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President Ernesto Zedillo's administration is proceeding with a very limited privatization of Mexico's petrochemical plants. In early September, Energy Secretary Luis Tellez Kuenzler announced that the government will soon begin accepting bids from private conglomerates to gain a minority share of the Morelos petrochemical complex near Coatzacoalcos, Veracruz state. Under its petrochemical privatization scheme, the government will retain a 51% share of all complexes, including the Morelos facility. The remaining 49% will be open for bids from private conglomerates comprising Mexican and foreign companies.

Under terms of the North American Free Trade Agreement (NAFTA), Mexican companies must have a majority share in any conglomerate that qualifies to bid for a minority share in the petrochemical complexes. The privatization of the Morelos complex will be managed by US financial-services company J.P. Morgan. Government sources said the Secretaria de Hacienda y Credito Publico (SHCP) and PEMEX will require that one or more of the partners in the conglomerates have a proven track record in the petrochemical industry.

Strong profit potential could attract investors

Tellez said the Morelos complex is the most modern of Mexico's 10 petrochemical facilities, which should attract strong interest from private buyers. The complex, which employs 3,000 workers, produced 400,000 metric tons of petrochemicals in the first quarter of 1998. Companies that have expressed strong interest in participating in the process include Celanese Mexicana, German-based Hoechst, and Grupo Polioles, a joint venture formed by Mexico's Grupo Alfa and German the company BASF. Morelos manufactures products in high demand by the Mexican plastics industry, such as ethylene oxide, ethylene glycol, acetaldehyde, and acrylonitrile.

Two of the bidders, Celanese and Alfa, are among the principal buyers of products manufactured at the Morelos complex. A recent report in the weekly business newspaper El Financiero International said most plants at the complex have the potential to remain profitable under normal market conditions. Morelos was the only Mexican petrochemical facility to show a profit in 1997 and in the first quarter of 1998. The daily business newspaper El Economista reported that the Zedillo's administration was also considering the partial privatization of the La Cangrejera complex. But this process may be delayed because the complex is more costly to operate and less profitable.

In any case, sources at the Asociacion Mexicana de la Industria Quimica (ANIQ) said they doubt any other complexes beyond Morelos and La Cangrejera will be opened for partial privatization during the rest of Zedillo's term in office, which ends in 2000. Zedillo and his predecessor, Carlos Salinas de Gortari, 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 Partido Revolucionario Institucional (PRI) and from the center-left Partido de la Revolucion Democratica

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(PRD). Opponents argued that 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 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 was delayed until September 1998. PAN seeks further opening of energy sector The administration's delays in reopening the process have drawn strong criticisms from the center-right Partido Accion Nacional (PAN) and several business chambers.

Many potential Mexican investors raised concerns that restrictions on private participation could deter foreign companies from participating (see SourceMex, 04/29/98). In early September, PAN legislative leader Carlos Medina Plascencia said his party has proposed that Congress modify the Mexican Constitution to open up the energy sector, including petrochemical complexes and electrical generation, to greater private investment. "The plan to sell a 49% stake in the petrochemical plants has not been successful," Medina told reporters.

The PAN and the chemical industry argue that an infusion of foreign capital is needed to make the petrochemical complexes more efficient. Modernizing the plants would help boost domestic production, which, in turn, would reduce reliance on imports. ANIQ statistics show almost 18% of petrochemical products used by Mexican industry are imported from other countries. PAN leaders acknowledged that any changes to the Mexican Constitution would have to receive support from the PRD, which in the past has staunchly opposed any move to open up the energy sector to private investors, particularly foreign interests. (Sources: El Universal, 07/21/98, 08/21/98; El Financiero International, 08/24/98, 08/31/98; El Economista, 07/20/98, 07/21/98, 07/30/98, 08/04/98, 08/07/98, 08/21/98, 08/24/98, 08/25/98, 09/01/98; Reuters, Associated Press, 09/07/98)

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