MEXICO: Takeaways from political skirmishing over electricity and lithium

- Despite the rejection of President Andres Manuel Lopez Obrador (AMLO)'s electricity market reform, legal and political uncertainty will continue to impair the power sector.
- The fast-track approval of a lithium nationalization initiative is primarily a political damage limitation exercise, though it will harm the development of a fledging industry for Mexico.
- Although opposition parties forced the biggest upset of AMLO's presidency by blocking the electricity reform, it is too early to say whether the opposition is fully resurgent.
- Recent events mark the beginning of a more politically conflictive stage of AMLO's presidency, the next phase of which comes with six gubernatorial votes in June.

The key takeaways from the last fortnight of events can be summarized as follows:

Electricity sector: constitutional amendments that would have restored the state-run CFE electricity utility to a market-dominant position were rejected after the governing coalition in the lower house on 17 April failed to secure the required two-thirds majority. While this is welcome news, it is tempered by the continuing uncertainty arising from the status of the parallel Electricity Industry Law (LIE), which the Supreme Court (SCJN) on 7 April judged *not* to be in violation of the constitution. Despite this ruling, the LIE continues to face dozens of individual injunctions that the Supreme Court could still uphold. To complicate matters, the government appears likely to press ahead with enforcement of the LIE where it can; AMLO yesterday indicated that self-supply energy contracts would still be revoked. Above all, AMLO's opposition to energy liberalization will not have diminished with the defeat of his electricity reform initiative; he has already said that he expects the National Regeneration Movement (Morena)'s eventual presidential candidate – who AMLO will be instrumental in selecting – to revive the electricity reform after 2024.

Lithium: AMLO reacted to the electricity reform defeat by pushing through a lithium nationalization law barring private companies from the lithium sector. However, the initiative is largely symbolic since Mexico's lithium deposits are not yet commercially viable. It may also prompt litigation as aspects of the new law overlap with existing legal provisions, while others may contravene the United States-Mexico-Canada trade agreement (USMCA). However, AMLO needed to salvage something and chalk up a quick victory; the new law only required a simple majority, which Morena and its allies continue to possess in both chambers.

AMLO: the last fortnight ranks among AMLO's most challenging periods since taking office, even if he himself is largely to blame; his refusal to compromise was a major factor in the sinking of the electricity reform. That intransigence will almost certainly kill off his two other constitutional reform priorities – changing the electoral system and putting the National

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Guard (GN) under military command – given how controversial they are. Separately, his flagship 1,525km Mayan Train (*Tren Maya*) project continues to face opposition and legal obstacles. Meanwhile, despite spinning the 10 April recall referendum as a triumph, the outcome indicates that AMLO's popularity is not nearly as solid as it once was; AMLO's vote has halved since his 2018 presidential election victory. However, it would be wrong to underestimate AMLO or to overstate the significance of a single – albeit important – congressional defeat. AMLO continues to dominate the news agenda and wrap himself in the flag to whip up popular support.

Opposition: by sticking together to block the electricity reform, the *Va por Mexico* coalition, which comprises the National Action Party (PAN), the Institutional Revolutionary Party (PRI), and the Party of the Democratic Revolution (PRD), passed a significant test. However, it would be premature to suggest that the coalition can now be considered a viable electoral force with the vigor to mount a credible challenge to Morena in 2024. The lack of an obvious presidential candidate remains a complication. Gubernatorial elections in six states on 5 June represent an immediate test for the claim that the opposition is truly resurgent; *Va por Mexico* is competing jointly in four states. Next year, the coalition will face a high-stakes gubernatorial election in the state of Mexico (Edomex), which is a longstanding PRI bastion that accounts for around 12% of the total electorate.

Radicalization: the last fortnight has seen political tensions rise to new heights as rhetoric against the opposition has become even more aggressive; in his press conference today, 21 April, AMLO reiterated the charge of "treason" that Morena members have been levelling at PAN and PRI legislators. In the immediate term, the upcoming state elections will keep tensions running high as AMLO deliberately stokes polarization. Tensions are unlikely to die down significantly after June as AMLO looks to distract from economic weakness, elevated inflation, and continuing security problems. The risk is that AMLO opts for further political radicalization as he increasingly focuses on steering the succession and securing his legacy.

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