

The Mexican Energy Sector's Bumpy Road

A CONVERSATION WITH VICENTE FOX,
FORMER PRESIDENT OF MEXICO

In March 2010, Yale postgraduate fellow Matthew Blomerth studying in Mexico sat down with former Mexican head-of-state, President Vicente Fox, at his presidential library to discuss challenges that Mexico faces due to its high reliance on oil sale revenues at a time of rapidly diminishing production.

The former president, clad in cowboy boots, displayed his characteristic mixture of geniality and bluntness throughout a revealing conversation about the status of Mexico's energy sector. The first question posed to Fox had to do with the state of Mexico's state oil monopoly, Petróleos Mexicanos (Pemex). President Fox listed a number of systemic problems that contributed to Pemex's inefficiency during his presidency. The former president particularly stressed problems caused by the national oil workers' union and heavy government interference.

YJIA: Were you satisfied in general with the efficiency and operation of Pemex while you were president?

President Vicente Fox: Absolutely not. I think administratively, strategically, and in any other matters related to quality, efficiency, and productivity, [the operation of Pemex] is extremely poor. The industry is still highly controlled by the union. [It is] very difficult to break the union [which is] highly politicized. It has to be a step-by-step process [of] taking control away from the union in specific matters. I am absolutely convinced that Pemex could increase its efficiency and productivity by doubling or tripling [their current level of production].

Vicente Fox served as the President of Mexico from 2000 to 2006 and is currently a co-President of the Centrist Democrat International (CDI), an international organization representing Christian democratic political parties.

So the answer is, in concrete terms, very poor—the systems, the logistics, and the administration in general of Pemex. Change will also only come by taking Pemex away from the control of government. It has to be a twofold strategy: taking it away from the union and taking it away from the government. The government is a very poor administrator—very bureaucratic [and] corrupt—so it has to reinvent all these administrative and strategic procedures by privatizing the processing of the oil and the industry, by associating private investment with public investment, or by opening up to private investors. That change by itself will ensure that, in the medium term, the administration will become much more efficient than it is today.

The next question discussed a major series of energy industry reforms that were passed by the Mexican government in November 2008. The reforms sought to reduce inefficiency at Pemex while also opening the energy industry to greater private sector participation. While hailed as Mexico's best opportunity to salvage its beleaguered energy sector, the reforms have been widely criticized by many as not having gone far enough. President Fox was particularly critical of changes that added political appointees to Pemex's board of directors and of the reform's failure to increase the private sector's participation in Mexico.

YJIA: Do you feel that the reforms that were passed in 2008 have gone a long way toward achieving that, or is there still a lot lacking?

VF: [The reforms were] absolutely poor, limited, short, and will not solve the problem. Things that I remember [doing during my presidency], for instance, involved having the board bring in the private sector and citizens onto the board. It was one answer, and I tried to do it. But [when] the [membership of the] board is decided by Congress, it automatically becomes politicized [and] will not serve the purpose of making the corporation more efficient... it will be extremely limited. Also, the opening for private investment is [currently] so limited it will not have an impact [on the efficiency of the oil industry]. So the fate of Pemex [will be] bankruptcy, [which will] take the whole of the nation into bankruptcy.

President Fox then discussed the record levels of oil production achieved during his presidency and compared his achievement to the marked decline in production that has occurred under the leadership of his successor and current President of Mexico, Felipe Calderón. Fox's remarks emphasized a lack of accurate information from his top energy advisors that impacted his policy toward the exploitation of Mexico's main, supergiant Cantarell Oil Field.

YJIA: You achieved incredible increases in oil production under your presidency. Was there ever a growing fear, or a recommendation by your

advisors that Cantarell or some of the other oil fields might start to drop off in the way we have seen in the last couple of years?

VF: [The drop] was forecast, but not as severely as the [resultant] decrease at the end. I don't know if figures were [ever] shown to me—information was poor in quality or somebody just tried to hide the problem and not let the president know. According to the forecasts I had, both lines—the decreasing trend of Cantarell and the increasing production of new alternatives—crossed at a very reasonable level. The point where they crossed was high enough and strong enough so that we did not [need to] reduce the total output of Pemex during the process, and so substitute reservoirs could come to take the place of Cantarell before it went away. [Thus] the figures I had were not worrying [and did not indicate] an intense impact on the future of the income of Pemex.

The president went on to discuss the importance of reinvestment in Mexico's energy sector and blamed many of Pemex's problems on the monopoly's deteriorating fiscal situation.

VF: Maybe up to the point when I left government, we did have the trust of financial markets and investors everywhere in the world. When you have that kind of environment, you have stability. When you have credibility [and] when you are running the economy on the safe side, on the very secure side, then you get a response from the finance world and from investors. [Thus] we were able to cope with huge amounts of investment because we had that credibility.

Maybe when crisis came in under Calderón's administration—and I understand this is true—they lost the capacity to finance large projects. I know they stopped several projects at Pemex [in addition to] many projects that had to do with infrastructure. But they stopped general investment projects because they couldn't raise the money on the world markets, which we did and had the capacity to do. That would be my best guess on why the [oil production] figures changed, because we didn't keep the base of investment that was needed. To keep that base of investment, we needed the trust of markets and the stability and success of the whole economy.

President Fox then revealed the frustration he felt over his failure to enact legal reforms to the Mexican energy sector during his presidency.

YJIA: Do you feel that there was any one achievement or reform that you were most proud of that improved this situation in the industry while you were president?

VF: Well, no legal reforms were accomplished because I went for 100 percent legal change. The bill I submitted to Congress [proposing] to open the industry for private investment with no restrictions was not authorized. In my [vision for reforming] the board, both the citizens' side and private side would have the majority over the government part of the board. That didn't happen.

Fox then proceeded to discuss the main implication of Pemex's declining production—a major shortfall in government tax revenues from oil sales.

YJIA: My next question would be regarding the portion of revenue that Pemex contributes to the federal government. Did you feel that the high ratio needed to change or did you feel that it might be able to stay at a continuously high level for the foreseeable future?

VF: When I [came into office], about 42 percent of total budget in government income [came] from oil. That dropped down to about 38 percent so we increased the efficiency of the tax system and the revenue coming from [citizens' income taxes versus] the revenue coming from oil, [but this] was not enough. So together with the energy reform bill, I also [pushed for] tax reform.

If you are going to keep part of the money generated by Pemex to be re-invested in Pemex, then you need another source of income, and the only alternative is taxation and fiscal revenue. In the past, former governments would indebt [both] the nation and the corporation to be able to comply with the investment needs of the energy field. The problem was that we got up to such high indebtedness that there was no possibility of increasing the debt of Pemex or the nation, so there were only two alternatives—fiscal income or using oil revenue for investment. [If you invest oil revenue in the petroleum industry], you will not have it for the rest of the budget and for [programs such as] education and health.

President Fox concluded the conversation by offering his thoughts about the persistent problem of corruption within the multi-billion dollar oil industry. The former president was directly touched by this problem when evidence surfaced indicating that vast sums of Pemex's budget were used illicitly to fund the presidential campaign of Fox's rival in the 2000 presidential election. The 'Pemex-gate' scandal that surfaced in 2001 led to renewed calls to clean up the company.

YJIA: My last question would be about the 'Pemex-gate' scandal. Were you surprised to find that your opponent's campaign received much of its funding from illegal means? And do you feel like corruption on that scale has been reduced, or would something as egregious as that still be possible in the next election?

VF: Every Mexican knew about corruption, but it had never been proven. Or we had never had a scandal that big that amounted to about US\$150 million dollars. It was done very intelligently because the money was transferred to the union and documented as part of the union agreement with the company. So they transferred the \$150 million to the union, and the union donated the money to the [rival] candidate...

Now are there are other cases happening today? Yes, I am absolutely sure. [During my presidency], I would never have allowed something like that [to occur] with my consent. **Y**