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In late October, President Ernesto Zedillo nominated his chief of staff, Luis Tellez Kuenzler, to replace Jesus Reyes Heroles as head of the Secretaria de Energia (SE). Reyes Heroles was nominated as Mexican ambassador to Washington earlier in the month. According to a source close to the president, Zedillo selected Tellez to coordinate the difficult privatization of the secondary petrochemical industry, which has been stalled for several months. "The president has relied on Tellez to perform some tough jobs," the source told the Houston Chronicle newspaper. Tellez formerly held high posts in the Secretaria de Hacienda y Credito Publico (SHCP) and the Secretaria de Agricultura y Ganaderia y Desarrollo Rural (SAGAR).

The Zedillo administration suspended the privatization of the country's 10 petrochemical complexes in October 1996 because of strong opposition from legislators of the governing Partido Revolucionario Institucional (PRI) and the center-left Partido de la Revolucion Democratica (PRD). According to opponents of the privatization, the sale of the plants violates Article 27 of the Mexican Constitution, which recognizes oil and its derivatives as the patrimony of all Mexicans. To appease opponents, Zedillo modified the original privatization plan to restrict private investment in the petrochemical facilities to 49% (see SourceMex, 10/23/96).

Last April, the Zedillo administration temporarily suspended the process. However, despite promises to restart the process in August, privatization of petrochemical plants remained stalled as of late October. The postponement was seen as a political move by the president to prevent privatization from becoming an issue in the July 1996 elections for the Senate and Chamber of Deputies (see SourceMex, 04/23/97).

Tellez to oversee resumption of petrochemical privatization

According to political observers, the nomination of Tellez to the post of energy secretary is expected to add new vigor to the administration's privatization efforts. "I have been instructed to continue the structural changes in the petrochemical sector with a long-term vision," said Tellez at a press conference following his appointment. However, Tellez emphasized that the administration will hold to the modified plan, which would require the state to retain a 51% share of the petrochemical facilities. "We will continue to allow private investments only in those areas permitted by law," Tellez said.

Similarly, Reyes Heroles described the privatization of the petrochemical plants as a "deeply Mexican process," which means that the government is not planning to pursue any more changes to Article 27 of the Mexican Constitution. "There are no plans to allow any further private participation, much less foreign intervention, in our country's basic petroleum activities," Reyes Heroles said at his confirmation hearing for ambassador to the US. Still, the Zedillo administration insists that its current scheme of limited participation in the petrochemical sector is needed to

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attract fresh capital to an obsolete industry. "The government lacks the resources to invest in the petrochemical complexes, particularly if we want to devote more financial resources to basic needs such as education, health, the fight against poverty, and development of infrastructure," said Trade Secretary Herminio Blanco in testimony before the energy committee (Comision de Energia) of the Chamber of Deputies.

The administration has modified the privatization plan since the process was suspended, but the changes may not be sufficient to counter legislative opposition. Legislators to propose alternate privatization plan In fact, the PRD and some members of the PRI are working with the center-right Partido Accion Nacional (PAN) to draft an alternative privatization proposal. The impetus has gained particular strength in the Senate, where a 16-member faction of the PRI known as Grupo Galileo expressed strong reservations about the Zedillo administration's overall privatization schemes.

However, to develop a successful alternative to the administration's plan, Grupo Galileo and the PRD must reconcile their opposition to any privatization with the PAN's scheme to fully sell off the petrochemical facilities while ensuring that Mexican nationals control 51% of all ventures. The requirement for Mexican majority ownership would apply both to facilities acquired from PEMEX and to new complexes constructed by the private sector. The plan offered by the Zedillo administration would allow private investors to own 100% of any new petrochemical facilities they construct in Mexico.

According to PAN Sen. Francisco Salazar Saenz, the opposition parties must work out a viable alternative because the plan proposed by the Zedillo administration relies too heavily on PEMEX control of the petrochemical sector. "PEMEX has shown that its main interest is in oil extraction," said Sen. Salazar. "The state-run company has shown very little inclination toward such basic functions as investment in petrochemicals, development of new technologies, improvement of plant maintenance, protection of the environment, and worker safety." The Asociacion Nacional de la Industria Quimica (ANIQ) has offered similar criticisms of PEMEX's policies regarding secondary petrochemicals.

At a recent industry conference, ANIQ president Nicolas Gutierrez said the PEMEX-managed petrochemical plants are not producing sufficient secondary chemicals to meet the needs of Mexican industry. "The lack of domestic production has in turn encouraged an increase in chemical imports," said Gutierrez. "Our country is not living up to its potential to become a major competitor in global petrochemical markets." Gutierrez said the Zedillo administration's constant delays in proceeding with the petrochemical privatization has led potential foreign investors to take their capital elsewhere.

In fact, two major multinational companies that had strongly considered investments in the petrochemical sector announced in late October that they would instead invest in other countries. US-based Mobil Oil Co. recently decided to construct a new US$2 billion plant in Venezuela instead of Mexico. Similarly, the British-Dutch conglomerate Royal Dutch Shell announced that US $500 million in capital originally allocated for projects in Mexico will instead be invested in other countries. (Sources: Associated Press, 10/01/97, 10/22/97; Reuter, Houston Chronicle, 10/22/97; El

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Economista, 10/02/97, 10/21/97, 10/22/97, 10/23/97; El Universal, Novedades, 10/22/97, 10/23/97; La Jornada, 10/23/97; The News, 10/23/97, 10/24/97; El Financiero International, 10/27/97; Excelsior, 10/23/97, 10/29/97)

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