11-8-1995

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LADB Article Id: 55875
ISSN: 1054-8890

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Category/Department: Mexico
Published: 1995-11-08

In late October, President Ernesto Zedillo's administration announced plans to begin the formal privatization of 61 PEMEX petrochemical plants in mid- November. The privatization of the plants, located at 10 different petrochemical complexes in Mexico, was originally due to begin on Oct. 31, but was postponed due to "technical difficulties." According to PEMEX's planning director Antonio Sacristan Roy, a total of 70 domestic and foreign companies have announced intentions to bids for the petrochemical facilities, which are located mostly in Veracruz and other southeastern states. When the privatization plans were first announced in July, PEMEX officials promised that domestic and foreign companies would receive equal treatment in the bidding process (see SourceMex, 08/02/95).

Speaking to reporters in late October, Energy Secretary Ignacio Pichardo Pagaza said concessions at the facilities for the Cosoalaqueque, La Cangrejera, Pajaritos and Morelos complexes will be opened in mid-November, and concessions will probably be announced by the end of the first quarter of 1996. All four complexes are located in Veracruz state. The first complex to be opened for bids will be the Cosoalaqueque facility, which is Mexico's largest producer of ammonia for the fertilizer industry. In fact, two prominent Mexican fertilizer manufacturers Ferquimex-Fertimina and Agronitrogenados have announced intentions to submit bids for this complex. Both Ferquimex-Fertimina and Agronitrogenados were formed from the privatization of the government's fertilizer company Fertimex in 1992.

Agronitrogenados expects to place its bid with financial support from its parent company Grupo Acerero del Norte (GAN), which owns the highly profitable steel company Altos Hornos de Mexico (AHMSA). For their part, officials at Ferquimex-Fertima said the company is negotiating with foreign partners to place the bid. A third company, Japan's Nissho Iwai, has also announced intentions to bid for the Cosoalaqueque petrochemical complex. Indeed, according to the Energy Secretariat (SE) and PEMEX officials, a large number of Mexican companies or Mexican subsidiaries of foreign companies have submitted bids for the petrochemical complexes. In addition to Ferquimex- Fertima and Agronitrogenados, the list includes Resistol, Cydsasa, Grupo Alfa, Celanese, Penoles, and Agromicroginados.

A handful of foreign companies have also registered their intentions with the Mexican government to bid for the plants. These include US-based enterprises Dow Chemical, Exxon, Shell, and Chevron, as well as Japan's Sumitomo and Germany's BASF and Hoechst. In August, PEMEX director Adrian Lajous said the funds raised from the privatization which are expected to approach US$6 billion will be earmarked specifically for exploration and drilling activities. On the other hand, the privatization of the petrochemical plants has already attracted strong opposition from members of the oil workers union (Sindicato de Trabajadores Petroleros de la Republica Mexicana, STPRM), and a number of professional employees, who are concerned about the possible loss of jobs and the constitutional

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implications of the sale of a PEMEX property. During a rally on Oct. 19, attended by 5,000 PEMEX workers, protestors carried signs that read: "To sell PEMEX is to sell Mexico," and "We reject the sale of our national patrimony."

In fact, the constitutional question has become so prominent that some opponents have suggested that Zedillo administration hold a referendum to determine whether voters would approve of the sale of the 61 petrochemical plants. In addition, there are others who do not directly oppose the privatization but would like to see safeguards added to the constitution that would ensure that foreign interests do not gain control over Mexico's petrochemical sector. Indeed, the constitutional question was left open to debate following the passage of the 1992 PEMEX Organic Law, which restructured PEMEX into four separate subsidiaries (see SourceMex, 07/01/92).

Former president Carlos Salinas de Gortari pushed for this restructuring of PEMEX as a means to bring more efficiency and openness to the state-run oil company's operations. The law, however, did not define the sectors of the oil industry that were constitutionally open to privatization. The Zedillo administration, meantime, has rejected both the proposal to modify the constitution and the proposal to hold referendum. Speaking at a business forum, PEMEX's Sacristan Roy tried said the privatization of the petrochemical plants involves the transfer of an operation to a private party and not the direct sale of the state's assets. Sacristan's explanation, however, has been disputed by some Mexican legislators, who argue that Mexico's 61 petrochemical plants produce primary and strategic chemicals and cannot legally be privatized.

Deputy Ifigenia Martinez, a member of the opposition Democratic Revolution Party (PRD) said rejected the reasons given by PEMEX to justify the need to privatize the plants. "The reasons offered by PEMEX actually lead us to the opposite conclusion, that there is no need to sell the petrochemical plants." Martinez, who is an economist by profession, said for example, that the plants already provide a reliable supply of petrochemicals to Mexican companies, and that any exports are already "very competitive" on the world market. She said the sell-off of the plants to the private sector could be another "costly error" like those committed under the Salinas administration. "These mistakes have submerged the Mexican economy into a great depression," she said. Among those who have also raised concerns about the privatization are members of Zedillo's Institutional Revolutionary Party (PRI).

In a speech before the Mexican Senate, PRI Sen. Gustavo Carbajal of Veracruz state raised concerns about the possible loss of jobs. While not directly opposing the privatization, Carbajal who chairs the Senate's government affairs committee (Comision de Gobierno), asked for Zedillo to ensure that the new owners to observe "an absolute respect" for the rights of the 20,000 employees at the 61 petrochemical plants that will be privatized. According to PEMEX statistics, nearly 75% of the petrochemical plant employees are members of the STPRM. These employees are less likely to lose their jobs. On the other hand, the remain workers are temporary employees, who could easily lose their positions.

But in an attempt to ease the concerns about job losses, Energy Secretary Pichardo promised that any layoffs would be a "temporary" situation. According to Pichardo, the privatization will result in the infusion of new capital to the petrochemical sector, which in turn will result in expansion and the creation of new jobs. He said the Mexican government is not in a position to devote the

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resources needed for the expansion of the industry, which needs to modernize in order to meet global competition. In addition to capital, Pichardo said the private owners would hire their own technical experts for their facilities, thus freeing up PEMEX technicians to concentrate their expertise toward improving exploration and extraction methods for crude oil and natural gas.

Indeed, PEMEX this year is making a major push to find new sources of crude oil. In a recent interview with the New York Times, Pichardo said the Zedillo administration views an increase in oil export revenues as one of the vehicles to help reactivate the Mexican economy (see SourceMex, 11/01/95). Even though a large number of the potential bidders for the petrochemical plants are Mexican companies, a number of business leaders have expressed reservations about the proposed structure of the privatization. Many of these leaders have told the Zedillo administration about their concerns that the process gives foreign companies an unfair competitive advantage. Many foreign companies have a greater financing capacity than Mexican-based bidders.

Business leaders such as Arturo Garcia, corporate director of the chemical company Grupo IDESA, have asked the Zedillo administration to change the terms of the privatization to require more Mexican-foreign partnerships. Garcia argued that through the partnerships, Mexican companies could gain access to foreign capital and expertise, while the foreign companies would benefit from the domestic partner's knowledge of the Mexican market. According to El Financiero International weekly business newspaper, however, companies such as Germany's Hoechst and US-based Exxon have operated subsidiaries in Mexico for several years and are not likely to forge joint ventures with a Mexican partner.

The concern about the potential dominance of foreign companies over the Mexican petrochemical market was also raised by a group of technicians, engineers and other professional workers in an interview with the weekly news magazine Proceso. According to the interviewees, the current terms of the privatization do not promote competition, replacing the government's historic monopoly of the petrochemical industry with a "private monopoly." The creation of these monopolies, they argued, will not be conducive to promoting efficiency in the petrochemical sector. The white collar workers rejected the Zedillo administration's key reason for privatizing the plants: a lack of efficiency and profitability.

"If the plants were not profitable, they would not attract any interest from potential buyers," said one technician. He said any "reduction in profit potential" can be addressed through internal changes, not by selling the facilities to the private sector. For example, he suggested that the perceived lack of profits at the plants is related to such factors as "poor administration and excessive bureaucracy." In addition, he argued that the bottom line of Pemex-Petroquimica is affected by the needs to increase expenditures for anti-pollution devices and other capital equipment. Indeed, in anticipation of the privatization of the petrochemical plants, PEMEX has actively installed anti-pollution devices in order to make the facilities more attractive to potential buyers.

In addition to requiring anti-pollution devices, environmental legislation requires that owners of petrochemical plants clean up contamination caused by years of neglect, which could cost the potential owner billions of dollars. According to El Financiero International, many foreign chemical and oil companies have already indicated that they will lower their bidding prices because of the

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increased environmentally-related expenditures associated with the purchase of the petrochemical plants. (Sources: Notimex, 10/20/95; Proceso, 10/23/95, 10/30/95; El Financiero International, 10/30/95; Reforma, 10/30/95, 11/02/95; Agence France Presse, 10/19/95, 10/21/95, 11/03/95; Excelsior, 10/21/95, 11/03/95)

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