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In late July, the state-run oil company Pemex announced plans to begin the privatization of 10 petrochemical complexes, which together account for 61 petrochemical plants. Pemex director Adrian Lajous told reporters the government is scheduled to open bids for the 10 facilities in mid-October and complete all privatizations by mid-1996. According to some estimates, President Ernesto Zedillo's administration will earn revenues of about US$6 billion from the sale of the plants. Lajous said the funds raised from the privatization will be earmarked specifically for exploration and drilling activities. In previous privatizations of state-owned enterprises between 1988 and 1994, the revenues raised from the sales were not necessarily earmarked, but were placed in general revenues.

Lajous promised that domestic and foreign companies would receive equal treatment in the bidding process. However, Lajous hinted that Pemex is counting on heavy investment from foreign chemical and industrial companies, given the "chronic underinvestment" in Mexico's secondary petrochemical sector. According to Lajous, the conditions of the sale of the plants stipulate that the new owners must continue to produce all the basic petrochemical products that they now manufacture, including the additives used to produce unleaded gasoline. In fact, the new majority owners of the 10 petrochemical complexes will be required to sign contracts to supply the basic products to the Pemex subsidiaries Pemex- Refinacion and Pemex Gas y Petroquimica at internationally- based prices.

The privatization of the plants will be conducted through international auctions, which will be handled by the US-based companies J.P. Morgan and Arthur D. Little. The winning bidders will own a majority share in the plants, but are obligated to allow Pemex to retain a minority ownership of 20% to 33%. According to Lajous, the minority shares will allow Pemex to meet all its commitments to members of the oil workers union (Sindicato de Trabajadores Petroleros de la Republica Mexicana, STPRM) at the plants, since the state's continuing involvement will ensure that the new owners respect the collective bargaining agreements already signed by the government. The arrangement is temporary, however, since Pemex plans to sell its minority shares in the petrochemical plants on the Mexican Stock Exchange (BMV) at an undetermined time in the future. He said Pemex would wait until the shares reached "an appropriate value" before deciding to sell them to investors.

Several foreign companies have already expressed interest in bidding for the petrochemical complexes, including German- based firms BASF and Hoechst. BASF already has a presence in the Mexican market. During July, BASF's subsidiary Basf Mexicana received permission, along with partners Chem-Tech and Polioles, to produce eight types of secondary petrochemicals at a yet-to-be constructed plant in Altamira, Tamaulipas state. According to the Journal of Commerce, the awarding of the permit was significant because this was the first time that a private producer would compete directly with Pemex. A spokesman for Hoechst, meantime, told the official news agency

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Notimex that the company plans to rely heavily on its Mexican subsidiaries Hoechst de Mexico and Celanese to provide input on any bids for the petrochemical facilities.

Notwithstanding the lucrative possibilities for foreign companies entering the Mexican petrochemical sectors, the companies that receive concessions will also need to spend considerable amounts to upgrade the aging facilities, which are inefficient and do not meet new environmental standards. Roughly 88% of the secondary petrochemicals produced in Mexico come from plants in Veracruz state. In fact, according to the timetable announced by Lajous, the first four complexes to be offered to private investors are all in Veracruz. Cosoloeacaque will be first, followed by Cangrejera, Morelos, and Pajaritos, also in Veracruz state. The six other facilities San Martin Texmelucan, Tula, Escolon, Reynosa, Camargo, and Salamanca are scattered throughout the country in states such as Hidalgo, Guanajuato and Tamaulipas.

Lajous admitted that the privatization of the plants has attracted some controversy, including the question of whether the transfer of the facilities to the private sector violates the Mexican Constitution. Article 27 of the Constitution designates natural resources such as oil as the national patrimony of all Mexicans. Under some interpretations, any part of Pemex would fall under this definition. The constitutional question, however, has not been the main focus of opposition to the sale of the facilities, but rather the question of whether the government will take a fair stance in regard to domestic bidders. The same day that terms of the privatization were announced, a group of business leaders immediately denounced the process as "unjust and discriminatory." The protests were led by executives of the manufacturing industry association (Asociacion Nacional de Industriales de la Transformacion, ANIT), who urged the Zedillo administration to suspend the privatization and hold public hearings to gain broader input. ANIT officials Pedro Salcedo and Raymundo Artis also released a statement that warned that the privatization could "increase Mexico's dependence on foreigners."

The statement also questioned whether the process would be equitable even if only Mexican nationals were allowed to bid for the facilities. "The privatization of government enterprises has concentrated resources in the hands of a few people in power," read the statement. The plans to privatize the petrochemical facilities also attracted some opposition in the Mexican legislature, including some members of President Ernesto Zedillo's Institutional Revolutionary Party (PRI). Among the most vocal PRI critics of the privatization was Sen. Layda Sansores, who gained prominence when she vocally denounced Zedillo's emergency economic plan in March of this year (see SourceMex, 03/22/95).

Still, the bulk of the opposition to the plan came from the opposition National Action Party (PAN). Sen. Rosendo Villarreal, a member of the Senate's energy committee (Comision de Energeticos), said the committee was planning to ask for modifications to the law, which would limit foreign ownership of the petrochemical facilities to 49%. Villarreal said the energy committee had requested a hearing with Energy Secretary Ignacio Pichardo Pagaza to explain the details of the privatization. For her part, Norma Samaniego, head of the Comptroller's Secretariat (Secretaria de la Contraloria y Desarrollo Administrativo, Secodam) promised that her ministry would closely monitor the privatization process to ensure that it is transparent and fair. The privatization of the petrochemical plants, however, is not a new proposal. A privatization plan had been proposed by former president

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Carlos Salinas de Gortari's administration. However, due to a weak global petrochemical market the government was forced to suspend privatization (see SourceMex, 07/19/93).

International energy industry specialists, meantime, suggested that opponents in Mexico should not downplay the benefits of privatizing the petrochemical facilities. "The process will bring benefits to the industry in terms of production, technical advancements, and an improved competitive position in global markets," said George Grayson, an energy sector specialist at William & Mary College in the US. In raising concerns about the privatization of the petrochemical plants, the Senate's energy commission also announced plans to examine the Zedillo administration's proposed policies on privatizing support services for the natural gas industry. In May of this year, the Mexican congress already approved general legislation allowing the privatization of such support services (see SourceMex, 05/03/95).

However, according to Sen. Carlos Romero Deschamps, chairman of the energy committee, Mexican legislators now want to ensure that privatizing such services as transportation, storage, and distribution of natural gas will not result in higher prices for the Mexican public. Additionally, Romero said the committee wanted to ensure that established Mexican companies receive preference in the awarding of concessions for these services. (Sources: Journal of Commerce, 07/17/95; La Jornada, Reforma, 07/13/95, 07/27/95; Agence France-Presse, 07/26/95, Notimex, 07/27/95; El Financiero International, 07/31/95; Excelsior, 07/27/95, 07/27/95; El Norte, 08/01/95)

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