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President Zedillo Criticized for Delay in Privatizing Petrochemical Plants

by LADB Staff

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President Ernesto Zedillo's administration is facing growing criticisms from the domestic private sector for delays in announcing alternate guidelines to privatize the country's petrochemical plants. The government originally planned to transfer full control of 61 petrochemical plants to the private sector but abandoned the plan in October 1996 because of strong pressure from Zedillo's own Partido Revolucionario Institucional (PRI) and from the center-left Partido de la Revolucion Democratica (PRD).

Opponents of the privatization say the sale of the plants violates Article 27 of the Mexican Constitution, which recognizes oil and its derivatives as the legacy of all Mexicans. As an alternative to the original privatization plan, the Zedillo administration proposed partnerships between the state-run oil company PEMEX and private investors to manage the plants (see SourceMex, 10/26/96). The president promised to use those guidelines to restart the petrochemical privatization by August 1997, but the process remained stalled as of April 1998. Representatives of business chambers have sharply criticized the ongoing delays in the petrochemical privatization.

Jorge Marin Santillan, president of the Confederacion de Camaras Industriales (CONCAMIN), said the petrochemical industry requires at least US\$25 billion to replace or upgrade obsolete facilities. Marin Santillan urged the government to draft a plan enabling foreign investors to acquire a larger share than 49% of the 61 petrochemical plants, which are grouped into 10 separate complexes. "We may not attract the capital and technology required by the petrochemical industry if the government insists on its alternate plan," Marin Santillan said at a business forum in late April. "PEMEX and domestic investors are not likely to come up with that amount of money."

Reduced petrochemical output tied to obsolete plants

Business leaders argue that the recent decline in Mexico's petrochemical production can be linked to inefficient infrastructure. Statistics published by PEMEX in early April showed Mexican petrochemical production has declined steadily since 1995. Total production of ammonia, benzene, methanol, and several other chemicals reached only 11.5 million metric tons in 1997, compared with almost 13.5 million MT in 1995.

But other industry leaders and energy industry observers said the government's delay in announcing the new guidelines is having a greater negative impact on the industry than the modified plan announced in October 1996. "The government must define the privatization process," said Ricardo Platt Garcia, president of the Camara Mexicana de la Industria de Construccion. Still, he agreed that the proposal to restrict private ownership in the petrochemical plants to 49% is a strong disincentive for private companies to participate in the process.

Energy Secretary Luis Tellez, who was appointed in October 1997, had been widely expected to move the petrochemical privatization forward (see SourceMex, 10/29/97). But Tellez told reporters the administration's modified proposal has created unforeseen complications that cannot be resolved immediately. For example, Tellez said, leaving 51% of the petrochemical plants in government hands and 49% under private ownership will require changes in two separate sets of laws, one governing state-run enterprises and another covering private companies.

The conflicts, said Tellez, include different guidelines for bankruptcy and budgetary matters. Still, Tellez insists the administration has no plans to modify the scheme. "Our obligation and responsibility is to keep these enterprises as a source of employment," said the energy secretary. "We are exploring various possibilities to obtain capital and financing under the 49-51 program." The Sindicato de Trabajadores Petroleros de la Republica Mexicana (STPRM), is opposing any efforts by private business chambers to force the government to return to the original proposal of full privatization. STPRM leaders have endorsed the modified plan but have pledged to "take a responsible position" in analyzing any new modifications. (Sources: El Nacional, 03/27/98; El Financiero International, 04/20/98; El Universal, 04/22/98, 04/23/98, 04/24/98; El Economista, 04/01/98, 04/14/98 04/17/98, 04/22/98, 04/28/98

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