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Original Article

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

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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?

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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.

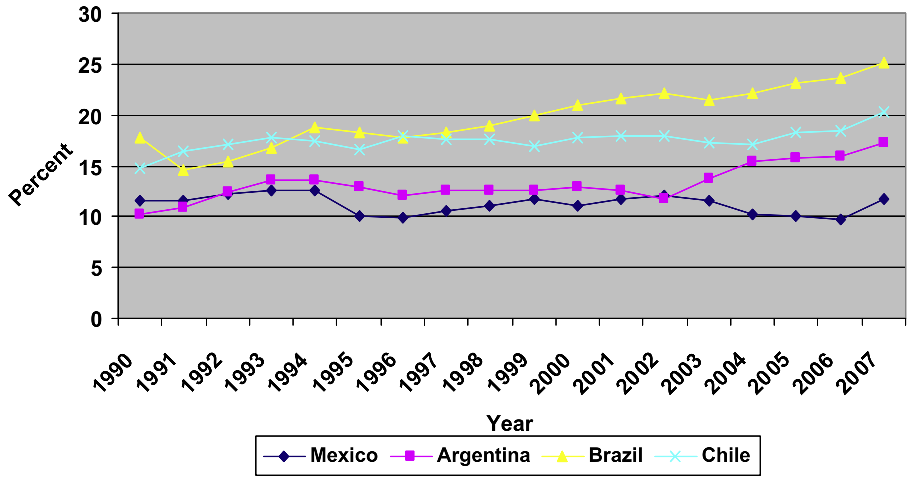

Fig. 1. Tax revenue (including social contributions) as a percentage of GDP, 1990–2007.
Source: Economic Commission for Latin America and the Caribbean [ECLAC], 1990–2007.

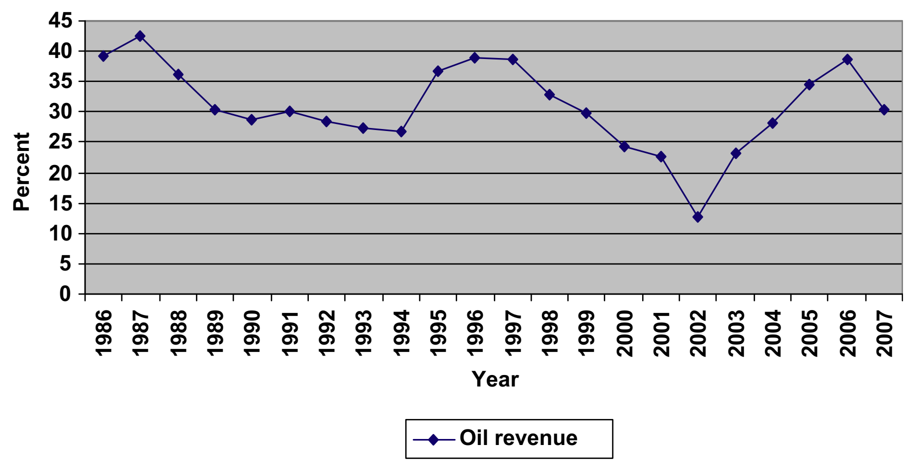

Fig. 2. Percentage of oil revenue.
Source: *INEGI*, 1986–2007.

What does this mean for my study? The data clearly show that oil revenues account for a large percentage of government revenues. We also know that Mexico has a difficult time taxing its citizens. Unfortunately, according to survey data for 1993 and 1995, over 75 percent of the respondents believe that in Mexico taxes are too high or high. Furthermore, over 85 percent of respondents claim they do not trust that their taxes will be well spent by the government. Thus, if the government is dependent on oil revenues then there is no incentive to privatize PEMEX. The logic behind not privatizing the oil company seems to reinforce what Karl (1999) calls the "paradox of plenty," specifically, claims "that oil rich countries... end up in profound economic and political crisis" (Karl, 1999, p. 32).

Why do countries with so much oil wealth tend to perform so poorly politically and economically? Karl (1999) believes that petro-states are not like other states. Petro-states tend to rely on a single commodity, depend on petroleum revenues, and engage in international borrowing because they can use oil as collateral. Furthermore, rulers of petro-states have no incentive to be "efficient, frugal, and cautions" (Karl, 1999, p. 37). As she puts it, "What distinguishes oil states from other states, above all else, is their addiction to oil rents" (Karl, 1999, p. 36). Mexico's status as a petro-state, therefore, explains why it has not privatized its oil company. Mexico's elected officials understand that PEMEX is corrupt and inefficient; they also understand the economic importance of PEMEX to the federal government. Mexico's decision makers do not privatize PEMEX because there is no incentive for them to do so. If they privatize the oil company the losses in government revenue could be substantial, because the potential gains from privatization remain uncertain.

3. The influence of economic nationalism

Why did former neo-liberal Presidents Miguel de la Madrid (1982–1988), Carlos Salinas (1988–1994), Ernesto Zedillo (1994–2000), and Vicente Fox (2000–2006) decide to leave PEMEX as a state-owned company? It is surprising since all had one characteristic in common: support for more economic liberalization in Mexico. As Camp (2006) explains, Miguel de la Madrid "believed that the best strategy for rescuing Mexico from economic woe was to follow the strict, orthodox economic guidelines recommended by the International Monetary Fund (IMF): reduce government expenditures and impose controls on salaries, prices, and inflation" (p. 278). It is also clear that Carlos Salinas believed in the implementation of neo-liberal economic policies. In his failed attempt to modernize Mexico, he negotiated the North American Free Trade Agreement (NAFTA) with Canada and the United States. In the NAFTA negotiations, Salinas indicated that the privatization

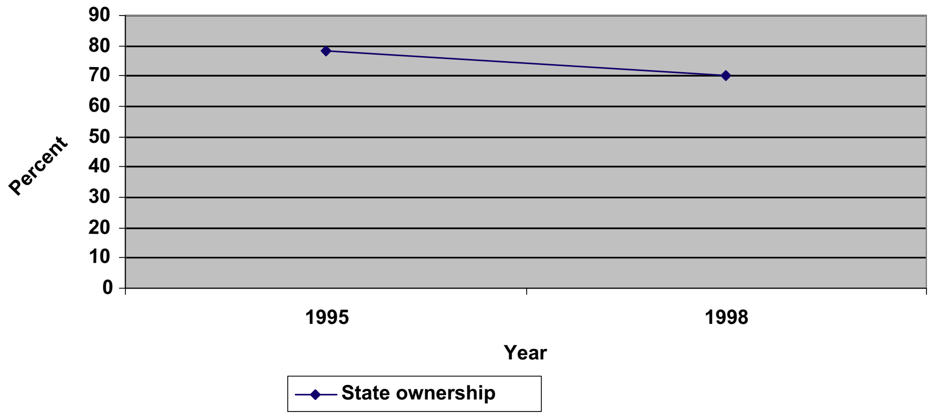

Fig. 3. Support for state ownership of oil.
Source: *Latinobarometer*, 1995–1998.

of the oil company in Mexico was not part of the agenda (Ramos, 2001, p. 50). Furthermore, as stated before, he implemented the most extensive privatization program. Ernesto Zedillo, a technocrat and former economics professor, also believed in a less interventionist state. President Vicente Fox, a former Coca-Cola executive and member of the conservative party, believed in decreasing the role of the state in the economy but maintained his campaign promise not to privatize the oil company. Why were the former Mexican presidents, who clearly believed in neo-liberal ideologies, not able to privatize PEMEX?

I believe this can, in part, be explained by the country's degree of economic nationalism. In explaining this, I follow Knight's (1994) definition of economic nationalism, namely "a sentiment, movement, or policy geared to the nationalization of economic resources" (p. 138). As further explained by the author, "in practical terms, economic nationalist projects involved higher tariffs, exchange controls, government incentives to industry, and, above all, greater taxation, regulation, and in some scenarios the confiscation of foreign investment" (Knight, 1987, p. 53). I test this hypothesis in two ways. First, I look at public opinion data to broaden understanding of Mexicans' opinions on privatization programs, specifically, to determine if they support the privatization of the oil sector. Second, I discuss Cuauhtémoc Cárdenas' opinion on whether PEMEX should be privatized or not. This is important because his father, former President Lázaro Cárdenas, nationalized the oil sector. Cuauhtémoc Cárdenas has been a prominent political figure in Mexican politics ever since, initially as mayor of Mexico City and presently, as the moral leader of the PRD.

3.1. Privatization trends

Since economic nationalism is defined as "a sentiment, movement, or policy geared to the nationalization of economic resources" (Knight, 1994, p. 138), it is helpful to know the opinion of Mexicans on the nationalization of the oil sector. Put in a different way, what is the level of support for state-ownership of oil in Mexico? When asked the following question, "From the list of activities that I am going to read out to you, which do you think should mostly be in the hands of the State and which mostly be in the hands of private companies?", public opinion data for 1995 and 1998 indicate that the majority of respondents believe that "petroleum and fuel" should be in the hands of the state (Fig. 3). More specifically, in 1995, 79 percent of respondents stated that "petroleum and fuel" should be in the hands of the state, and the percentage of respondents to the same question decreased to 70 in 1998 (Fig. 3). In short, data for these two years indicate that 70 percent or more of respondents believe that "petroleum and fuel" should be in the hands of the state.

3.2. Elite opinions about privatization

Does Cuauhtémoc Cárdenas Solórzano support the privatization of the oil sector? He does not. When I asked the following question, "You were telling me that PEMEX should not be privatized. Which factors make PEMEX different from other state-owned companies that have been privatized, such as *Banamex* or *Mexicana de Aviación*?", Cárdenas responded in an interview:

> Without any doubt, oil and oil supply in Mexico, I would say that in any country or almost in any country, is an activity that we could call it strategic [for the country]. Oil, since 1938 became the driving force for the economic development of the country, and above all for its industrialization. Since 1977, an important change began in oil politics because instead of diversifying production, and continue expanding the petrochemical sector, Mexico began to export more and more crude oil. In fact, PEMEX became or has become a producer of only crude oil, and an exporter of crude oil, which certainly reports immediate income [for the government] but the regional impact is lost in the process because oil is not refined in the country. The impact that the oil sector could have with other sectors related to the oil industry, such as construction is lost. I believe that the oil industry should be the economic driving force for the country. That is why I believe the oil sector needs to be serving the public, and not the private interest, and to direct its advantages to serve the public and not the private interest, independently of whether there is private investment in one of the phases of utilization of oil in Mexico.[2]

The following question was also asked: "Are you satisfied with the way PEMEX has been managed in the last sixty-eight years since its nationalization by General Lázaro Cárdenas in 1938?" His reply was:

> Lately, in the last 20 or 25 years it has stopped being the driving force of economic growth. On the other hand, we can not ignore that in the administration of the oil sector, there have been times and people that have engaged in corruption, and this from any point of view is condemned. Currently (corruption) exists, has existed, and for sure will exist. It is the state's responsibility

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

to clean the corruption of a public company, and also is the state's responsibility to make it the most efficient possible in the activity the public company is participating in. These are state responsibilities, and obviously, it is the direct responsibility of those who are or have been in charge of PEMEX.[3]

Finally, he was asked, "What do you think that General Lázaro Cádenas would say regarding the management of PEMEX in the last sixty-eight years?", to which he replied:

With what has been done lately I would say that he would not be satisfied. I believe that many opportunities have been lost by not industrializing the country's resources. And is a serious mistake of political character to have made the federal government dependent on oil exports for its income. I believe it is a big, big mistake that has been committed, and obviously in this case there is the need to make a major reform to the tax system of which PEMEX is subject to. PEMEX pays taxes even before it is known if it will make a profit or not, and this has removed from the company the possibility of better maintaining its installations. That is why there are so many accidents, some very serious, and that is why it is always mentioned that PEMEX has no funds for the expansion of the oil sector.[4]

In sum, Cárdenas does not believe that PEMEX should be privatized because oil is a strategic activity for the country, and plays in important role in the economic development of Mexico. He adds that in the last 25 years PEMEX has not been well managed since corruption is prevalent and the company has been overtaxed by the government.

Whether PEMEX should remain public or not has historically been a contentious issue in Mexico. The events that took place in the early twentieth-century, when the oil companies benefited enormously from Mexico's natural resources, are still salient in the national conscience. Mexico's experience with the oil companies during and after the 1910 Revolution was not a positive one. Meyer (1977) makes the argument that when the oil sector was owned by private companies in the early twentieth century it created an enclave in the country. The author stated, "As Mexicans fought, suffered, and sacrificed, many foreign companies, the oil companies above all, seemed able to insulate themselves from the conflict and its attendant costs" (p. 80). He further argued that when the oil sector was in private hands, the companies threatened the sovereignty of the country because it was very difficult to tax them. Furthermore, the oil companies encouraged their governments to threaten Mexico with military invasion in various instances. Mexico is very different today than from what it was in early twentieth century, since the nation-state does a better job in regulating foreign investment. Yet, survey data indicate that support among Mexicans for the privatization of oil is very low. Data for 1995 and 1998 indicate that the majority of Mexicans interviewed do not support the privatization of PEMEX. It would seem that, as hypothesized, part of the answer is the influence of economic nationalism.

4. Labor union strength

On March 10, 2008, *El Universal* (a major Mexican newspaper) reported that 600 members of the Petroleum Workers Union of the Republic of Mexico (STPRM) did not work for about five years, yet still received their full salary and benefits. These workers were the crew members of the eleven oil tankers that PEMEX decided to take out of circulation because they were too old and did not meet international standards for security (Cruz-Cerrano, 2008). For most companies the next logical step would be to relocate the workers to perform different duties within the company. However, the oil workers' contract prohibits the relocation to other areas within the company (Cruz-Cerrano, 2008). As a result, PEMEX paid about US$270 million dollars to the 600 workers over five years or about US$7500 dollars per worker every month for no work done (Cruz-Cerrano, 2008).

I argue that another reason why PEMEX has not been privatized concerns the strength of the STPRM. This section of the paper is divided into three parts. First, I attempt to measure the strength of the Mexican oil workers' union by comparing the wages received by (1) the workers in the oil and natural gas sector with the wages received by workers in construction, manufacturing industries, electricity and water, and mining and (2) comparing the oil and natural gas sector with the four other sectors by measuring the employer's contributions to the retirement fund and "other social benefits."[5] Second, I examine Mexicans' attitudes towards the STPRM. Is the STPRM strong because the union and its leader are popular in Mexico? I provide survey data which suggest that that may not be the case. If the STPRM is not popular among Mexicans, then why is it so strong? Finally, I argue that the corporatist relationship that was established between the PRI and the oil workers' union in 1938 has not changed much even since 2000 when the PRI lost the presidency. As Camp (2003) explains, "Corporatism in this political context refers to how groups in society relate to the government or, more broadly the state; the process through which they channel their demands to the government; and how the government responds to their demands" (p. 12).

4.1. Measuring oil workers' union strength

The situation in Nanchital, Veracruz, Mexico illustrates very clearly how powerful the STPRM is. In this city the union's influence expands beyond its representation of the oil workers. As reported by Sullivan (2002),

Children in this town of 28,000 grow up studying in schools and playing in parks paid for by the union and worshiping in a church built by the union. They eat food bought at union-owned grocery stores, take medicine bought at the union-owned pharmacy and, more often than not, eventually become union workers themselves. When people need a loan, they often turn not to banks but to the union. When they die, the union-owned funeral home sends them on their way (p. A01).

Is the STPRM as strong as Sullivan (2002) describes? As I stated before I attempt to measure labor union strength by comparing the wages earned by workers in the oil and natural gas sector with the wages earned by workers in the four other sectors. In Fig. 4, I compare the average wages earned per worker and administrative employee in the oil sector with those in construction, manufactured industries, electricity and water, and mining sector. It shows that workers and administrative employees from the oil and natural gas sector, on average, earn more than workers in the other sectors. In 1998, the average salary for a worker in the oil and natural sector was 50,910 *pesos* per year, compared to a worker in the mining sector, who earned an

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

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

[5] "Other social benefits are payments that are part of the labor contract as well as those that are not part of the labor contract that were made by the economic unit to the workers as an additional payment to their salary. They were given in money or benefits, such as private medical service, food, bonuses for the employees for their insurance, educational services, aid for school, and child care centers." Instituto Nacional de Estadística, Geografía e Informática (INEGI), "Metodologia par las actividades del sector mineria," *Censos Economicos 2004*, 38, http://www.inegi.org.mx/est/contenidos/proyectos/ce/ce2004/default.aspx (accessed 20.07.09).

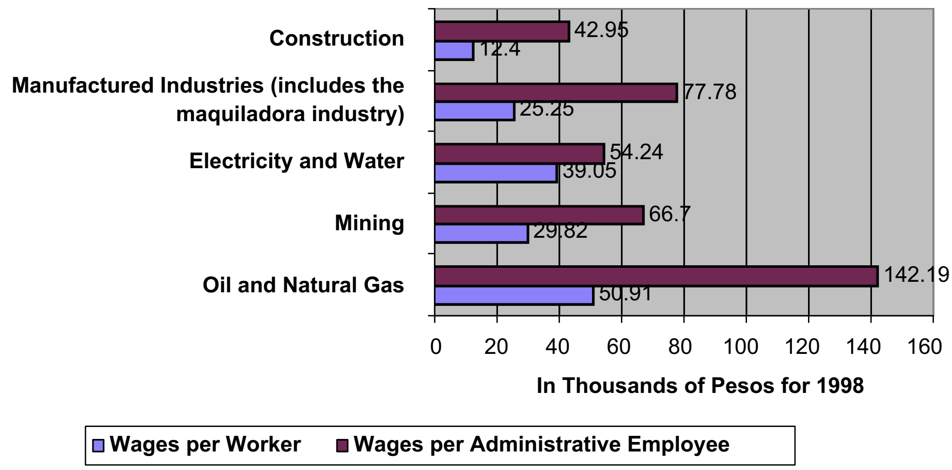

Fig. 4. Wages per Worker and Administrative Employee (Average for 1998).
Source: Instituto Nacional de Estadística, Geografía e Informática (INEGI), *Economic Census*, 1999.

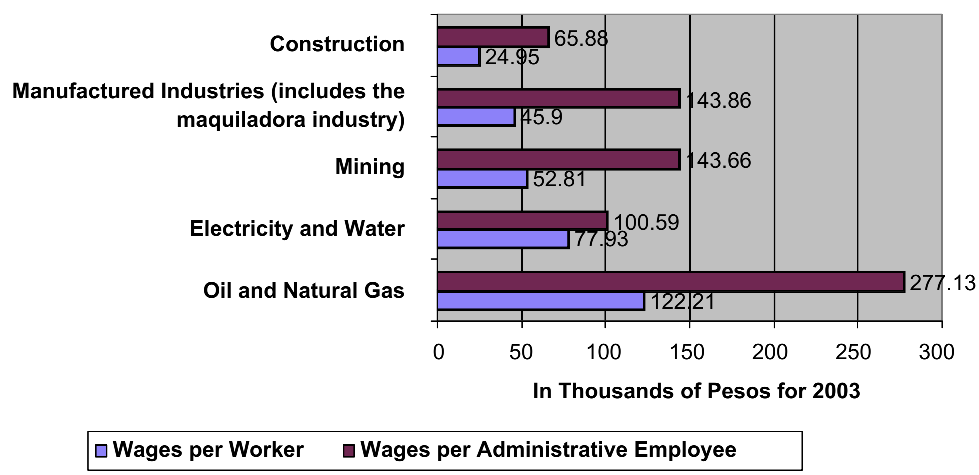

Fig. 5. Wages per Worker and Administrative Employee (Average for 2003)
Source: Instituto Nacional de Estadística, Geografía e Informática (INEGI), *Economic Census*, 2004.

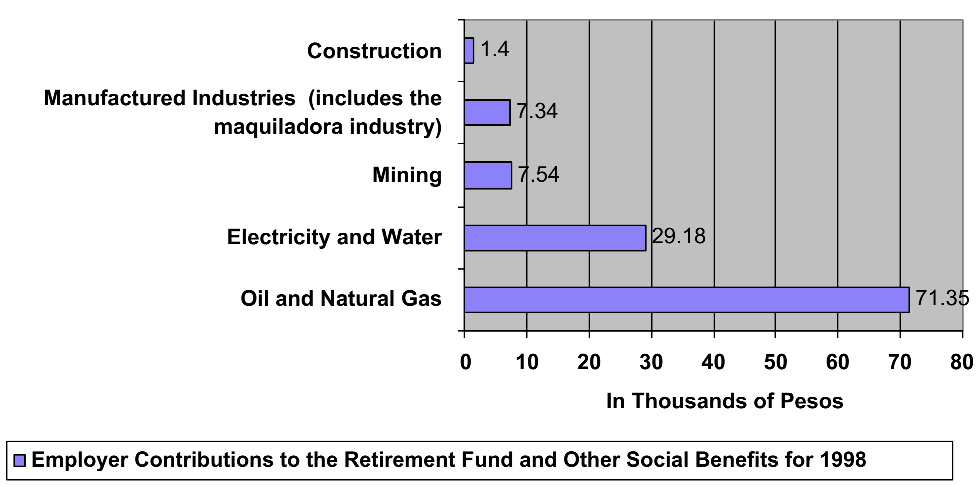

Fig. 6. Employer Contributions to the Retirement Fund and Other Social Benefits (Average per worker for 1998).
Source: Instituto Nacional de Estadística, Geografía e Informática (INEGI), *Economic Census*, 1999.

average of 29,820 *pesos* per year. Fig. 4 also shows that the average salary for an administrative employee in the oil and natural gas sector was 142,190 *pesos* per year, compared to an administrative employee in the mining sector which earned an average of 66,700 *pesos* per year (Fig. 4). Fig. 5 shows the same trend for 2003, when workers in the oil and natural gas sector earned more than workers in the other sectors. In 2003, the average salary for a worker in the oil and natural gas sector was 122,210 *pesos* per year, compared to a worker in the mining sector, who earned an average of 52,810 *pesos* per year (Fig. 5). In 2003, the average salary for the administrative employee, which was 277,130 *pesos* per year, was also higher than the average

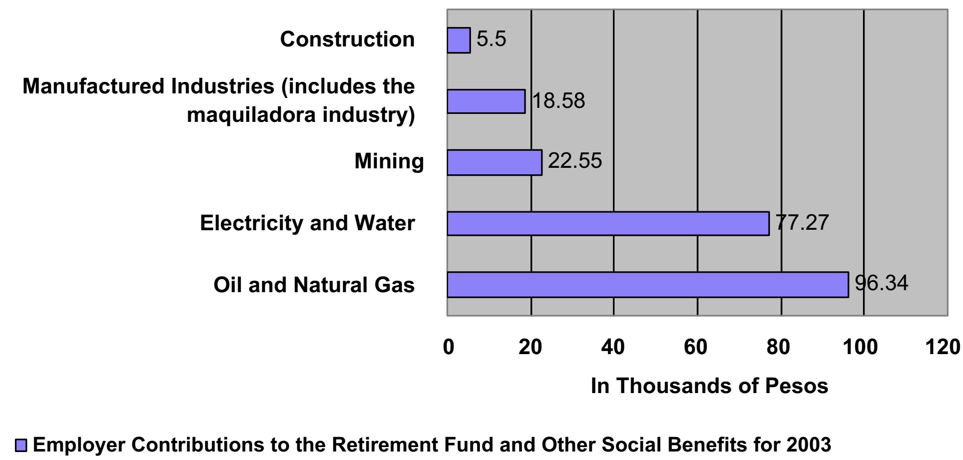

Fig. 7. Employer Contributions to the Retirement Fund and Other Social Benefits (Average per worker for 2003).
Source: Instituto Nacional de Estadística, Geografía e Informática (INEGI), *Economic Census*, 2004.

salary for the administrative employee in the mining sector who earned 143,660 *pesos* per year.

The second means by which I measure labor union strength is by comparing the employer contributions to the retirement fund and "other social benefits" that workers in the oil and natural gas sector received with those of workers in the four other sectors. Fig. 6 shows that workers in the oil and natural gas sector received more money for their retirement fund and "other social benefits." More specifically, in 1998, the average amount that an employee in the oil and natural gas sector received was 71,350 *pesos* per year, compared to the worker in the electricity and water sector who received an average of 29,180 *pesos* per year. The trend continued in 2003, when an employee in the oil and natural gas sector received an average of 96,340 *pesos* per year in employer contributions to the retirement fund and "other social benefits," compared to the worker in the electricity and water sector who received an average of 77,270 *pesos* per year (Fig. 7). In sum, for 1998 and 2003, employees in the oil and natural gas sector received more money in employer contributions to their retirement fund and "other social benefits" than workers in construction, manufactured industries, mining, and electricity and water sectors.

After analyzing these measures we can conclude that on average, workers in the oil and natural gas sector receive higher salaries, and obtained higher contributions to the retirement fund and other social benefits than workers in the four other sectors.

4.2. Mexicans' attitudes towards the STPRM

What are Mexicans' views on the Petroleum Workers Union of the Mexican Republic (STPRM) and its leader? Is the STPRM powerful because the population has a positive opinion of it? Survey data for 2007 show that Mexicans do not have a positive opinion about the STPRM or their leader, Carlos Romero Deschamps. More specifically, when asked, "What is your opinion about the STPRM?" 33 percent of the respondents stated that they had a very good or good opinion about the STPRM (Fig. 8). On the other hand, 32 percent of respondents had a very bad or bad opinion about the STPRM (Fig. 8). Perhaps the reason why Mexicans do not have a good or very good opinion about the STPRM is because of its political influence in some cities, such as Minatitlán, Veracruz. Here, the union owns various businesses, such as a convention center, a transportation business, and is influential in local politics (Simonnet, 2008).

Mexicans' opinion towards the STPRM only gets worse if we look at their attitudes towards Carlos Romero Deschamps. When asked the following question, "What is your opinion about the following labor union leader (Carlos Romero Deschamps)?"

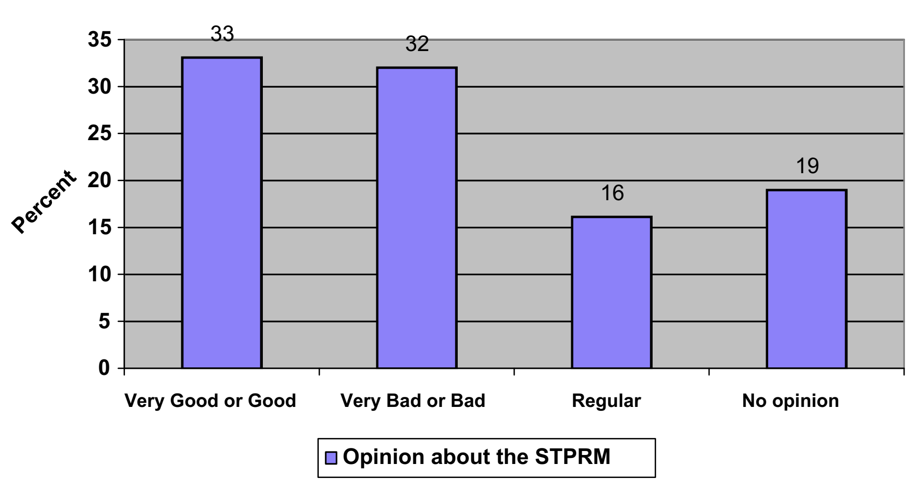

Fig. 8. Opinion about the STPRM (PEMEX's labor union).
The following question was asked: "What is your opinion about the following labor union, the STPRM (Pemex's labor union)?
Source: Grupo Reforma, 2007.

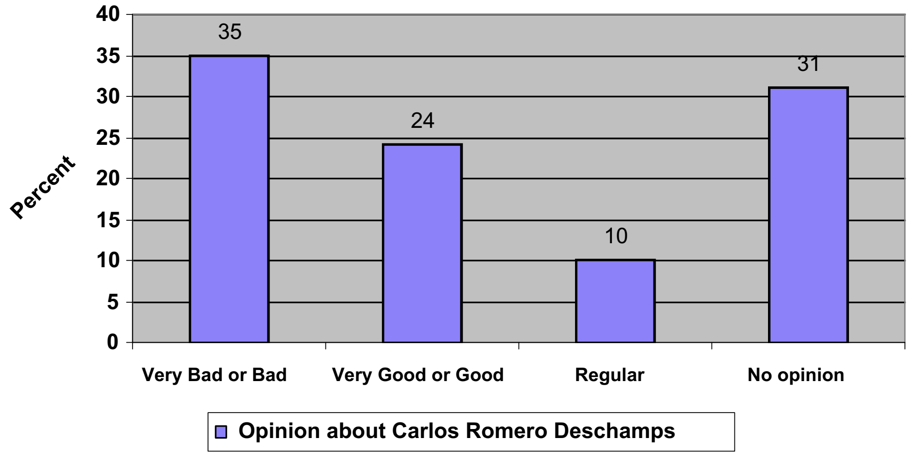

Fig. 9. Opinion about Carlos Romero Deschamps (PEMEX's labor union leader).
The following question was asked: "What is your opinion about the following labor union leader (Carlos Romero Deschamps)?"
Source: Grupo Reforma, 2007.

35 percent of respondents voiced a bad or very bad opinion about the labor leader (Fig. 9). On the other hand, only 24 percent of respondents voiced a good or very good opinion about Romero Deschamps (Fig. 9). It is not surprising to see that less than a quarter of Mexicans have a good or very good opinion about the labor leader since he has been linked to various corruption scandals, has been accused of profiting through illegal means, and engages in conspicuous consumption. The media has reported that Romero Deschamps owns an apartment in Cancun that is worth about US$350,000, and yacht that is valued at about US$150,000 (Vázquez and Paniagua, 2008; Guerrero and Estrop, 2008). To make matters worse, Romero Deschamps apparently wears an Audemars Piguet watch that is valued at between US$40,000 and US$200,000 (Tiene Líder, 2008). As expected, many Mexicans are outraged with the union leader since he is one of the main beneficiaries of Mexico's oil wealth.

What does this mean for this study? Based on survey data, it is apparent that the STPRM and its leader are disliked by the majority of Mexicans. How can the STPRM maintain its status as the most powerful labor union in Mexico, thus helping to ensure that PEMEX remains state-owned? I argue that corporatism is still prevalent in the oil sector. Put in a different way, the corporatist political system created by the PRI still remains in the oil sector even after it lost the presidential election in the year 2000. It is well known that organized labor was one of the main pillars of the PRI. Camp (2003) describes the relationship between organized labor and the PRI as follows:

> The government treats labor as a firm parent would a teenager. When it needs support in family crises and labor quickly provides it, it rewards the action. But when labor strays away from the family fold, it is scolded in a variety of ways. The government, not organized labor, controls the relationship. [p. 147]

The traditional corporatist relationship between the PRI and the STPRM has not changed.

This relationship is now associated with a scandal known as "pemexgate": how PEMEX awarded the STPRM 1100 million *pesos* to finance the 2000 Presidential campaign of Francisco Labastida Ochoa (Arrieta-Ceniceros, 2004, pp. 3–4). The director of PEMEX at that time, Rogelio Montemayor, tried to justify this transaction by claiming that 640 million *pesos* were given to the STPRM as a loan, and 460 million *pesos* were transferred to the STPRM to fulfill labor contract obligations for the years 1997–1999 (Arrieta-Ceniceros, 2004, p. 3). It is not surprising to read about another corruption scandal in Mexico, but what makes "pemexgate" relevant for this study is that Romero Deschamps was not punished, and remains the leader of the STPRM. As stated by Arrieta (2004), during the "pemexgate" scandal, "the 17 [PRI] governors and all the PRI Senators and Deputies expressed their unconditional support for the oil workers' union" (p. 8).

This corporatist relationship is a positive sum game for both the PRI and the labor union. On the one hand, the STPRM provides electoral support for the PRI. In 2007, about 100,000 workers of PEMEX's 148,000 were union members (Malkin, 2007). The union is divided into 32 sections, and is spread across various states, which makes it more relevant in electoral contests. On the other hand, the PRI protects the leadership of the oil workers by giving them a seat in Congress, or protecting them from political prosecution. There is further evidence that the PRI and STPRM relationship has not changed. In the debate which took place in 2008 on whether to include the STPRM as part of the country's energy reform program, PRI senators argued that the relationship between PEMEX and the STPRM is an internal matter. As Senator Manlio Fabio Beltrones stated at the time, "The commitments between the employer and the employee (between PEMEX and the STPRM) are being solved by both parties in the labor contract" (Guerrero and Salazar, 2008). For now, the STPRM will continue to remain one of the most powerful unions in Mexico, strong enough to stifle efforts to privatize PEMEX.

5. The role of international actors

I examine whether international actors, in this case the United States Government and the International Monetary Fund, pressured Mexico to privatize PEMEX during the Mexican financial crisis of December 1994 and January 1995, when the country was very vulnerable to international pressure because it was about to default on its short-term dollar denominated bonds. The evidence suggests that Mexico was not pressured by either external actors.[6] Why did the Clinton administration and the International Monetary Fund not pressure Mexico to privatize PEMEX as a precondition for awarding the country a US$49.8 billion dollar loan? I argue that the United States Government, specifically the Clinton administration, did not pressure Mexico to privatize its oil company for the following three reasons, the most important being that Mexico's profits from its oil exports were used as an "assured

[6] International institutions such as the World Bank did play a role in the privatization of the oil sector in countries such as Argentina.

means of payment." PEMEX, therefore, could not be privatized. Second, the Clinton administration was concerned about the possible economic consequences for the United States if Mexico were to default: in 1995, Mexico was the United States' third largest export market after Canada and Japan (Reich, 1995, p. 339). Third, the Clinton administration projected that if Mexico were to default, the United States would receive 500,000 more illegal immigrants (Leach, 1995, p. 209). As stated by President Clinton at the time: "We have a strong interest in prosperity and stability in Mexico...It is in America's economic and strategic interest that Mexico succeeds" (Bradsher, 1995), or, as Treasury Secretary Robert E. Rubin put it, "I do not think any other country occupies the same role as Mexico does" (U.S. Pitches, 1995). Further evidence in support of these claims lies in the testimonies delivered by various Clinton administration officials before the Committee on Banking and Financial Services of the United States House of Representatives on January 25, and February 9, 1995.[7]

Further assistance was provided by the International Monetary Fund. To ensure that Mexico did not default on its short-term dollar denominated bonds, it awarded the country US$17.8 billion, which to date, is the largest loan the country has received (DePalma, 1995). If the International Monetary Fund was fully committed to bailing out Mexico, why did it not pressure it to privatize its oil company? I maintain that Officials at the International Monetary Fund believed that Mexico was only suffering from a liquidity crisis. The country had a track record at the time of implementing International Monetary Fund-endorsed policies, including those which fostered the privatization of state-owned companies.

5.1. The United States government

When Americans were asked in 1995 whether the United States should bail out Mexico, 81 percent of Americans disagreed (U.S. Pitches, 1995). If helping out Mexico was so unpopular among Americans, why, then, did the Clinton administration decide to lend Mexico US$20 billion without pushing for the privatization of PEMEX? As stated before, I believe that oil served as collateral, and economic and immigration concerns influence the United States' decision. Before I expand on this argument, however, I will briefly describe Mexico's liquidity problem, and how the Clinton administration was able to come up with enough funds to make sure that Mexico would be able to meet its financial obligations. Mexico had a liquidity crisis because US$28 billion of short-term dollar denominated bonds were going to mature in 1995. But on 21 December 1994, Mexico only had US$5.8 billion in its foreign reserves (Weintraub, 2000, p. 138; Lewis, 1995). Consequently, the country needed to prove to domestic and international investors that it could meet its obligations if bond holders were interested in selling. In order for Mexico to achieve this, however, it needed to have enough money in its reserves to meet its financial obligations.

To ensure political and economic stability in Mexico, the Clinton administration requested from the United States Congress a US$40 billion loan to solve the country's liquidity crisis. On January 25 and February 5, 1995, various senior Clinton administration officials testified before the United States House of Representatives Committee on Banking and Financial Services, requesting the US$40 billion dollar financial package for Mexico. When President Clinton realized that the United States Congress was not going to act quickly enough to deal with the problem, he decided to look for other sources of funding. Using his executive authority he borrowed funds from the Exchange Stabilization Fund, "established by the Gold Reserve Act of 1934 and has been used to buy and sell foreign currency, enter into swap arrangements with foreign countries (frequently used as loans) and guarantee obligations of foreign governments" (Explanation of Exchange, 1995, p. 355), to lend Mexico US$20 billion dollars. Furthermore, the International Monetary Fund agreed to lend Mexico US$17.8 billion, the Bank of International Settlements (a group of central banks based in Basel Switzerland) supplied an additional U$10 billion, various Latin American nations contributed a collective US$1 billion, and Canada contributed the final US$1 billion (Sanger, 1995). By mobilizing these partners, the Clinton administration was able to put together the US$49.8 billion dollars aid package needed (Sanger, 1995).

As stated before, I argue that the Clinton administration was eager to help Mexico solve its liquidity crisis, and not push for the privatization of Mexico's oil company because the profits from Mexico's oil exports would be used as collateral. Furthermore, if Mexico were to default on its debts, it would create economic and immigration problems for the United States.

5.1.1. Oil was used as collateral

During the Mexican financial crisis, foreign currency was badly needed. One way of obtaining this would have been by selling the state-owned oil company; yet, the oil remained in the government's hands. I maintain that the main reason why international actors, in this case the Clinton administration, did not pressure Mexico to privatize its oil sector because the profits generated from production were used as collateral. If Mexico had defaulted on the US$20 billion dollar credit line that it obtained from the Clinton administration, its oil profits would have been used to pay the debt.

In their testimonies delivered to the Committee on Banking and Financial Services, the Clinton administration officials assured members of Congress that Mexico's oil profits were going to be used as an "assured means of payment." In his testimony, Secretary of the Treasury Robert E. Rubin stated the following:

> The oil is what we refer to as an assured means of repayment. What basically will happen, and I think this is a very good program, is that if there is default, then the sales of oil, and oil as you know is a dollar-denominated commodity, the sales of oil when made outside of Mexico will have attached to them the requirement that the proceeds be paid to the Federal Reserve Bank of New York. These proceeds will never go back to Mexico. In the Federal Reserve Bank of New York, they will be in a special account and applied to any loans that may be defaulted on. [Rubin, 1995, p. 17]

When Congressman Marge Roukema asked Secretary Rubin, "And that [the oil proceeds go to the Federal Reserve Bank of New York] will be explicit in the agreement?" (Roukema, 1995, p. 17), he replied: "Absolutely it will be explicit in the agreement," and that, "Not only explicit in the agreement, but there will be instructions to all importers of oil from Mexico that if there is a default on these loans, then the proceeds go to the Federal Reserve Bank of New York, absolutely" (Rubin, 1995, p. 17).

When Congressman Rick Lazio asked Secretary Rubin, "The collateralization of the reserves, is that 100 percent collateralization?" (Lazio, 1995, p. 33), Secretary Rubin answered:

> The answer to your question is yes. Rather than use the word collateral, because collateral has a very technical meaning, it is

[7] In an effort to get the United States Congress to approve a $40 billion loan for Mexico, various Clinton administration official testified before the Committee on Banking and Financial Services of the United States House of Representatives on January 25, and February 9, 1995. The effort to get Congress to approve the loan package was unsuccessful, as a result, President Clinton used his executive authority to provide $20 billion dollars for Mexico from the Exchange Stabilization Fund (ESF). The arguments made by the senior administration officials in their testimony before the Committee on Banking and Financial Services reflect the reasons why the Clinton administration believed that they needed to help Mexico get out of its liquidity crisis, and why they could not push for the privatization of the oil sector as a condition to help Mexico, therefore, I use their testimony as evidence for this hypothesis.

> an assured means of repayment. It is actually in many ways better than collateral because collateral, as you know, means to have to seize an asset someplace or other. Here the proceeds will be paid right back into the Federal Reserve Bank in New York. We do not have to go into Mexico and try to function under Mexican law. All of those oil proceeds will be applied to the repayment of the defaulted debt until the debt is fully paid. [Rubin, 1995, p. 33]

When Congresswoman Nydia Velazquez asked Secretary Rubin, "On the issue of Mexican oil as collateral, is it true that much of the oil production is already spoken for and offered as a collateral against sort of a home mortgage kind of thing?" (Velazquez, 1995, p. 57). Secretary Rubin replied:

> The answer to the question is no. The oil exports, at the present time, are about $7 billion a year. There is a very small claim, substantially under $1 billion, I think I am right in saying it is roughly $500 million against that stream...So basically, the stream is free and subject to this small amount of money and would be available via the Federal Reserve Bank of New York. [Rubin, 1995, p. 57]

In his testimony, Secretary of State Warren Christopher also assured the committee that oil profits were going to be used as collateral. He stated, "This is backed up by the strongest collateral that Mexico has, its oil stream," furthermore explaining that, "So in the first place, we do not think money will be lost to the United States, but if it is, we have a very good way to recover that money" (Christopher, 1995, p. 57).

When President Clinton advised Congress that he was going to use the Exchange Stabilization Fund to lend Mexico US$20 billion, he assured Congress that oil was going to be used as collateral. He explained, "Repayment of these loans and guarantees is backed by revenues from the export of crude oil and petroleum products formalized in an agreement signed by the United States, the Government of Mexico, and the Mexican government's oil company" (Clinton, 1995). Again, since oil profits were used as collateral by the Clinton administration, it did not pressure Mexico to privatize its oil when the country was very vulnerable to international pressure.

5.1.2. The economic factor

The possible loss of jobs in the United States if Mexico were to default on its loans led the Clinton administration to put together a financial package for our neighbor to the south. In their testimony the Clinton administration officials broached this issue.

Robert Rubin, Secretary of the Treasury, explained that "Mexico is an important and growing market for United States goods and services. We sell about three times more goods there now than we did in 1987. Mexico has become our third largest export destination. Nearly 700,000 United States jobs depend directly on sales to Mexico" (Rubin, 1995, p. 238). He also voiced his concern about the possible economic impact that the Mexican financial crisis could have on border states, explaining that "Border states obviously have a particular extensive economic relationship with Mexico. California, for example, sells $5 billion worth of goods there yearly. But many other states are also very strongly affected. Michigan, for example, is estimated to sell roughly $6 billion worth of goods to Mexico each year" (Rubin, 1995, p. 10).

Similarly, in his testimony before Congress, Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System, reported that, "What happens to Mexico is of particular importance to the United States. Because of the extensive interchanges across our common border, our economic destinies are closely intertwined. Mexico is the third largest market for United States exports and the third largest source of United States imports, with about $50 billion shipped each way last year" (Greenspan, 1995, p. 236). Secretary of Labor Robert Reich echoed these sentiments, explaining that, "Mexico is the third largest market for United States products, after Canada and Japan. Mexicans purchased about $47 billion of our goods in the first eleven months of 1994, about 10 percent of total United States exports. The jobs of several hundreds of thousands of United States workers depend on exports to Mexico" (Reich, 1995, p. 339).

Robert Reich also drew attention to how some states had established strong economic ties with Mexico, and would be heavily impacted if the country was not bailed out financially. He explained that:

> Exports to Mexico are critical to the economies of many of our states and to the employment of American workers. California sells $5 billion worth of goods to Mexico annually; Michigan sells $6 billion; and Texas sells 13 billion. Exports to Mexico account for about one-fifth of total exports to Michigan, Arizona, and New Mexico, and for about one-third of those of Texas. [Reich, 1995, p. 340]

Secretary of State Warren Christopher provided one of the more detailed testimonies about the economic impact that the Mexican financial crisis could have on the economy of the United States. He stated that:

> As I said, if we fail to act decisively now, American exports, which now are about $40 billion a year, will diminish, and in all probability, many of the 700,000 American jobs that those exports support could be jeopardized. That is the fundamental reason why we are doing this. This is not charity. This is not largesse, this is an action taken in the interest of the working people of the United States because Mexico is in their vital interest and in our vital interest. [Christopher, 1995, p. 23]

Overall, the statements delivered by various Clinton administration officials before the United States Congress in support of a financial package for Mexico illustrate quite clearly the concerns at the time over the economic impact of a default on the United States.

5.1.3. The immigration factor

Seeking to persuade the United States Committee on Banking and Financial Services to provide Mexico with a US$40 billion financial package, various Clinton administration officials argued strenuously that migration to the United States would increase if Mexico was to default on its financial obligations. In his testimony Treasury Secretary Robert E. Rubin stated:

> As I mentioned a moment ago, with the 2,000 mile border, illegal immigration is as you know a very serious issue. It has been estimated that if this financial turmoil continues and has the kinds of effects in Mexico which is likely to have, illegal immigration could increase by 30 percent. On the other hand, a strong and growing Mexico provides jobs for Mexicans at home and is the best long-run answer to illegal immigration. [Rubin, 1995, p. 10]

Similarly, in his testimony Chairman of the Board of Governors of the Federal Reserve System Alan Greenspan explained the following:

> What happens to Mexico is of particular importance to the United States...Illegal immigration from Mexico is inversely related to economic growth and progress in Mexico. It is important to the United States politically as well as economically, therefore, that Mexico succeeds in reestablishing sustained non-inflationary growth. [Greenspan, 1995, p. 236]

Similar arguments were made by other Clinton administration officials before the United States Congress. Secretary of Labor

Robert Reich pointed out how, "An economic crisis in Mexico, if left unaddressed, could also unleash instability and social problems along our long border with that country. A prolonged economic crisis in Mexico could boost illegal migration to the United States, with the risk of disruptive impacts on labor markets, especially in border states" (Reich, 1995, p. 340).

In his testimony before Congress, Secretary of State Warren Christopher stated the following:

> In the short term, economic distress and political instability in Mexico could add to the pressure that already pushes thousands of illegal immigrants across the 2,000 mile border that we share. Indeed, our determined efforts to control illegal immigration could be overwhelmed. A Mexican financial crisis could cause additional social, economic, and law enforcement problems along our southern border. [Christopher, 1995, p. 244].

In short, Clinton administration officials clearly voiced their concern over an increase of illegal immigration to the United States if Mexico were to default on its debts. They were, therefore, committed to help Mexico get out of its liquidity crisis.

5.2. The International Monetary Fund (IMF)

Why did the International Monetary Fund not push for the privatization of the oil company when it decided to lend Mexico US$17.8 billion? Why did it decide to break its own internal rules (it could only lend Mexico US$3.3 billion at that time since Mexico still owed US$3.8 billion from 1989) in order to be able to put together the largest financial package in the history of the institution (Mexico Forced, 1995)? Its officials were aware that the Clinton administration was already using oil as collateral so they could not push for the privatization of the oil sector (Clinton Unveils, 1995). But most importantly, Mexico had already been following economic policies advocated by the International Monetary Fund since 1982. Officials, therefore, could only ask for the continuation of the privatization of state-owned companies, a balanced budget, wage controls, an independent central bank, controls on credit expansion, and trade liberalization (Sanger, 1995).

In sum, I have provided explanations for why international actors (namely, the Clinton administration and the International Monetary Fund) did not pressure Mexico to privatize its oil, despite being very vulnerable to international pressures. Oil revenues would be used as assured means of payment by the United States. Furthermore, the threat of a decrease in exports to Mexico and an increase in immigration to the United States influenced how the Clinton administration dealt with the country's Mexican financial crisis. It is in the interest of the United States for Mexico to be politically and economically stable; thus, to push for the privatization of the oil sector when Mexico was about to default on its debt would have created more political instability.

6. The energy reforms of December, 2013

In December 2013 Mexico decided to radically amend its Constitution to allow for private investment in the oil sector. Observers have described the energy reforms as "an oil revolution," "Mexico's moment," and "a watershed moment in Mexican history" (Helman and Fontevecchia, 2013; Wood, 2013, 2014). It would be fair to say that the reforms have indeed been significant since the neoliberal administrations of Carlos Salinas (1988–1994), Ernesto Zedillo (1994–2000), Vicente Fox (2000–2006), and Felipe Calderón (2006–2012) failed to reform PEMEX to allow for private investment. The current administration of Enrique Peña Nieto has successfully accomplished what until recent years was considered political suicide for Mexican elected officials.

The following are some of the reforms that will be implemented under the December, 2013, energy law. First:

> Under the bill, the world's tenth largest oil producer will permit profit-sharing contracts, production-sharing contracts, and licenses (a euphemism for concessions). In profit-sharing contracts, oil firms will be paid in cash; in production-sharing contracts, oil barrels will be divided in a percentage yet-to-be determined between the government and the companies; and in the case of the licenses, major oil companies will take control of the oil at the well head, paying royalties and taxes to a newly created oil holding trust to be run by Mexico's Central Bank. [Estevez, 2013]

Second, private companies will be allowed to enter the Mexican retail market, specifically to invest in gasoline stations by 2017 (Wood, 2014). Third, the Mexican Petroleum Fund (FMP), a sovereign wealth fund has been created to save some of the oil wealth for future generations (Wood, 2014). Fourth, the five representatives of the powerful STPRM have been removed from

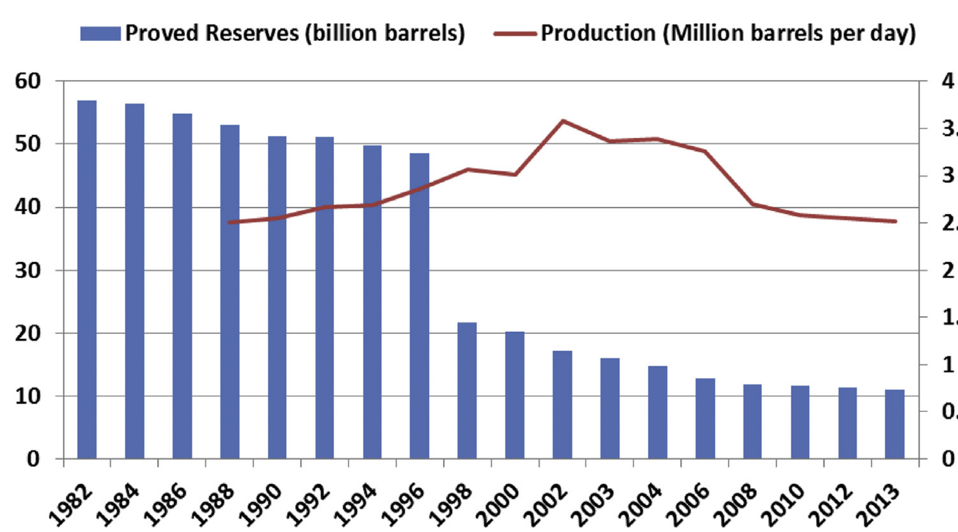

Fig. 10. PEMEX: Proved reserves and oil production.
Source: BP, Statistical Review of World Energy (2014), Historical Data Workbook; PEMEX.

the Pemex board of directors (Williams, 2014; Yergin, 2013). As Williams (2014) explains, "The board will be trimmed to 10 from 15 and will comprise five government officials selected by the president and five independent members." If any attempt is made to regulate the private corporations that will invest in the oil sector, the two regulatory bodies, the National Hydrocarbon Commission (CNH) and the Energy Regulatory Commission (CRE), must be strengthened by giving them more budgetary autonomy, better trained personnel, and independence from the federal government (i.e. the energy ministry).

What explains Mexico's December 2013 decision to allow private investment in the oil sector? What changed domestically that persuaded the Revolutionary Institutional Party (PRI) to allow private investment in PEMEX? It would take another research paper to comprehensively answer this question. Yet the main reason why the current administration of Enrique Peña Nieto decided to allow private investment in the oil sector is because Mexico's oil reserves and oil production have been declining significantly in recent years (Fig. 10). For instance, in 2002 Mexico produced an average of 3.583 million barrels of crude oil a day. By 2012, production of crude oil had declined to an average of 2.547 million barrels a day. Within a decade production had declined by about one million barrels of crude oil per day. The decline of oil production continued in 2013 when PEMEX produced an average of 2.522 million barrels of crude oil a day. It is estimated that at current production levels, Mexico has enough proven and probable reserves for 15.5 years (Iliff and Montes, 2014).

7. Conclusion

Why did Mexico not privatize PEMEX when the country implemented an in-depth privatization program in the 1980s and 1990s? I argue that dependence on oil revenues, economic nationalism, the strength of the oil sector's labor union, and the interests of international actors such as the United States help us understand why PEMEX remains state-owned, despite this ongoing privatization.

Even after the recent historic energy reforms, PEMEX will remain a significant player in the oil sector for various reasons. First, the majority of the country's population remains opposed to allowing foreign investment in the oil sector. According to Helman and Fontevecchia (2013), "sixty percent of the people are against allowing foreign companies to invest in PEMEX." Estevez (2013) echoes these sentiments, pointing to how "A new poll by (CIDE), a research institute, shows that 65 out of every 100 Mexicans are against opening up PEMEX" (p.1). This is not surprising since the lack of support for privatizing PEMEX has been consistent since the 1990s.

Furthermore, the federal government continues to remain heavily dependent on oil revenues. PEMEX continues to provide over 30 percent of the total federal government's revenue. Put differently, "the government is addicted to oil and the revenues from oil" (LaGesse, 2013). Mexico's dependence on oil revenues is aggravated by its lack of institutional capacity and political will to effectively tax its people. Compared to other middle income countries such as Argentina, Chile and Brazil, Mexico does a relatively poor job of taxing its citizens. Finally, the Petroleum Workers Union of the Republic of Mexico (STPRM) remains a significant force. With a membership of about 127,000 workers, the labor union's political force cannot be ignored (Estevez, 2014). The current challenge for the Enrique Peña Nieto administration is to find a balance between the need to identify more oil reserves and increase production, and the need to manage the domestic political actors that have historically opposed private investment in Mexico's oil sector.

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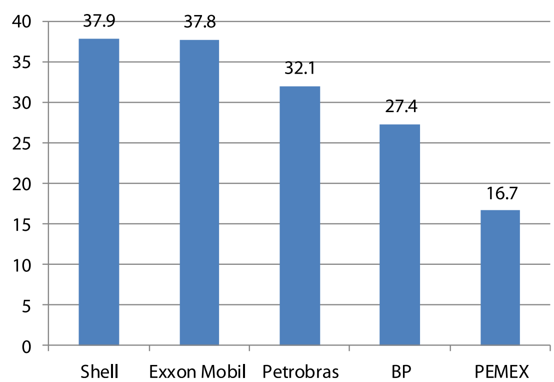
Appendix 1. Barrels of oil produced per employee per day (2012)



Source: Garcia (2013).

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