High-voltage mire
Andrés Manuel López Obrador's energy policy will hurt Mexico

Lawmakers should vote down the president's proposals

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Mexico's president gets many of his ideas from the 1960s and 1970s. Back then Mexico had yet to embrace economic liberalisation or democracy, and state-owned energy companies dominated the economy. As a young politician, Andrés Manuel López Obrador watched Pemex, the oil giant created by nationalising private firms in the 1930s, spread largesse around Tabasco, his home state. Mexico has changed a lot since those days, as has the energy business. Mr López Obrador's thinking has not.

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Since becoming president in 2018, Mr López Obrador has repeatedly tried to recreate that antiquated model of state-led and fossil-fuel-powered energy. He has pumped public money into building a refinery in Tabasco, at a cost of at least $8bn, and into propping up the ailing Pemex. His latest attempt to turn back the clock is a constitutional amendment which, if passed, will hand back control of the electricity market to the state-owned electricity company, cfe. It would be a dis aster for the country.

Mexico opened up its oil and power industries timidly in the 1990s and then more boldly in the 2000s—an admission that, without private investment, it could not keep up its oil output or provide adequate, affordable power. A series of presidents tried to liberalise energy markets; Mr López Obrador's predecessor, Enrique Peña Nieto, at last succeeded. Lawmakers from both the ruling and main opposition parties voted for change.

The reforms worked. Electricity became cheaper for those firms able to buy on the open market. Pemex benefited from outside expertise in exploiting its reserves. Cheaper energy, in turn, helped Mexico's manufacturers flourish. This meant that the economy, and the government, were no longer dependent on oil rents. Better yet, renewable energy firms, like the tourists on the beaches of Cancún, thronged to soak up Mexico's plentiful sunshine. They also came to harvest its wind. A country steeped in hydrocarbons was joining the global shift to clean energy.

Mr López Obrador's plan is designed to reverse these successes, after earlier attempts were rebuffed in the courts. He says that strengthening cfe and Pemex would benefit the Mexican people. It is hard to see how. If the bill is passed, power will cost more. It will also be dirtier, as electricity generated by cfe will take priority over the largely cheaper and greener stuff mainly produced by private firms. Independent regulators will be scrapped. Private generators will no longer be able to sell power directly to big consumers, but only to cfe, on its terms.

All this would lead either to big price rises or to a burden on the public purse. Mexico would almost certainly miss its climate-change goals. Its credibility with investors would also be battered, as many energy contracts would be cancelled.

The reverberations would be felt throughout the economy. Multinational manufacturers, lured by Mexico's trade deal with the United States and Canada, would at the very least face higher power bills, threatening the profitability of some operations. Others have pledged to reduce their greenhouse-gas emissions; running a factory using power produced by burning dirty fuel oil would not help with that. And the sense that the rules in Mexico are liable to change at the president's whim will do little to attract investors already sceptical that a left-leaning populist will treat them fairly or predictably.

All this comes at a time when Mexico is emerging from its biggest economic contraction since the Depression. The country needs all the investment it can get. It should be seizing the huge opportunity presented by America's decoupling from its great East Asian rival. Many firms that cater to American customers are looking to shorten their supply chains and reduce their reliance on China. Mexico could attract many such firms, but only if the president does not scare them off.

Mr López Obrador's proposals are also legally iffy. Lawyers reckon the bill breaches trade deals, including the one with the United States on which so much of Mexico's manufacturing is based. The voiding of contracts will raise tricky legal questions about compensation.

And if Mr López Obrador succeeds in abolishing two independent energy regulators, he is likely to redouble his attacks on institutions that he does not yet control. These could even be focused on the body that administers Mexico's elections, a frequent target of his. It seems the president's conception of the state is also mired in the 1970s, when Mexico was ruled by a single party and the executive faced no meaningful checks on its power.

Mexico's Congress should vote down his proposals, which will be debated from January 17th. Beyond that, though, lawmakers should try to rein in both the president's nationalistic tendencies, which will endure long after this bill, and his attempts to undermine the rule of law. This will not be easy. Mr López Obrador is one of the most popular leaders in Latin America. He is also one of the most stubborn.