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In mid-October, President Ernesto Zedillo's administration abandoned plans to transfer full control of the country's 61 petrochemical plants to the private sector and instead announced a more limited privatization. Under the plan advanced by Zedillo, the government would group several petrochemical plants into different companies that would be managed by a government-private sector partnership.

In all cases, the government would retain a 51% majority stake in the companies. A key element of the changes announced by Zedillo, which must still be ratified by the Chamber of Deputies and the Senate, is to change the designation of nine petrochemical products to comply with the Mexican Constitution. Article 27 of the Constitution states that natural resources such as oil belong to the Mexican people, and therefore cannot be owned or controlled by any private individual. Under a previous definition, the nine petrochemicals were considered processed hydrocarbons, and therefore labeled as secondary products.

Zedillo has proposed an amendment to Article 27, which would specify that these particular products are a primary natural resource, and not a secondary byproduct. The nine petrochemicals include ethane, propane, butane, pentane, hexane, heptane, naftas, methane, and the raw material used to produce lampblack (which is used as a pigment). In an official statement, the Energy Secretariat (SE) said the president's bill "limits, with precision, the products that are basic chemicals," and is designed to "provide full legal security for the harmonic presence of public and private investments in the industry."

Later, in a meeting with members of the Chamber of Deputies, Energy Secretary Jesus Reyes Heroles explained that the plan will still be able to attract foreign investment into the petrochemical sector. He said the petrochemical sector requires between US$400 million and US$500 million in private resources to expand and modernize the country's 61 petrochemical facilities. Still, according to an estimate released by Casa de Bolsa Value, the Mexican government would have received a total of US$6.3 billion if private investors were allowed to participate fully in the privatization of the petrochemical industry. This total includes US$1.5 billion for the actual cost of the plants, plus another US$4.8 billion in new investments.

Within political circles, the Zedillo plan appears to have appeased most of the members of the governing Institutional Revolutionary Party (PRI). In fact, the administration's decision to limit the scope of privatization was, in large part, the result of strong pressure from the PRI. At their recent convention in Mexico City, PRI members voted overwhelmingly to oppose privatization of the country's petrochemical plants (see SourceMex, 10/02/96). In a show of unanimity, all 19 PRI members of the energy commission (Comision de Energeticos) voted to support the Zedillo initiative. The measure, which is expected to reach the full Chamber of Deputies by the end

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of October, is expected to receive overwhelming support from PRI members. "This bill will be approved quickly and cleanly," predicted PRI Deputy Rosario Guerra, who said the measure both allows Mexico to retain sovereignty over its resources while also creating a mechanism to attract private resources to the industry. Members of the opposition Democratic Revolution Party (PRD) and National Action Party (PAN) were divided on the Zedillo plan.

In the PRD, the plan is supported by many members in the Chamber of Deputies, especially Francisco Curi Fernandez, who chairs the energy committee. On the other hand, many PRD senators and some influential party leaders, such as Cuauhtemoc Cardenas and Manuel Lopez Obrador, have called the agreement "limited" and are pushing for the directive to be expanded to include other petrochemicals such as ammonia and ethylene. In the Senate, PRD members criticized the privatization plan as "hasty and dangerous," and urged the government to reconsider the decision. PRD Sen. Hector Sanchez raised objections to the Zedillo administration's efforts to seek any foreign investment in the petrochemical sector. "If petrochemicals are our strongest business, then why are we in such a hurry to pass them on to foreign investors?" said Sen. Sanchez.

Similarly, there are some divisions within the PAN. For example, Sen. Rosendo Villarreal Davila who introduced an initiative that would guarantee Mexico a 51% control over the petrochemical plants said many members of his party were satisfied with the Zedillo plan, since it still leaves open opportunities for foreign participation. "The sector needs to be modernized to remain competitive with foreign companies," said Sen. Villarreal. Nevertheless, PAN Sen. Jose Angel Conchello expressed strong opposition to a clause in the Zedillo plan, which allows foreign investors to own 100% control over any new petrochemical plants constructed in Mexico. He said this clause could potentially threaten Mexico's autonomy. "In reality, the government is practically authorizing the sale of the entire company," he said.

Outside legislative circles, opinions were mixed on the Zedillo proposal. Within the business community, the plan initially received support from Hector Larios Santillan, president of the business coordinating council (Consejo Coordinador Empresarial, CCE). Larios said the plan represents a good compromise, since the privatization had been stuck because of strong opposition from key members of the PRI. Representatives from Mexican chemical companies such as Alfa, Celanese, and Girsa said the main impact of the Zedillo plan is to provide clear rules and regulations for private participation in the petrochemical industry. Alfa director Jose Luis San Jose said the plan specifies which products remain the exclusive right of the state, thus allowing his company to engage in long-term planning. Some of the chemical company representatives suggested that once the Zedillo plan is in place, the Mexican petrochemical industry will be able to proceed with many projects, some of which are as much as 10 years behind.

On the other hand, representatives from the industrial chambers confederation (Confederacion de Camaras Industriales, CONCAMIN) and the employers confederation (Confederacion Patronal de la Republica Mexicana, COPARMEX) expressed strong reservations about the plan. "This plan will attract foreign investment at a much slower pace," said COPARMEX president Carlos Abascal. For his part, CONCAMIN vice president Jorge Marin Santillan pointed out that countries such as Brazil and Venezuela, which are privatizing their petrochemical industries, could end up attracting capital that would have otherwise been pumped into the Mexican industry.

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Some newspaper columnists also referred to this ambiguity. "The government's plan to privatize the secondary petrochemical industry does not seem to satisfy anyone," said columnist Laura del Alizal of the daily newspaper Excelsior. Del Alizal said many opponents view the Zedillo plan as a smoke screen to sell the petrochemical sector through other means. She said there is special concern about the clause allowing foreigners to own 100% of all new petrochemical facilities built in the country. "Many Mexican and foreign business executives see the plan as a step backward," said Del Alizal.

The strongest negative reaction could be seen on the financial markets. On Oct. 14, the day after the plan was announced, the peso plunged to its lowest level for the year, reaching 7.85 pesos per US$1.00 on the free market. Similarly, the main index (Indice de Precios y Cotizaciones, IPC) at the Mexican Stock Exchange (BMV) fell almost 48 points. "Investors are pulling out and waiting for things to stabilize," said Enrique Ramirez, an analyst with Santander Brokerage. The peso recovered the next day to 7.73 pesos per US$1.00, in part because of the intervention by the Banco de Mexico (central bank), which bought about 20 million pesos in exchange for dollars. The Mexican currency remained at 7.74 pesos per US$1.00 on Oct. 21, but declined again to 7.79 on Oct. 22, giving credence to forecasts that the exchange rate could reach 8.00 pesos per US$1.00 by the end of the year.

"The volatility of the Mexican financial markets reflected the poor manner in which the Zedillo administration has handled the petrochemical privatization question," said Excelsior columnist Jose de Jesus Garcia. "The delays in reaching a final decision have been accompanied by timid and contradictory statements."

For his part, Zedillo's chief economic spokesperson Alejandro Valenzuela acknowledged that the changes in the petrochemical privatization were a factor in the market's behavior. "Nevertheless, the markets have retained a relative stability throughout the year," he said. "So no one should be surprised if there are periods of volatility." Valenzuela denied that the peso is in a free fall, and pointed out that Mexican financial authorities have turned to a float system. "The peso is adjusting to the level the market dictates," he said. "When it's cheap, investors buy it, and when it's expensive, they sell it."

Valenzuela also noted that strength in the Dow Jones Industrial Average at the New York Stock Exchange prompted many investors to "turn away from the peso and toward the dollar." (Sources: Agence France-Presse, 10/13/96; El Financiero International, Reuter, 10/14/96; New York Times, 10/14/96, 10/17/96; El Financiero, 10/15/96, 10/18/96; El Universal, 10/15/96, 10/17/96, 10/18/96; Proceso, 10/20/96; Excelsior,10/15/96, 10/16/96, 10/18/96, 10/19/96, 10/22/96 El Economista, 10/15/96, 10/16/96, 10/17/96, 10/21/96, 10/23/96;La Jornada, 10/16/96, 10/17/96, 10/18/96, 10/23/96 Novedades, 10/16/96, 10/18/96, 10/22/96, 10/23/96; The News, 10/17/96, 10/18/96, 10/23/96)

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