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In mid-April, the Energy Secretariat (SE) announced plans to postpone the opening of private investments in Mexico's petrochemical facilities until August. The decision may have some political implications. According to the weekly business newspaper El Financiero International, President Ernesto Zedillo's administration purposely delayed consideration of the politically sensitive issue of privatization until after the July 6 elections for the Chamber of Deputies and Senate. Several state and local races are also scheduled on that date, including the first- ever election of the mayor of Mexico City.

There is strong domestic opposition to opening the petrochemical plants to private investors, particularly if foreign investors participate. Opponents, led by members of the Democratic Revolution Party (PRD), contend that the privatization of the petrochemical industry is a violation of Article 27 of the Mexican Constitution, which designates oil and all its resources as the patrimony of all Mexicans. The sale of petrochemical plants had been suspended since October 1996, when the Chamber of Deputies and Senate pressured the Zedillo administration to abandon its plan to fully transfer the country's 10 petrochemical complexes to the private sector.

After initially supporting a full opening of the petrochemical sector, Zedillo modified the proposal to restrict private investment in the petrochemical facilities to only 49%, with the remaining 51% to be retained by the state- run oil company PEMEX (see SourceMex, 10/23/96). In announcing the timetable for the final stage of privatization of the petrochemical facilities, Energy Secretary Jesus Reyes Heroles said the government is still considering several options to offer concessions for the 10 petrochemical facilities to the private sector.

Clause requiring preference for Mexican firms may be waived

One option under consideration is to accept international bids. If the Zedillo administration decides to follow this course, then Mexico may have to surrender its right under the North American Free Trade Agreement (NAFTA) to give preference to a Mexican investor or to a partnership with majority Mexican shares.

According to government and private estimates, the petrochemical sector needs at least 40 billion pesos (US$5.08 billion) in new investment to upgrade petrochemical facilities so that they can compete internationally. "The sales of the petrochemical plants will generate resources that will increase productive efficiency, introduce the latest technology, and give rise to new forms of industrial and institutional organization," Reyes said.

In an interview with the daily business newspaper El Economista, SE spokesman Roberto Ortega Lomelin said all potential bidders will have to receive prior approval from the government before

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being allowed to participate. Fernando Sanchez Ugarte, president of the federal anti-monopoly commission (Comision Federal de Competencia, CFC), said that all interested companies would also need prior approval from his agency. The administration has already taken some steps to eliminate uncertainty for private investors. For example, earlier this year the administration negotiated agreements on contracts at several of the facilities (see SourceMex, 03/12/97). [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 23, reported at 7.87 pesos per US$1.00] (Sources: The News, La Jornada, El Universal, 04/09/97; El Financiero International, 04/14/97; El Economista, 03/31/97, 04/09/97, 04/21/97, 04/22/97)

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