7-8-1998

Mexico to Sell Off State-Run Paper Company

LADB Staff

LADB Article Id: 54700
ISSN: 1054-8890

Mexico to Sell Off State-Run Paper Company

by LADB Staff
Category/Department: Mexico
Published: 1998-07-08

In a move to shore up the federal government's tight finances, President Ernesto Zedillo's administration announced plans to place the state-run paper company Productora e Importadora de Papel (PIPSA) on the auction block. In a decree published in early July in the federal register (Diario Oficial de la Federacion), the administration said the Secretaria de Hacienda y Credito Publico (SHCP) and the Secretaria de Contraloria y Desarrollo Administrativo (SECODAM) have been instructed to complete the privatization of PIPSA by July 1999.

The directive said the Secretaria de Gobernacion (SEGOB) will ensure that the PIPSA privatization is conducted in compliance with the Mexican Constitution. Among other things, SEGOB will ensure that the privatization does not violate the labor rights of PIPSA employees, the decree said.

The funds from the privatization will be deposited directly in the Mexican Treasury (Tesoreria de la Federacion). The decree said the privatization is consistent with the federal government's five-year plan for 1995-2000, which calls for seeking private investors to help develop the country's key economic sectors. PIPSA, which was created in 1935, comprises an administrative unit and three paper mills. The mills are Fabricas de Papel Tuxtepec (FAPATUX) in Oaxaca state, Mexicana de Papel Periodico (MEXPAPEL) in Veracruz state, and Productora Nacional de Papel Destintado (PRONAPADE) in San Luis Potosi state. PIPSA, which supplies about 75% of the newsprint in Mexico, produced almost 342,000 metric tons of paper in 1997. Newspaper industry opposes privatization

The privatization of the state-run company has been opposed by the newspaper industry, represented by the Asociacion de Editores de Periodicos Diarios de la Republica Mexicana (AEDIRMEX). In early March, AEDIRMEX sent a letter to Zedillo urging the administration not to privatize PIPSA. The government previously attempted to privatize PIPSA in 1994 under the administration of former president Carlos Salinas de Gortari. The privatization was suspended partly because of pressure from AEDIRMEX and the low bids submitted for the property (see SourceMex, 06/01/94).

"A private owner would manage production and distribution at its own discretion," AEDIRMEX president Ricardo Perete told legislators from the three principal opposition parties in early March. "This could create problems for newspapers obtaining an adequate supply of newsprint." Perete acknowledged that AEDIRMEX's campaign to stop the privatization could run into difficulties because PIPSA is not designated as a "strategic" property under the Mexican Constitution.

The PIPSA selloff could be precipitated by the government's need to raise revenues to compensate for a sharp decline in global oil prices since late 1997. The Zedillo administration has already announced two reductions in the 1998 budget and is contemplating a third cut.

LADB Article Id: 54700
ISSN: 1054-8890

In testimony before a finance subcommittee of the Chamber of Deputies in early April, deputy finance secretary Martin Werner acknowledged that the pending sales of PIPSA and the state-run newspaper El Nacional were based partly on the need for the government to find new sources of revenue. At that time, Werner said the government would initiate the privatization of PIPSA and El Nacional in the second half of the year. In addition to PIPSA and El Nacional, the government recently announced plans to raise revenues through privatization of the southeastern railroad, airport management units, port infrastructure and toll highways.

Concession for rail line awarded

In late June, the Secretaria de Comunicaciones y Transportes (SCT) awarded a 50-year concession for the southeastern rail line to the Mexican engineering company Tribasa. Tribasa won the concession after its lone rival for the rail line, Grupo Acerero del Norte (GAN), dropped out of the bidding. Tribasa originally submitted its bid in partnership with Industrias Penoles and the Illinois Central Railroad (see SourceMex, 06/10/98). However, Penoles and Illinois Central dropped out of the joint venture, forcing Tribasa to make other arrangements.

The company will receive financial support from Banco Inbursa, technical assistance from Kingsley Group, and operations support from Omnitrax. The southeast rail line will connect Mexico City with the ports of Coatzacoalcos in Veracruz state and Merida in Yucatan state. The property is separate from the strategic Ferrocarril del Istmo, which connects Coatzacoalcos with the port of Salina Cruz, Oaxaca state. The government initially proposed to privatize the Ferrocarril del Istmo, but later decided to retain the rail line because of its strategic nature as a shipping alternative to the Panama Canal. (Sources: Excelsior, 03/13/98; Notimex, La Jornada, 07/02/98; Novedades, 03/13/98, 07/03/98; El Economista, 04/17/98, 07/03/98; El Financiero International, 07/06/98)

-- End --