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Mexico Denies Report that Petrochemical-Plant Privatization has been Scrapped

by LADB Staff

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In late May, the Energy Secretariat (SE) issued a statement strongly denying reports that President Ernesto Zedillo's administration had suspended the privatization of Mexico's petrochemical plants. Under the original timetable drafted by the state-run oil company PEMEX, the privatization of four of the country's 10 petrochemical complexes was scheduled to be completed in the first quarter of 1996. However, strong pressure from labor unions, civic organizations, and members of the federal legislature forced several postponements of the process (see SourceMex, 08/02/95 and 02/14/96).

Many of the opponents argue that any PEMEX property is part of the patrimony of all Mexicans and should not be sold to private individuals, whether they are Mexicans or foreigners. A report published in the daily newspaper La Jornada on May 22, which quoted anonymous sources in the Chamber of Deputies and the Senate, said the Zedillo administration had decided to abandon the privatization of the petrochemical plants because of overwhelming political opposition and constitutional challenges to the process.

The sources said the administration had postponed a formal announcement of the suspension to formulate a statement that would both "safeguard" President Zedillo's reputation and also reassure foreign investors that Mexico still provides a friendly business environment. Furthermore, the sources alleged that the administration and executives from the companies bidding for the 61 petrochemical plants had attempted to sway opponents in the legislature with political favors, and even bribes, in exchange for their support for privatization. A day after the La Jornada article was published, Energy Secretary Jesus Reyes Heroles called a press conference to energetically deny any postponement of the privatization plans.

Reyes Heroles admitted, however, that the administration had been forced to review the process because of strong opposition within Mexico. He said the sale of the petrochemical plants to private individuals is a "complex" matter that requires input and opinion from all sectors of society. "We are continuing to examine all the matters brought up by both potential investors and by legislators," said Reyes Heroles. The secretary also promised that the SE would soon offer a complete plan of action regarding petrochemical plants to the Energy Committee (Comision de Energeticos) in the Chamber of Deputies.

Deputy Francisco Curi Perez, who chairs the Energy Committee, said the administration must present a satisfactory plan to the legislature, which remains adamantly opposed to privatization. "We still have several strategies available to totally halt the privatization of the petrochemical plants," he said. Among other things, the privatization could be stopped through a legal motion challenging it as a violation of the Mexican Constitution, according to Curi. Still, Reyes Heroles denied statements from legislators, quoted in La Jornada, who alleged that offers of political favors

had been made by the executive in exchange for their support in the legislature. Many opponents of privatization are members of Zedillo's governing Institutional Revolutionary Party (PRI).

"Anonymous statements such as these create an environment of suspicion, which hurt rather than help our efforts to maintain a transparent and open process," said Reyes Heróles. Rumors that the Zedillo administration would suspend the privatization have circulated since early this year. The rumors were fueled, in part, by the extended delay in announcing concessions for the Cosoleacaque petrochemical complex in Veracruz state. Four companies had qualified to bid for the plant, but several questions have emerged regarding basic contracts, some services, purchase of raw materials, environmental factors, and labor regulations.

The privatization process for the Cosoleacaque complex had been initiated before the legislature passed regulations restricting the privatization of the petrochemical facilities in March of this year (see SourceMex, 04/24/96). A key change in the terms of privatization 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 clause was not part of the original guidelines released when the privatization of the petrochemical plants was first announced.

Meantime, Democratic Revolution Party (PRD) leader Porfirio Muñoz Ledo has called for the privatization of all remaining state enterprises to be included in the upcoming talks of political reform in Mexico among the four major political parties. Muñoz Ledo said he expected the administration to eventually announce a suspension of the privatization of the petrochemical plants because of "overwhelming opposition from a wide cross section of Mexican society."

On the other hand, Thomas Mohr, director of Celanese Mexicana, expressed confidence that the privatization will be back on track, but not until 1997. According to the weekly business newspaper *El Financiero Internacional*, the administration may opt to postpone, and not suspend, the privatization until after the federal legislative elections in Mexico in 1997. Mohr's company, Celanese Mexicana, is one of the four giant Mexican-based chemical manufacturers that stand to gain from the legislative initiative that restricts production of some basic petrochemicals to companies majority-owned by Mexicans.

The other three Mexican-based companies are Resistol (a subsidiary of Grupo Desc), Alpek (a subsidiary of Grupo Alfa), and Grupo Idesa. Still, Mohr expressed confidence that the delay in privatization will not damage Mexico's reputation as a friendly environment for foreign investment. He predicted that private investors would participate actively in the privatization once the process is back on track. (Sources: *El Financiero Internacional*, 04/29/96, 05/06/96; Agence France- Presse, 05/22/96; *Reforma*, *Excelsior*, 05/23/96 *Novedades*, 05/21/96, 05/24/96; *La Jornada*, 05/22-24/96)

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