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## Mexico's Pride, Oil, May Be Opened to Outsiders: [Foreign Desk]

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### Abstract

[...]in what could be the biggest economic change in two decades, President Enrique Peña Nieto is on the verge of rewriting the Constitution to open Mexico's oil, gas and electricity industry to private investment -- a provocative move expected to lure international oil companies and expand North America's energy supply while testing the grip oil has on Mexico's soul. [...]it allows private businesses to drill for oil and natural gas in partnership with the state monopoly, called Pemex, or on their own, returning international oil companies to territory they were kicked out of 75 years ago.

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### Full Text

CIUDAD DEL CARMEN, Mexico -- Every gas station in Mexico is stamped with the green-and-white logo of the state-owned oil monopoly, the economic lifeblood of the government. Oil Expropriation Day, commemorating the day Mexico seized control of the industry from foreign companies in 1938, is celebrated with speeches and even parades in some towns. An old song, "The Oil Worker Hymn," credits oil with "saving our fatherland."

But now, in what could be the biggest economic change in two decades, President Enrique Peña Nieto is on the verge of rewriting the Constitution to open Mexico's oil, gas and electricity industry to private investment -- a provocative move expected to lure international oil companies and expand North America's energy supply while testing the grip oil has on Mexico's soul.

"We must defend our oil," Cuauhtémoc Cárdenas, a three-time presidential candidate and son of the president who nationalized the oil industry, declared in a television advertisement. The state oil company, he said, belongs "to all Mexicans, and we must not allow it to go private."

The legislation, which won final congressional approval on Thursday afternoon, declares that Mexico still owns its oil. But it allows private businesses to drill for oil and natural gas in partnership with the state monopoly, called Pemex, or on their own, returning international oil companies to territory they were kicked out of 75 years ago.

"They have been waiting for a long time for a true opportunity," Jeremy M. Martin, director of the energy program at the Institute of the Americas, said of the oil companies.

In a country where oil is often equated with sovereignty and national pride, the plan has set off furious debate. But while demonstrations helped thwart a more tepid attempt to open the industry in 2008, they were not effective this time -- though there were some colorful moments.

As the lower chamber of the legislature argued over the change, one leftist lawmaker stripped down to his black underwear to suggest that the country was giving away its most treasured resources. The change must be ratified by just over half of Mexico's states in order to become law. Mr. Peña Nieto's party controls a majority of the states.

The goal, Mr. Peña Nieto's aides say, is to stimulate Mexico's sliding oil production and vault the country into the developed world by tapping vast pockets of oil and natural gas deep under the earth and sea. Foreign oil companies have quietly lobbied the government to open up for years. Pemex, short for *Petróleos Mexicanos*, is known for inefficiency at best and corruption at worst.

The energy overhaul is the centerpiece of a series of changes Mr. Peña Nieto has pushed through this year with mixed results, including an effort to break up telecommunications monopolies, raise taxes and weaken the teachers union's hold on faltering schools. His Institutional Revolutionary Party -- which nationalized the oil industry in the first place, setting Mexico on its course toward industrialization -- joined with conservatives who have long wanted the changes, casting off a weakened left.

Opinion polls suggest that Mexicans are growing impatient with Mr. Peña Nieto's agenda and do not feel the benefits, as economic growth has slowed and the violence he promised to tackle persists largely unchecked.

Mr. Peña Nieto is banking that the energy changes will inject new life into the economy. Other presidents have failed in taking on the oil monopoly, a lifeblood to government coffers and a touchstone for the left.

"Oil has symbolic power in Mexico that it does not have in every oil country," said Noel Maurer, a political economist at Harvard Business School. "Mexico has built up national mythologies that 'the oil is ours.' It's like a flag-burning issue."

Polls show that a majority of Mexicans generally oppose foreign investment in oil, but the passions may be fading. While schoolchildren are still taught about the nationalization of the industry, it is covered in just one page in the standard fifth-grade history textbook.

Even here in Ciudad del Carmen, where the discovery of one of the world's largest oil fields at the end of the 1970s propelled the country to the top ranks of oil producers and turned this fishing village into a prominent oil town, the "it's ours" passion has dwindled.

Foreign-run contracting companies are already ubiquitous here, providing a variety of services to offshore platforms and nearby wells. A common complaint is that the benefits of sovereign oil have been oversold.

"I laugh when I hear those arguments, 'it's our oil,' " said Enrique Sánchez, an engineer for a Pemex contractor. "I am still waiting for my payment."

New malls, housing developments and big-box stores speak to the boom that oil exploration has provided, but many of the jobs have come from service contractors that pay less than Pemex, where a powerful union controls jobs and many speak of having to pay off leaders for entree.

The contractors' orange jumpsuits and hard hats, in contrast to the yellow worn by Pemex workers, are far more visible on the streets, and skepticism about the new law runs deep.

"The rich will get richer," said José Luis Gutiérrez, an oil platform welder preparing for a 14-day shift at sea. "It is our pride, our heritage, but up to now, the poor are still poor."

Two decades after Mexico sold off banks and the telephone monopoly, Mexicans pay more for credit and phone service than other Latin Americans, and they suspect they will pay more for gas under the new law, too.

The government and oil industry analysts say Pemex cannot go it alone any longer. The urgency stems in part from the energy revolution in the United States, where cheap energy is helping American businesses.

Mexico's oil production has declined by 25 percent from its 2004 peak, to just over 2.5 million barrels a day. Pemex is spending more to pump less: Investment has more than doubled in the same period, to more than \$20 billion a year.

Mexico has abundant oil and natural gas reserves, but they are increasingly difficult and expensive to reach, far below the waters of the Gulf of Mexico and trapped in shale deposits deep below the earth. New technology has unlocked those sources of oil and gas around the world, particularly in the United States, but Pemex has not kept pace.

It is an appendage of the Mexican government, heavily taxed to fund as much as 40 percent of the national budget. To keep that money flowing, almost all of its investments have gone to pumping crude for export. It is also an enormous source of patronage, creating fortunes for contractors with political connections, including the union.

The union leader, Carlos Romero Deschamps, is a senator and a rich man whose spending extravagances and those of his children regularly make headlines here. The legislation ejects the union from the Pemex governing board but maintains other privileges.

Some on the left worry that as more efficient foreign companies move in, Pemex may ultimately lose control over a growing share of Mexico's oil and gas reserves.

"Pemex needs major surgery, not euthanasia," said Graco Ramírez, the leftist governor of the state of Morelos.

This city is already creaking under the growth, but a gold-rush mentality in anticipation of the new law is setting in.

"They're already building three hotels, and many more people from other countries will be coming in," said Nelson de Ganzer, who owns three Brazilian restaurants in town and has seen a surge of foreign workers among his customers. "This will be big for Mexico."

Credit: RANDAL C. ARCHIBOLD and ELISABETH MALKIN; R andal C. Archibold reported from Ciudad del Carmen and Mexico City, and Elisabeth Malkin from Mexico City. Clifford Krauss contributed reporting from Houston.

### Photograph

Antonio García, a Leftist Politician, Stripped Down to His Underwear to Protest a Move to End 75 Years of Nationalization. (Photograph by Reuters) (A1); Oil Workers Lowered a Drill Off the Coast of Veracruz, Mexico, in November. The State Monopoly's Hold On the Industry Is at Risk. (Photograph by Dario Lopez-Mills/Associated Press) (A10)

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## Details

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