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At Least Six Consortia Submit Bids for Mexico's Natural Gas Concessions

by LADB Staff
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Since the beginning of the year, President Ernesto Zedillo's administration has had mixed results in its effort to open up the energy sector to foreign investment. On the one hand, the administration has attracted strong interest from foreign companies in the distribution of natural gas in northern areas of the country. On the other hand, efforts to proceed with privatization of the country's petrochemical plants have been hampered by numerous delays, partly because of changes in the proposed terms for sale. The opening of natural gas distribution to the private sector will focus primarily on the northern areas, although the government plans to take bids soon on a pipeline in southeastern Mexico.

In early April, the Energy Regulatory Commission (Comision Regulatoria de Energia, CRE) announced that the government has prequalified six bidders interested in supplying Mexicali and nearby areas of Baja California with natural gas. "Interest was much greater than expected," said CRE president Hector Olea. The six participants must present the details of their bids to the government by early June. Concessions will then be announced in August.

The bidders include two partnerships between Mexican companies and European counterparts. One involves Mexico's Protexa and French-based Gaz de France. The other is composed of Gas de Saltillo and Spain's Gas Natural SDG, which have formed a joint company called Gas Union. This partnership has strong connections to Spain, since Gas de Saltillo is a subsidiary of the Spanish energy company Repsol. Two other partnerships in the bid are made up of joint ventures between Mexican and US firms. One includes the Mexican engineering company Grupo Tribasa and PNM Energy. The latter is the largest distributor of natural gas in New Mexico. The second US-Mexican partnership is a joint venture between Mexicali-based Proxima and San Diego Gas of California. Proxima is a consortium of businesses in Mexicali. Finally, two other companies are submitting bids on their own: Tenneco Latin America and Guadalajara-based Multigas. Tenneco Latin America is a subsidiary of Tenneco Corp., one of the largest distributors of natural gas in the US.

The Mexicali market is not the only one being opened to foreign investors. In April, Enserch de Mexico, a subsidiary of Dallas-based Enserch Corporation, announced plans to acquire shares in a number of companies that distribute natural gas to the metropolitan area of Monterrey. MidCon Gas Natural de Mexico, a subsidiary of the US company MidCon, is also seeking to serve the Monterrey market. The company recently announced plans to build a 102-mile pipeline from Roma, Texas, to Monterrey by mid-1997. The Monterrey market has also attracted the attention of the Spanish consortium Gas Union. A company spokesperson said GAS Union will announce details of its plans later this year.

Meanwhile, the government's progress in opening up natural gas distribution to the private sector stands in stark contrast to delays in privatizing the country's petrochemical plants, which in part

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reflects widespread opposition in Mexico to the sale of those assets. According to El Financiero International, the delays may in the end discourage some foreign firms from participating.

In interviews with the paper, executives Joaquin Moreno of Shell Mexico and Dietz Kamanski of BASF Mexicana said changes in the terms of privatization for the country's 10 petrochemical complexes have caused many foreign companies to lose interest. A key change in the terms, announced in mid-March, is a decision by Mexico to invoke a clause in the North American Free Trade Agreement (NAFTA) that allows the government to restrict production of 13 basic petrochemicals to companies that are majority-owned by Mexicans. "The Mexican government's change of heart has not been well received by Shell executives," said Moreno, who noted that many other foreign companies were viewing the changes with similar concern. The clause was not part of the original guidelines released when the privatization of the petrochemical plants was first announced.

Under the timetable set by the Zedillo administration in November 1995, concessions for four of the 10 complexes were to be announced by the end of March 1996 (see SourceMex, 11/08/95). Apparently, the changes in terms are aimed at easing opposition to the sale of petrochemical complexes, which, taken together, include 61 plants. The changes are expected to benefit Mexico's four giant chemical conglomerates: Resistol (a subsidiary of Grupo Desc), Alpek (a subsidiary of Grupo Alfa), Celanese Mexicana, and Grupo Idesa. According to El Financiero International, the four companies are rumored to have reached an informal agreement to bid jointly for the two largest complexes: La Cangrejera and Morelos. Statistics published by the daily newspaper Excelsior indicate that La Cangrejera is the largest complex of its kind in Latin America, accounting for 47% of Mexico's petrochemical sales.

The 20 plants at the complex produce many of the 13 basic petrochemicals reserved for companies with majority Mexican ownership, including ethylene and benzene. Similarly, Morelos which accounts for 18% of Mexico's total petrochemical production produces a number of key chemicals on the list, such as ethylene and polyethylene. The government's decision to invoke the NAFTA clause means that the petrochemical complexes will no longer be sold off as one massive unit. Rather, the plants must now be privatized individually, ushering in a cumbersome process of breaking the complexes into separate entities for sale.

This option had originally been discarded as impractical, since many plants within a complex are connected to each other and share common connections to gas, power, water, and other utilities. On the other hand, the government decided not to apply the new policy to the sale of the Cosoleacaque complex, since the complex had already been designated for privatization as a single unit. Nevertheless, the overall change in policy has caused enough confusion among the four final bidders for the Cosoleacaque complex to cause numerous delays in the sale of the facility. The four finalists Agromex of Mexico, Norsk Hydro of Norway, and US-based companies Terra and Farmland Industries have now asked the government for "ample and numerous" clarifications over such matters as base contracts, service, purchase of raw materials, environmental factors, and labor regulations.

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Because of the confusion, the final announcement on the Cosoleacaque bid originally due at the beginning of April has been delayed until the end of the month. However, according to the daily newspaper Reforma, the extension was probably not sufficient to clear up the questions, and in the end the government may have to suspend privatization of Cosoleacaque indefinitely. Meantime, the Zedillo administration remains adamant about pushing the privatization process forward, although members of Zedillo's Institutional Revolutionary Party (PRI) appear unsure of how to proceed. Some PRI leaders in the Chamber of Deputies, such as Humberto Roque Villanueva, have pledged their full support for the Zedillo administration's plans.

In early April, Villanueva and other PRI legislators joined forces with counterparts from the opposition National Action Party (PAN) to endorse the privatization of the petrochemical plants as the preferred means for attracting new sources of financing to modernize PEMEX facilities. The positions of Zedillo's PRI backers and most of the members of the PAN coincide with the viewpoint of many business organizations. Indeed, at a recent conference in Monterrey, representatives of manufacturing industries, export organizations, and others said the expansion of the petrochemical facilities through infusion of private capital would benefit the Mexican economy as a whole by increasing availability of key products needed by industry.

On the other hand, the PRI's national executive committee is expected to recommend that President Zedillo suspend the proposed privatizations. The executive committee, led by PRI president Santiago Onate Laborde, apparently supports the position of the petroleum workers union (Sindicato de Trabajadores Petroleros de la Republica Mexicana, STPRM) and its parent union, the CTM, that the petrochemical facilities should not be sold to private investors, even if the companies are majority Mexican. The unions fear that privatization will result in job loss, while compromising national sovereignty. According to sources within the PRI, the party's executive committee is considering a small compromise in which the existing 61 petrochemical plants would remain entirely in the hands of the Mexican government, but private domestic and foreign investors would be allowed to own and operate any new petrochemical facilities built on Mexican territory.

Cuauhtemoc Cardenas leader of the opposition Democratic Revolution Party (PRD) is also adamantly opposed to privatization. In mid-April, Cardenas launched a major effort to raise capital to keep the petrochemical plants in the hands of Mexicans. The campaign dubbed the Colecta Nacional Petroquimica Pro Mexico is heavily supported by the PRD. Among others, the campaign has received donations from the Zapatista National Liberation Army (EZLN) and businessman Carlos Martinez Assad. Speaking at a ceremony to push the Petroquimica Pro Mexico campaign forward, Cardenas said the greatest risk for Mexico is that the privatization of plants would create a precedent that encourages the government to sell other PEMEX properties to foreigners, including Mexico's supply of crude oil. "We cannot rest until we receive a clear commitment from the government that these state properties will not be sold either now or in the future," said Cardenas, whose father, Lazaro Cardenas, nationalized Mexico's petroleum industry in 1938 to prevent US firms and other foreign companies from gaining control over Mexico's crude reserves.

As part of the new campaign, organizers created five task forces that will perform various functions needed to create a single enterprise eventually capable of acquiring the petrochemical facilities. Cardenas said the main purpose of the campaign is to ensure that oil and all its byproducts remain

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as Mexican patrimony. "The current government is not acting in the best interests of Mexico and its people," said Cardenas. The PRD leader said the campaign would ensure that any resources derived from petroleum are used primarily for development purposes in Mexico and not for overseas interests. Indeed, the weekly economic analysis newsletter Tendencias, which is published by Grupo Expansion, said the government has often understated the importance of petrochemicals in the Mexican economy.

According to Tendencias, petrochemicals have a direct impact on 40 different productive sectors in Mexico, including other areas of PEMEX itself. The newsletter estimated the net value of Mexico's petrochemical production in 1995 at more than 20 billion pesos (US$2.7 billion), which is equivalent to 1.3% of Mexico's GDP. Roughly 62% of production from the petrochemical plants was used for domestic purposes. For some products, such as ammonia, about 80% of total production was used in Mexico. Furthermore, Tendencias pointed out that the PEMEX petrochemical subsidiary Pemex-Petroquimica was the second- most profitable unit for the state-run oil company last year, surpassed only by the exploration subsidiary, Pemex Exploracion y Produccion. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 22, reported at 7.39 pesos per US $1.00] (Sources: Associated Press-Dow Jones, 03/21/96; Reuter, 04/09/96; Reforma, 03/28/96, 03/29/96, 04/10/96; Agence France-Presse, Notimex, 04/09/96, 04/11/96; El Financiero, 04/11/96, 04/12/96; La Jornada, 03/14/96, 03/22/96, 03/29/96, 04/10/96, 04/12/96, 04/13/96, 04/18/96; Excelsior, 03/27/96, 04/06/96, 04/12/96, 04/18/96; El Financiero International, 04/15/96, 04/22/96)

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