2-14-1996

Opposition Growing to Government's Plan to Privatize 61 Petrochemical Plants

LADB Staff

LADB Article Id: 55785
ISSN: 1054-8890

Opposition Growing to Government's Plan to Privatize 61 Petrochemical Plants

by LADB Staff
Category/Department: Mexico
Published: 1996-02-14

The government's plan to sell off 61 petrochemical plants to private buyers is attracting increasing opposition from labor groups, political opposition parties, and even members of President Ernesto Zedillo's administration. According to the daily newspaper Reforma, more than 20 civic, business, political and labor organizations have filed formal petitions asking the federal government to reverse its November 1995 decision to privatize Mexico's petrochemical plants.

Leading the opposition to the privatization is the petroleum workers union (Sindicato de Trabajadores Petroleros de la Republica Mexicana, STPRM), which has raised concerns primarily about the potential loss of thousands of jobs in southeastern Mexico. Other groups that have formally opposed the privatization include a PEMEX professional workers association (Coalicion de Tecnicos y Profesionistas de PEMEX), a national association of lawyers (Asociacion Nacional de Abogados Democraticos), and a group of researchers and professors from the Universidad Nacional Autonoma de Mexico (UNAM). The 61 plants are grouped into 10 huge complexes.

Under the timetable set by the Zedillo administration in November of last year, concessions for four of the 10 complexes were scheduled to be announced by the end of the first quarter of 1996 (see SourceMex, 11/08/95). However, given strong opposition both from labor groups and from Mexican legislators, the announcement of the concessions remains uncertain. The only statements the Zedillo administration has made in recent weeks regarding the privatization timetable is that all government properties scheduled to be transferred to private management or ownership will be completed during 1996 and 1997. Indeed, some opponents including members of the governing Institutional Revolutionary Party (PRI) are now urging President Zedillo to cancel the plan to privatize the 10 petrochemical complexes altogether.

The opponents, who have made direct appeals to the administration and also presented their positions at hearings sponsored by the Chamber of Deputies, argue that privatization of the petrochemical complexes would violate the Mexican Constitution. Under Article 27 of the Constitution, natural resources such as oil are designated as the property of all Mexicans and, therefore, cannot be owned by private individuals, whether they are Mexicans or foreigners. Some interpretations suggest that Article 27 covers all PEMEX operations, including petrochemical plants. For their part, PEMEX officials insist that the privatization of the petrochemical plants only involves the transfer of an operation to a private party and not the direct sale of the state's assets.

Still, opponents dispute this interpretation, arguing that Mexico's 61 petrochemical plants produce primary and strategic chemicals and cannot legally be privatized. 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 to bring more efficiency and openness to the state-run oil

LADB Article Id: 55785
ISSN: 1054-8890

company's operations. The law, however, did not define the sectors of the oil industry that were constitutionally open to privatization.

In addition to the question of collective ownership of PEMEX resources, many opponents of the privatization argue that the priority of foreign or Mexican buyers will be to obtain a profit, rather than to operate for the benefit of the Mexican economy. Fears that the privatization could leave Mexico's petrochemical industry in the hands of foreigners are not totally unfounded. Bidders include US-based enterprises Dow Chemical, Exxon, Shell, and Chevron, as well as Japan's Sumitomo and Nisho Iwai, Germany's BASF and Hoechst, and Britain's British Petroleum. However, according to the Energy Secretariat (SE) and PEMEX, at least half the 22 bids received for concessions as of mid-January were submitted by Mexican consortia, including Ferquimex-Fertima, Agronitrogenados, Resistol, Cydsasa, Grupo Alfa, Celanese, Penoles, and Agromicroginados.

In addition to the constitutional question, the possibility of job losses is a major concern. At hearings sponsored by the energy committee (Comision de Energeticos) of the Chamber of Deputies in early February, the STPRM repeated its claim that the sale of the 10 petrochemical complexes could endanger the jobs of almost 20,000 workers. The hearings were held in the cities of Minatitlan and Coatzacoalcos, both in Veracruz state, which are close to four of largest petrochemical processing complexes: Pajaritos, Morelos, La Cangrejera, and Cosoleacaque. Under the privatization timetable, these four complexes will be the first to be privatized. However, in addition to jobs, the STPRM is also worried that it could lose current collective bargaining rights negotiated with the government.

"For the STPRM, the greatest danger is that they will lose out in their current contractual relationships," said a petroleum industry analyst. Meantime, in early February, the Mexican workers confederation (Confederacion de Trabajadores de Mexico, CTM) issued a statement that for the first time fully supports the stance of its affiliate STPRM. This represents a major change in direction for the CTM, which in the past has given tacit support to the privatization of the petrochemical plants. In the statement, the CTM acknowledged that the efficiency of operations at the plants could be improved significantly, but said this could be corrected internally rather than by selling the plants to private buyers.

"If correct policies are applied in the petrochemical industry, it could be a great tool to promote economic development," the CTM said in a prepared statement. The CTM statement supported proposals in the legislature asking the Zedillo administration to schedule a public debate on the question of privatization. Arguments against privatization of the petrochemical plants have also surfaced in recent weeks in the Chamber of Deputies. In his first appearance before the energy committee, newly appointed Energy Secretary Jesus Reyes Heroles was forced to defend the privatizations. Members of both the opposition Democratic Revolution Party (PRD) and the PRI asked Heroles to specify whether he supports a "nationalist" option or a "betrayal of the principles of nationalism and sovereignty." The issue of privatization was also one of the main topics of discussion at a joint hearing of the permanent committee (Comision Permanente) and the energy committee in the Chamber of Deputies.

PRI deputies Francisco Kuri and Jorge Wade, both of whom also represent the STPRM in the Chamber of Deputies, issued a blunt warning to the Zedillo administration not to proceed with the

LADB Article Id: 55785
ISSN: 1054-8890

privatization of the plants. Kuri said Zedillo risked a popular uprising, given the large number of groups that now oppose the privatization. Speaking on behalf of the PRD's full delegation in the Chamber of Deputies, Deputy Amado Cruz Malpica questioned why the Zedillo administration was in such a hurry to privatize the petrochemical plants when evidence suggests that Mexico would benefit by retaining control over the facilities. Cruz accused the Zedillo government of "bowing to US interests." This argument was supported by Rafael Decelis Contreras, columnist for the daily newspaper Excelsior, who said the US government is pressuring the Zedillo administration to sell off the remaining government properties to boost revenues.

"These revenues will go toward payments on foreign debt," Decelis said. Indeed, in an interview with the Paris-based news newspaper Le Figaro in mid-February, Finance Secretary Guillermo Ortiz Martinez acknowledged that Mexico could obtain US$1.2 billion from the concession or sale of state facilities, which could include the petrochemical plants, seaport and airport management, natural gas, and railroad operations. "With the new privatizations, we'll quickly make our industries competitive," said Ortiz, who was interviewed at the recent Global Economic Forum in Davos, Switzerland.

However, as an alternative to the privatization of the petrochemical plants, Decelis proposed that the government treat the plants as an enterprise and not merely as a means of obtaining revenues. One option, he said, would be to promote the installation of industrial facilities in Mexico that would use products refined at the petrochemical plants. Meantime, PEMEX director Adrian Lajous, in an internal report, mentioned other risks facing Mexico if the plants are privatized. For example, he said, the number of companies that would actually receive concessions would be limited, since only a few can afford the millions of dollars needed to upgrade the facilities to compete on the global market. He said the small number of plant concessions, in turn, would increase the danger that Mexico's petrochemical industry would go from a "publicly held" monopoly to a "privately owned" monopoly.

Lajous also expressed concern that privatization could result in the closure of some plants if, after several years, the new owners do not turn a profit. In addition, the report said, the changes could have negative repercussions for small businesses, since the new owners would not be obligated to buy supplies from Mexican sources. This last concern was also raised by Victor Manuel Terrones, president of the manufacturing industry chamber (Camara Nacional de la Industria de Transformacion, CANACINTRA). Terrones said CANACINTRA is not seeking a suspension of the sale of the plants to the private sector, but rather a change in the terms of the privatization to create safeguards for Mexican companies. However, Lajous's report immediately raised concerns among some of the companies that have expressed the intention to participate in the privatization of the petrochemical plants. These companies which include Amoco, Bayer, Celanese, and Alfa asked the Zedillo administration to clarify whether the privatization will proceed on schedule or whether the process will be suspended.

According to company officials, if the privatization is suspended, the financial and other resources currently being used to prepare for the Mexican market can be channeled into other projects. Meanwhile, according to independent consultant Benito Bucay, one major reason why the Zedillo administration will have to consider a delay in the sale of the plants is the fact that the global

LADB Article Id: 55785
ISSN: 1054-8890

petrochemical market is about to resume its decline. "The government is facing the dilemma of whether to sell the petrochemical plants below their book value or delay the privatization until a more propitious time," said Bucay, who is a former director of the chemical company Industrias Resistol. Bucay told the daily newspaper Excelsior that the global petrochemical market just completed two relatively strong years, but is about to enter its traditional downward cycle. "There will be four years of mediocre sales between now and the year 2000," he said. (Sources: Agence France-Presse, 01/11/96; Reforma, 01/19/96, 02/06/96; El Financier, 01/24/96, 01/25/96, 02/06/96; La Jornada, 01/17/96, 01/18/96, 02/07/96, 02/08/96; Excelsior, 01/17/96, 02/09/96)

-- End --