Presidential frontrunner López Obrador backs off threat to undo Mexican oil privatization

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When he ran for president in 2006 and 2012 as the candidate of the once center-left Party of the Democratic Revolution (PRD), Andrés Manuel López Obrador (AMLO) raged against privatizing Pemex (Petróleos Mexicano), the Mexican state oil company, which had held a monopoly over crude production since 1938.

In the 2012 election campaign, López Obrador called the plan of the current Mexican president, Enrique Peña Nieto of the Party of the Institutional Revolution (PRI), to invite foreign oil giants to enter into profit-sharing and production contracts with Pemex "the robbery of the century," which he said would cost Mexico $40 billion a year.

In December 2012, when the PRD signed on to Pena Nieto's "Pact for Mexico" to liberalize the Mexican economy, the centerpiece of which was energy privatization, AMLO left the PRD to found his present political party, the Movement for National Regeneration (Morena). He rightly accused the PRD of abandoning the last of its social democratic pretensions.

When the Mexican Congress in 2013-2014 enacted sweeping legislation and changes to the Mexican Constitution in order to implement the energy reform, López Obrador called them a "band of criminals." He led tens of thousands into the streets of Mexico City in protest.

At that time, AMLO emphasized that only 20 countries in the world had oil, and that without its patrimony Mexico would be "left with nothing." He warned that if Mexico bought foreign gasoline instead of making it at home, Mexicans would pay 30 percent more for it. He projected a loss of $30 billion a year, which he said would starve the public budget of money needed for infrastructure projects, higher salaries for teachers and doctors, and social programs such as initiatives to reduce hunger and poverty.

The 2013-2014 legislation allowed output-sharing contracts and licenses for private oil producers to operate in Mexico, so that foreign oil giants could ship the oil to their own refineries. Starting in 2015, Mexico awarded 91 exploration and development contracts to international oil giants such as Royal Dutch Shell PLC, Chevron Corp. and Exxon Mobil Corp.

After announcing his current run for president last year, AMLO warned that the "fall in [Mexican oil] production must be stopped—if not, we will end up buying crude oil, and we can't have that." He called for two more refineries to be built, in the oil producing states of Tabasco and Campeche, so that Mexico would not have to continue importing more than half the gasoline it consumes.

In September, López Obrador shook Pemex and the foreign oil industry, promising to "review all contracts" for foreign oil exploration and production.

However, no sooner has the Mexican presidential election gone into full swing than AMLO has backtracked on almost all of these prior pronouncements. Over the last two weeks, AMLO's chief election advisers have been united in broadcasting a different message to the country's energy industry and foreign investors: You have nothing to worry about.

"It would be an error for the next administration to cancel all that has been accomplished in this one," said Abel Hibert, chief economic adviser to López Obrador in a Mexico City interview last week. "We are changing the perception that we are closing the door on the energy reform and all the economic benefits it has provided," he added.

Hibert, who has drafted López Obrador's 2018-2024 "governance plan," assured that there would be "no drastic change" to the opening up of the energy industry. He called the crude auctions held since 2015 "very transparent" and "beneficial to the country's energy and economic future."

Hibert minimized the significance of any review of oil contracts as a routine "part of the process for any incoming administration." As to future contracts, at most a López Obrador administration might "reduce the speed" of the auctions as the new government settles in.

Hibert's comments echoed those of López Obrador's top business adviser, Alfonso Romo, and his projected choice for finance minister, Carlos Urzua, who have both said the oil contracts would be “respected.”

AMLO’s chief advisers in essence are signaling that all that is left of Lopez Obrador’s prior energy platform is that he would still seek to build two new refineries in order to increase Mexican gasoline production and thereby reduce dependence on the US for fuel imports.

Mexico’s six refineries have the capacity to process 1.64 million crude barrels daily, but averaged only 767,000 last year, requiring the highest import levels from the U.S. since 1990. Under AMLO’s development plan, the new refineries would be built using public funding, although Hibert has also mentioned private investor partnerships as an option. Pemex has already sought partners at its older refineries since at least 2016, and hopes to enter into a $2.6 billion deal with Mitsui & Co. at its Tula refinery.

According to Hibert, López Obrador may also suddenly be backing down from his longstanding opposition to the $13 billion project to build a new Mexico City Airport, which he has lambasted as overly costly, and for having been built in a poor location on sinking land. Major investors in the airport object that abandoning the current site could cost Mexico billions in wasted labor and materials, as well as kill investor fees and gut debt restructuring for the project.

President Peña Nieto had long stressed that ending Pemex’s monopoly over oil and gas production was the key to investment in Mexico, not just by foreign oil companies, but also by the giant foreign banks and hedge funds. Foreign investors agreed, such as Laurence D. Fink, head of $5 trillion investment manager BlackRock Inc., who said that the oil legislation would make the nation his favorite international destination for investment. Other financial titans such as the $1.7 trillion bond giant PIMCO agreed, investing heavily in Mexico following the energy legislation.

In March, 2017, the president of the Association of Banks of Mexico, Luis Robles Miaja, who is also a director of major Mexican bank BBVA Bancomer, insisted that López Obrador did not represent a risk for the country or its bankers. Similarly, in June of last year, Spanish bank giant Santander insisted that AMLO could be compared at worst to former Brazilian president Luiz Inacio Lula da Silva—i.e., no threat to foreign investors and banks.

Last week, López Obrador met with executives of major international banks to assuage their concerns over his populist rhetoric.

In conjunction with these meetings, his top aides emphasized that he is pro-market, touting what they call his “newfound maturity.” AMLO “has always been a supporter of the market economy,” insisted Hector Vasconcelos, his foreign policy chief.

These messages calmed concerns of some Wall Street investors, such as Goldman Sachs. Following a Mexico visit by a team of its analysts, the Wall Street giant reported that “in recent weeks AMLO has moderated his public stance…and acted in a statesmanlike manner while appearing presidential. …”

According to this week’s Bloomberg polling, López Obrador is leading all presidential contenders with 40 percent, to 31 percent for Ricardo Anaya, the candidate of the coalition between the right-wing National Action Party (PAN) and the PRD, followed by José Antonio Meade of the PRI with 20 percent.

AMLO has obtained this lead based for the most part on two electoral promises—first, ending the mass corruption infecting Mexico, and second, opposing, if not undoing, the energy reform.

The reform was opposed at the time by upwards of 75 percent of the population, and close to 2 million signed petitions to stop it. Once implemented, it resulted in skyrocketing gasoline prices. This led to the explosion of the mass *gasolinazo* demonstrations in early 2017.

With his current backsliding, López Obrador is exposed as a populist demagogue, that is, a charlatan. In reality, he is a bourgeois politician through and through, who represents no real threat to the financial overlords in Mexico or to American imperialism. Given his class position, he is incapable of pursuing the interests of Mexico’s working class and impoverished masses.