Mexico’s state oil company sacks thousands of workers

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In the first week of January, the Mexican state oil company, Petroleos Mexicanos (Pemex) canceled drilling and other outsourced service contracts, requiring the sacking of 10,000 oil workers in the Campeche Bay area of the Gulf of Mexico. According to *Bloomberg*, job losses in the region could reach 50,000.

The cancelations, which Pemex itself described as an “austerity” measure, arose from its attempt to cut production costs amidst tumbling prices for crude oil. The price of Mexico’s crude fell to $48 a barrel last week, down 47 percent from a year ago.

Although the Mexican Finance Ministry has hedged export prices for the coming year at $76 a barrel, the hedge’s success is dependent on the counterparties to those contracts making good on them. And after 2015, export prices will be subject to the unrestrained turbulence of the market.

The cuts in servicing contracts announced earlier this month are meant to insure that bidding by foreign oil companies for production licenses and other energy rights will proceed under Mexico’s energy overhaul.

Under Mexico’s energy legislation, Pemex will keep about 80 percent of existing oil and gas assets. Private oil firms will bid for licenses to exploit the rest in auctions slated to begin in July. Pemex will also engage in joint ventures on its own holdings with private companies.

Despite the plunge in crude prices, on Friday Pemex’s chief executive officer Emilio Loyoza said that Pemex would press ahead with the schedule for taking open bidding for licensing rights. Loyoza emphasized his belief that low Mexican production costs, about $22 a barrel, would attract bidders despite an expected drop of upwards of 20 percent in global exploration and production spending this year. Sacking tens of thousands of workers was meant to advertise to investors that Pemex is serious about lowering costs.

Loyoza told *Bloomberg* that the company intends to slash its spending by between $2 billion and $3 billion this year by reducing purchases and contractor rates.

Loyoza also said that Pemex would accelerate the timing of its joint venture offers, and offer foreign partners larger shares in the ventures than previously announced.

The job cuts announced were also critical to the success of the sale by Pemex on Thursday of $6 billion in bonds, the biggest dollar bond offering so far this year in the dollar-bond market, and the largest bond offering in Mexican history.

The bonds are due in three tranches—in 2020, 2026 and 2046. Pemex was forced to offer a yield 2.35 percentage points higher than U.S. Treasury bonds for 2020, 3.8 percent higher for 2026 and 3.3 percent higher for 2046. The spread on 2026 debt was almost one percent higher than three months ago.

Pemex’s debt already reached a record $74 billion in September. It has projected $15 billion in net borrowing for 2015. These are huge sums that put the entire company at substantial risk of default, especially given the instability in crude markets.

Historically, Pemex provides about a third of the Mexican federal budget. In the past, the government obtained this revenue from Pemex though taxes and royalties, but such payments declined by 22 percent in 2014. So at the end of December, Mexico’s Finance Ministry simply grabbed $3.4 billion from Pemex. This put even more financial pressure on the company and reveals the instability underlying the entire Mexican economy.

The Mexican Secretary of the Economy, Ildefonso Guardado, tried to sugarcoat the mass layoffs, claiming that new enterprises participating in the opening up of the energy sector would hire many thousands of new workers in high paying jobs. But in fact, the recent sackings are just part of a more comprehensive plan to impose the costs of the energy overhaul on the backs of workers.

A key part of those attacks involve an attempt to slash unfunded oil workers' pensions, which Finance Minister Luis Videgaray has pegged at $129 billion on an actuarial basis, or 10 percent of GDP. Some of these liabilities will be transferred to the federal government. The actual amount depends on how much Pemex and the oil workers union agree to reduce these obligations. This involves raising the workers' retirement age from 55 to 65, and cutting other benefits, in addition to other measures.

The oil workers union is notoriously corrupt. Its head, Carlos Romero Deschampos, reportedly lives an ostentatious lifestyle. According to Facebook postings, his daughter likes to jet around the world and puts her pet bulldogs in luxury hotels.

The union bureaucrats were able to continue their pillaging by backing the energy reforms. However, the ruling PRI party has refused to water down the call to slash pensions. This will leave the union heads facing an increasingly angry membership.

Meanwhile, Finance Minister Videgaray told Mexican radio last week that the drop in crude prices is likely to force the government to cut public spending across the board next year. "We need to start preparing ourselves for the adjustment," he said. "We're left with only one option, and that's reducing public spending."

With the government of President Enrique Peña Nieto already facing massive social opposition sparked by the state's role in the murder and disappearance of protesting students in the southern state of Guerrero, the prospect of mass job cuts and the slashing of public spending poses a far more explosive development of the class struggle in Mexico.