), which governed Mexico from 2000 to 2012—said it would support the proposals, although it would prefer permitting investment by foreign capital in shares of Pemex and outright ownership of oil.

This support will give Peña Nieto's PRI the two-thirds majority it will need to pass the constitutional changes. After that, seventeen of Mexico's 32 state and Federal District legislatures must approve the amendment.

Fearing popular opposition, Mexico's center-"left" party, the Party of the Democratic Revolution (PRD), opposes amending the constitution as unnecessary, but seeks substantially similar results. PRD Chairman Jesus Zambrano said the party would introduce its own reform proposal, which would instead stick with existing service contracts and call for changing Pemex's tax structure so it could finance operations itself, instead of funneling profits to the government.

The PRD's founding father, Cuauhtémoc Cárdenas, the son of the former president and a three-time failed presidential candidate, said he was opposed to using his father's image to sell the reform. He also said he thought it would give too much control over Mexico's oil to private interests.

Cárdenas, who is still seen as the "moral" leader of the PRD, said "I'm against it. And that means doing everything possible to stop it."

Cárdenas supports the PRI program, along with a crackdown on the notorious corruption that has accompanied the awarding of service contracts by Pemex and the oil workers' union bureaucracy. The head of the union is a confidant of the new president and is expected to support the PRI proposal.

Former PRD member Andrés Manuel López Obrador, who lost the past two presidential votes, called the bill "treason" and pledged to mobilize his supporters in the street to stop it, as he did when he said he was fraudulently deprived of the presidency the first time he ran. The government's reform plan he said was "the robbery of the century."

This is typical empty demagogy from López Obrador. But the privatization of Pemex will inevitably spark strong opposition among masses of workers in Mexico. At a recent rally, for example, Jesus Castillo Sanchez, a 46-year-old handyman, told reporters that booting out the foreign oil companies in 1938 "gave Mexico its true independence from the great powers. After [the foreigners] bring their oil platforms, they will bring their armies and their troops."

The initial reaction of big oil and oil analysts to the proposals was mixed.

"It is more conservative than what some people would have liked, but maybe that's a good thing" to avoid inflaming nationalist sentiment, said John Padilla, managing director of energy consulting firm IPD Latin America. "Assuming this is passed, then the hard work begins on the details."

Others expressed disappointment that the plan did not give private oil companies outright ownership of oil fields via concessions.

Mexico will limit the number of players it allows to explore and drill on its territory to major companies with the technological expertise for deep water projects and shale drilling, such as Exxon, Shell and Chevron.

"As with all the investment opportunities we consider around the world, factors such as economic returns, stability of the investment climate and sanctity of contract are central to any decisions we make," Chevron spokesman Kent Robertson said, declining further comment. Shell said Mexico could benefit from working with energy companies, but also declined further comment; Exxon likewise refused to issue a statement.

In fact, given the relatively familiar geology and operating conditions of Mexico versus the Arctic or politically unstable regions of Africa and the Middle East, major oil companies, and their governments, are chomping at the bit.