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The Americas

DE LA VEGA NAVARRO, Angel; **La Evolucion del Componente Petrolero en el Desarrollo y la Transición de Mexico**, Universidad Nacional Autónoma de Mexico, Mexico (1999), pp. 397, No Price Available, No ISBN.

In the twentieth century Mexico, like many other countries, has been shaped by the presence of oil in the economy, industry, technology and political institutions. It has been an important issue in Mexico's international relations as well as its internal politics. This book describes the history of the Mexican oil industry from the end of the nineteenth century, when there was a transition from public ownership of land to private property, up to the present day. The author has commendably compiled a body of political, economic and statistical data and history to study the Mexican oil industry in its different forms of organisation over more than a hundred years. However, the main objective of this work is not only to provide a narration or an accumulation of events and data. The author is concerned with a more ambitious aim. He studies the present strengths and weaknesses of Mexico's oil industry to find out if such an important monopoly can be efficiently adapted to the free market model in which the Mexican economy is situated. In the author's view, these models are not mutually exclusive; Mexico's monopoly, he says, can cope effectively within an open economy environment.

The book is divided into six chapters grouped in two main sections. In the first part, de la Vega emphasises the history of the oil industry in Mexico from its roots, beginning in the late nineteenth century. He describes the transition from public to private property rights of land and subsoil brought about by the modification of the 1884 legislation. The 1917 Constitution gave the government a leading role in public expenditure and creation of firms, a tendency that was consolidated with the oil expropriation in 1938. That event gave birth to the Mexican Oil Organisation Model (MOOM), as the author calls it, with PEMEX, the oil monopoly, at the head of that organisation. In retaliation for the expropriation of foreign oil companies, an economic embargo was imposed on Mexico, requiring the country to close its frontiers. At that time, de la Vega argues, the MOOM was the optimum organisation model to create the basis of a truly Mexican oil industry. In fact, the incorporation of the MOOM contributed to improving Mexico's economic development for the next sixty years.

The first part of the book thus sets the stage for the author's main objective: to identify the actual position of PEMEX and prospects for this monopoly inside an economy that looks towards reduced government intervention and for the privatisation of public industry in the context of an open market investment. He finds, in the second part of the book, that the MOOM is now in crisis because the institutional, political and economic framework in which it was conceived in the late 1930s has changed fundamentally. One of the most important examples of this transformation is the NAFTA agreement signed and started on 1 January 1994. The treaty's

main objective is to promote commercial and investment liberalisation among Mexico, Canada and the United States. Consequently, telecommunications, financial services, railways, agriculture, ports, airports, to name but a few sectors, were opened to private investment. The energy sector was also covered by the NAFTA agreement, albeit with specific and important limitations.

Even though Mexico embarked on a very ambitious free trade agreement, the oil industry, and in particular the upstream sector, remained out of reach of privatisation. The upstream sector was not part of the NAFTA agreement and Mexico retained the right to determine the levels of oil exports without any special concession of supply to any country. Private participation in the petrochemical industry is allowed, but basic petrochemicals, in which PEMEX has exclusive rights, are not. In the case of natural gas, national or international investors can transport, store, or distribute gas, but upstream production remains the PEMEX monopoly.

Once the limits of the NAFTA agreement were set down, the next task was to reorganise and transform PEMEX into a modern and efficient company. What has to be found, according to the author, is the optimal oil industry structure to meet the actual needs of the Mexican economy. The author concludes that it is possible for a state monopoly in the upstream to co-exist with a free market economy, but first the oil industry has to be modernised and adapted to the track of the economy. Moreover, de la Vega states that regardless of the economic model used, the government would be reluctant to privatise the upstream sector as long as the heavy reliance on oil revenues continues and concepts of sovereignty, private and state land ownership are not thoroughly clarified.

The author provides data that show that PEMEX has been looking ahead to turn itself into a more efficient company. Since the beginning of its reorganisation in 1992, the main objective has been the long-term value maximisation of Mexico's petroleum resources. At the moment PEMEX is the biggest company in Mexico and it is one of the five most important oil companies in the world. The opening to competition in the downstream of the natural gas and petrochemical sectors is an example of the reformation of the Mexican oil industry. Furthermore, in recent years PEMEX has developed international benchmarks for cost and performance, expanded the reporting of financial and other data, planned the restructuring of the company into operating units with separate accounts and introduced a system of transfer pricing between these units. The contraction of the workforce employed by the company also shows PEMEX to be on the path to modernisation. It is difficult to disagree with the author's view that neither public nor private ownership guarantees by themselves a more efficient industry or the complete satisfaction of consumers.

The relation between the government and PEMEX is of immense importance for the latter to achieve its aims and to maintain its progress towards becoming a more efficient company. De la Vega states that for this reason PEMEX and the government must harmonise their interests, although he admits this task is not easily accomplished, because the convergence of

objectives between these two entities is not clear. On the one hand, PEMEX pays heavy taxes to the federal government, which limits its management capacity and the scope of its investment which are vital to any oil company performance; on the other, PEMEX is constantly pushing for more autonomy and flexibility as a self managing company.

In sum de la Vega has achieved a remarkable book, which will make it a 'must have' reference for those interested in the history and early development of the Mexican oil industry. The ultimate objective of the book was not only interesting but also a difficult one; nevertheless the author defiantly defends his point of view. While the central part of the work is situated in the present time, this book also provides a solid basis for thinking about the future of the Mexican oil industry. For instance, imagine that as the government becomes less and less dependent on oil income then a complete privatisation of the oil industry might become a closer possibility than it is today. Under this circumstance Angel de la Vega's book will be an essential reference.

Roberto Carmona