The Extractive Industries and Society 2 (2015) 339–351

Contents lists available at ScienceDirect

The Extractive Industries and Society

journal homepage: www.elsevier.com/locate/exis

Original Article

Surviving privatization in the era of neo-liberalism: A case study of Mexico's oil company (PEMEX)

Richard Huizar *

William Paterson University, United States

ARTICLE INFO

Article history:
Received 25 September 2014
Received in revised form 23 January 2015
Available online 16 February 2015

Keywords:
Privatization
Oil
Mexico
PEMEX
Nationalism

ABSTRACT

Mexico's oil company (PEMEX) is a particularly interesting deviant case study in the context of the privatization literature. The literature on the causes of privatization indicates that PEMEX should have been privatized a long time ago since it is suffering from: declining levels of competitiveness, low productivity, and corruption. Economic variables alone do not explain the lack of privatization of the state-owned oil company. Why was the Mexican oil company, PEMEX, not privatized? I maintain that dependence on oil revenues, economic nationalism, labor union strength, and the role of international actors (the International Monetary Fund, and the United States government) explain why Mexico's oil company remains state-owned.

1. Introduction

There has been much written about the causes of privatization of state-owned companies in Mexico since the country initiated its privatization program in 1982. Since this time, the telephone company (TELMEX), the sugar industry and the steel industry among many other companies have been privatized. Mexico carried out the second-largest privatization program in Latin America surpassed only by Brazil; from 1985 to 1998, it obtained over US$26 billion dollars in revenues from the sale of its state-owned companies (Wilkie et al., 2001, p. 907). However, Mexico decided to leave the state-owned oil company (PEMEX) intact, under state ownership.

The country's oil company is a particularly interesting deviant case study in the context of the privatization literature. The literature which explores the causes of privatization indicates that PEMEX should have been privatized a long time ago since it is suffering from: declining levels of competitiveness, low productivity, and corruption. PEMEX is less productive compared to other oil companies such as Petrobras, Shell and Exxon Mobil. In 2012, PEMEX produced 16.7 barrels of oil per employee per day compared to Petrobras which produced 32.1 barrels of oil per employee per day (Appendix 1). Put differently, the productivity of a Petrobras worker was almost double compared to a PEMEX worker. In addition to low productivity, PEMEX has been associated with various corruption scandals: recent reports indicate that the children of the labor union leader who represents PEMEX's oil workers have been living a lavish lifestyle, spending Mexico's oil revenues (Estevez, 2014; Johnson, 2013). But economic variables alone do not explain the lack of privatization of PEMEX. Why was it not privatized? I maintain that a dependence on oil revenues, economic nationalism, labor union strength, and the role of international actors (the International Monetary Fund, and the United States government) explain why Mexico's oil company remains state-owned.

The first hypothesis is concerned with whether states that are dependent on oil revenues are less likely to privatize the oil sector. I argue that Mexico's reliance on oil rents explains in part why PEMEX has not been privatized. What is common among petro-states is that they have a difficult time taxing its people or have no incentive to tax its citizens because the state relies on oil rents and taxation is unpopular among those who have to pay. Mexico, as with other petro-states, has difficulty collecting taxes from its citizens. Mexico collected, annually, from 1990 to 2007, less than 12 percent in taxes, measured as a percentage of its GDP (Gross Domestic Product), a percentage relatively low compared to other middle income countries such as Chile or Brazil. The relatively low level of extraction has forced the federal government to depend on oil rents. In 2006 oil rents accounted for 39 percent of the total federal government revue. Thus, there is no incentive for Mexico to privatize PEMEX. Why would Mexico privatize the crown jewel?

* Correspondence to: William Paterson University, Political Science Department, 300 Pompton Road, Wayne, NJ 07470, United States. Tel.: +1 973 720 3432.
E-mail address: HuizarR@wpunj.edu

http://dx.doi.org/10.1016/j.exis.2015.01.009
2214-790X/

The losses from privatizing the oil company are very clear to the Mexican political elite, yet at the same time, the gains from privatization are uncertain.

In the second hypothesis, I test whether economic nationalism provides part of the answer as to why the oil sector has not been privatized in Mexico. Knight (1994) defines economic nationalism as "a sentiment, movement, or policy geared to the nationalization of economic resources" (Knight, 1994, p. 138). I argue that economic nationalism explains in part why PEMEX has not been privatized. Economic nationalism remains salient among a majority of Mexicans. Public opinion data indicate that most Mexicans support state-ownership of the oil sector. In 1998, 70 percent of the respondents believed that oil should remain owned by the state. More recent public opinion data indicate that a plurality of the Mexican people still support state-ownership of PEMEX. In a survey conducted in 2008 by the Mexican newspaper *Reforma*, the following question was asked: "Do you agree or disagree that private capital investment should be allowed in PEMEX?" Forty-six percent of the respondents disagreed, and 37 percent agreed (Reporte CESOP, 2008, p. 58). Furthermore, a segment of the political elite in Mexico, especially within the Revolutionary Democratic Party (PRD) support state-ownership of oil. As stated by Cuauhtémoc Cárdenas Solórzano, a founding member of the PRD, "Oil since 1938 became the driving force for the economic development of the country, and above all for its industrialization."[1] For now, a strong sense of economic nationalism in the oil sector among the majority of Mexicans and vocal support from the political left will help maintain PEMEX as a government-owned company.

The third hypothesis measures whether labor union strength in the oil sector has protected the oil company from privatization. Various indicators of labor union strength, such as wages earned per worker, show that the Mexican oil workers' union is stronger than labor unions in other sectors. The Petroleum Workers Union of the Republic of Mexico (STPRM) and its leader Carlos Romero Deschamps are not very popular among the people of Mexico; however, the STPRM remains the most privileged union in the country. I argue that the corporatist relationship that was established with the PRI (Revolutionary Institutional Party) after 1938 when the oil sector was nationalized is still in place. Even though the PRI lost the Presidency in 2000, the STPRM continues to be a pillar of the PRI. The ability of the Mexican oil workers' union to provide political support for the PRI has protected the interest of the oil workers and their leadership. The PRI and the STPRM benefit from the current status of PEMEX as a state-owned company, thus, it is in their best interest to strongly oppose privatization.

Fourthly, I hypothesize that international actors, namely the United States Government and the International Monetary Fund (IMF), pressured Mexico to privatize its oil company during the Mexican financial crisis of December 1994 and January 1995. This was a time when the country was very vulnerable to international pressure because it was about to default on its dollar denominated debt. I conclude that both international actors did not pressure Mexico to privatize its oil company as part of the conditionality agreement to help the country overcome its financial crisis. In a matter of weeks the Clinton administration put together a financial rescue package which totaled US$49.8 billion dollars. The United States lent Mexico US$20 billion while the IMF contributed with US$17.8 billion. The remainder of the funding was provided by the Bank for International Settlements (BIS), which pledged US$10 billion, with Canada and various Latin American nations contributing the final US$2 billion (Sanger, 1995). The United States Government could not ask Mexico to privatize PEMEX because revenues from Mexico's oil exports were used as collateral, as "assured means of payment." Moreover, the United States was concerned about the economic effect that Mexico's financial crisis could have on its own economy. In 1995 Mexico was the third largest market for the United States after Canada and Japan.

Another major concern by the United States Government was the possible effect that the financial crisis could have on the number of undocumented migrants from Mexico moving to the United States. It was estimated that illegal immigration to the United States could increase by half a million people in 1995 if Mexico were to default on its debt. The International Monetary Fund also did not push for the privatization of the oil company because it was aware that revenues from oil exports were being used as collateral. Its officials asked Mexico to continue the implementation of its neo-liberal program. In short, both international actors did not pressure Mexico to privatize PEMEX when it was extremely vulnerable to international pressure during the financial crisis of December 1994 and January 1995.

In the final part section of this article, I discuss the energy reforms that were approved in December, 2013.

2. Dependence on oil revenues

Among many of the challenges that Mexico faces is its low levels of taxation. Measured as a percentage of its GDP, Mexico collected 11.7 percent in 2007. Compared to other Latin American countries Mexico's level of taxation is significantly lower. For instance, in 2007 Argentina collected 17.2 percent, Chile collected 20.2 percent, and Brazil collected 25.1 percent (Fig. 1). What is troubling about Mexico is that between 1990 and 2007, the level of tax revenue did not improve: it remained below 12 percent (Fig. 1). In a country where in 2003, 40 percent of the population lived below the poverty line, and is in great need of professionalizing its armed forces, and investment in public infrastructure, health care and education system, an improved system of revenue collection is needed (Day, 2003). If Mexico has a poor record of tax collection, how can the federal government function? The federal government obtains a large percentage of its revenue from the state-owned oil monopoly.

Given this, I hypothesize that the government has no incentive to privatize PEMEX. In Fig. 2, we can see that in multiple years PEMEX contributed almost 40 percent of the federal government's revenues. In 1987 PEMEX accounted for 43 percent of the federal government's revenues; in 1997, 39 percent; and in 2006, also 39 percent.

In September 2007 Mexico was able to pass a new tax law that was expected to increase the country's tax revenue by 2.5 percent of the Gross Domestic Product (GDP) by 2012 when President Felipe Calderón left office (Malkin and McKinley, 2007). But if recent data on public opinion are any indication, we should expect to see Mexico having a difficult time in collecting taxes from its citizens because in 2003 and 2005, over 75 percent of citizens surveyed believed that taxes in the country are high or too high. Furthermore, over 85 percent of surveyed respondents in 2003 and 2005 reported that they believed that money would not be spent appropriately by their government (Latinobarometro, 1995–2005). Survey data for 1998 and 2004 also revealed that the most common responses to why people do not pay their taxes are because corruption is very prevalent in the government and taxes are too high. In 2003, 75 percent of respondents replied that in Mexico taxes were high or too high (Latinobarometro, 1995–2005). The same question was asked in 2005 and the response was very similar to 2003: 77 percent of the respondents believed that in Mexico's taxes were either high or too high (Latinobarometro, 1995–2005).

[1] Cuauhtémoc Cárdenas Solórzano, interviewed by author, Santa Barbara, California, February 6, 2007.