

The Political Economy of Energy Reform in Mexico

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Outline

- History: 1879 to 1990
- Partial Reforms: 1991 to 1999
- The Evolving Agenda: 2000 to . .
- Conclusions

History: 1879 to 1990

- 1879: first thermoelectric generation plant
- 1889: first hydro generation plant
- 1979-1900: lucrative concessions

- 1920s: vertically integrated monopolies
 - wealthiest and most industrialized areas

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History: 1879 to 1990

- 1926: *Codigo Nacional Electrico*
 - Changed the Constitution: public service
 - Congress: legislate in related matters
- 1934: Comision Federal de Electricidad
 - operate as a regulatory agency and liaison between foreign companies and government
 - supply electric service to those areas considered by private companies as not profitable

History: 1879 to 1990

- President Lázaro Cárdenas consolidated power around his party, the PRI
 - Key strength: Unions
 - Sindicato Mexicano de Electricistas
- Late 1930s: PRI was firmly in control
 - Land reform
 - Nationalization
 - 1938: Electricity Public Service Act

History: 1879 to 1990

- 1937 to 1943: low private investment
- Nationalization Process:
 - 1944: CFE acquired Chapala
 - 1940's and 1950's: CFE acquired hundreds of regional electricity monopolies
 - 1960: Federal Government acquired *Impulsora* and *Mexican*
 - Creation of LFC

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History: 1879 to 1990

- 1960: Government formalized the arrangement with a constitutional amendment (Article 27, paragraph 6)
- 1960s and 1970s
 - Nationalization
 - Import substitution strategy

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History: 1879 to 1990

- 1975: Consolidation with the *Ley del Servicio Publico de Energia Electrica* (LSPEE) which declared CFE and LFC as public suppliers of electricity
 - CFE and LFC
 - Government offices
 - Host some of the strongest of the nation's unions
 - Key elements of the PRI power base

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History: 1879 to 1990

- Performance of the System
 - 1970s: Growth in Installed capacity
 - Oil and hydroelectricity
 - Preference for fuel oil
 - PEMEX sold fuel oil to the power sector at around 30% of its opportunity cost
 - Implicit subsidy: USD \$1.5 billion a year
 - Tariffs were set below their opportunity cost
 - Deficit around 2.4% of GDP
 - Access to electricity more than doubled

History: 1879 to 1990

- 1982: Default on external debt
 - Tight fiscal controls
 - Dismantled the import substitution strategy
 - Integration into the world economy
 - Reduction of the role of the state in the local economy

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History: 1879 to 1990

- Electricity and Oil escaped privatization
 - Electricity: drain
 - Oil: source of revenue
- Evidence of key political and constitutional factors at work

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Partial Reforms: 1991 to 1999

- 1992: NAFTA
- 1994: World Trade Organization
- 1994-1995: financial crisis
- 1997: PRI lost its majority in Congress

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Partial Reforms: 1991 to 1999

- 1992: Amendments to *Ley del Servicio Publico de Energia Electrica* (LSPEE)
 - Allow private participation under different schemes such as Independent Power Production, Cogeneration and Self Supply
 - 1997: First tender (Merida III)
- 1995: Reforms to the Public Debt and the Budget Laws
 - PIDIREGAS
 - June 2003: debt for CFE USD \$4.3 billion

Partial Reforms: 1991 to 1999

- 1990s: Changes in fuel prices and tariffs
 - Tariffs appear still to be at a level below cost
 - Net subsidy of USD \$5 billion a year
 - Residential: 64.1%
 - Industrial: 17.9%
 - Agriculture: 11%
 - Commercial: 5.3%
 - Residential tariffs could be 3% of GDP

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Partial Reforms: 1991 to 1999

- Politics: Extremely difficult to raise residential and agricultural tariffs
 - Unions: SME (LFC) and SUTERM (CFE)
 - Leftist PRD
 - Leftist wing of the PRI
 - Some other social organizations and unions

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Partial Reforms: 1991 to 1999

- 1993: Comision Reguladora de Energia
- 1995: Ley de la Comision Reguladora de Energia
 - An autonomous agency in charge of regulating the natural gas and electricity industries
- 1999: President Zedillo proposed structural reforms that would have modified the constitution

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The Evolving Agenda: 2000 to . . .

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- September 2000: “shadow market”
- May 2001: President Vincente Fox proposed further reforms to Articles 126 and 135 of the LSPEE
 - Terms and limits of the self-generation and co-generation

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The Evolving Agenda: 2000 to . . .

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- 2002: The Mexican Supreme Court ruled that the 1992 law might be unconstitutional
- A myriad of proposals has induced madness in the public opinion
 - Evolution of Tariffs

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The Evolving Agenda: 2000 to . . .

- Greatest Challenges: Public Opinion

- 2002: poll conducted by *Coordinacion de Estudios de Opinion*

- 36% think Fox's proposal is about privatizing the power sector
- 5% mention attracting private investment
- 35% opposed private investment
- 17% supported new private funds in the industry
- 49% consider having electricity problems
- 33% think that high prices as the main problem in the sector
- 14% said that the quality of electric service was bad
- 33% said that service quality is good.

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Conclusions

Time is running . . .

Sector is running out of steam . . .

Nothing happens . . .

Unless SOMETHING takes place TODAY