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The Secretaria de Energia (SE) has canceled the planned privatization of the Morelos petrochemical complex after Grupo Alpek declined to submit a final bid by the Feb. 18 deadline. Alpek officials said the company, a subsidiary of Monterrey- based business conglomerate Grupo Alfa, cited the difficulty in convincing foreign companies to enter into a partnership in the Morelos venture. "In our opinion [the venture] does not offer us a sufficient degree of active participation," Alfa spokesman Enrique Flores said.

The terms of the petrochemical privatization announced by President Ernesto Zedillo's administration in September 1998 reserved a 51% share of all petrochemical complexes for the state-run oil company PEMEX, leaving the private companies or joint ventures to bid for a 49% stake. Under these terms, foreign ownership would be limited to about 24%, since private companies could only bid for a 49% share of any of the petrochemical facilities (see SourceMex, 1998-09-09, 1998-11-04).

For the Morelos complex, a private investor was also required to spend about US$49 million to expand production of ethylene. Alpek was one of two companies that originally announced their intention to bid for the Morelos complex, located near the port of Coatzacoalos, Veracruz state. The other, Grupo Industrias Derivadas del Etileno (IDESA), withdrew its bid in late January, also citing difficulties in finding foreign partners to participate in the venture.

The privatization, first proposed in 1992, has failed several times because of strong opposition from the center- left Partido de la Revolucion Democratica (PRD) and many members of Zedillo's Partido Revolucionario Institucional (PRI), who said the plan violates the Mexican Constitution. Zedillo withdrew plans for the privatization in October 1996 because of strong opposition in Congress (see SourceMex, 1996- 10-23).

PRD Deputy Benito Osorio, who has an important post in the energy committee (Comision de Energia) in the Chamber of Deputies, suggested that the SE allowed the present privatization effort to fail so Zedillo could resurrect the proposal for a 100% sale of the complexes. Many members of the center-right Partido Accion Nacional (PAN) and a minority of PRI members strongly support this option. Under the privatization guidelines for the Morelos complex, PEMEX has 90 days to present a medium-term strategic plan to find new ways to bring fresh capital to the facility.

Chemical industry to present its own proposals

Some private groups have started to offer their own proposals regarding the petrochemical sector's privatization. In a letter to Energy Secretary Luis Tellez, Alpek director Jose de Jesus Valdez urged the Zedillo administration to find a new alternative to attract investment to the petrochemical sector,

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which badly needs an infusion of capital to upgrade obsolete and inefficient plants. "Our proposal is to develop a plan to sell a majority share in the plants to private buyers who would have control of the operation," said Valdez.

Valdez said the Alpek proposal would keep Mexican companies as majority partners in a joint venture with a foreign company, since this provision complies with terms of the North American Free Trade Agreement (NAFTA).

But in an interview with the daily business newspaper El Economista, Tellez dismissed this proposal. "Congress mandated that the petrochemical facilities essentially remain government entities," he said. The Asociacion Nacional de la Industria Quimica (ANIQ) will also present its strategic plan to PEMEX and the SE. ANIQ president Nicolas Gutierrez said the organization's plan would seek to ensure that Mexico has an adequate domestic supply of petrochemicals. ANIQ said the Mexican chemical industry had trade deficits of US$3.6 billion in 1997 and US$4 billion in 1998 because of the inability of PEMEX's petrochemical plants to meet domestic demand.

But the petrochemical privatization may not come up again before Zedillo leaves office in 2000, leaving the decision to his successor. "The privatization process has been dead since it was proposed,"said Albert Antebi, associate of consulting group Mexico Energy Intelligence, citing the political problems that have shrouded the attempted sale.

Indeed, any proposals to privatize the petrochemical complexes will meet strong opposition from labor groups. One of these groups, the Alianza Nacional Democratica de Trabajadores Petroleros, was formed in early February primarily to oppose any more moves to privatize the industry. Organizers say one-third of the former members of the Sindicato de Trabajadores Petroleros de la Republica Mexicana (STPRM) have joined the new union. In recent years, the STPRM has lost influence because of a reduction in membership. The labor group now has fewer than 100,000 members, or less than half its membership seven years ago.

While the Zedillo administration may abandon attempts to reopen the privatization of petrochemical plants, private investors still have the option of constructing their own facilities. IDESA president Arturo Garcia said many prospective partners who turned down a joint venture with his company expressed interest in investing US$700 million to construct a new complex that would be fully owned by private interests.

Energy Secretary Tellez, in a recent interview with the weekly news magazine Proceso, said the creation of privately owned complexes is legal in Mexico. IDESA's Garcia said many foreign companies have expressed interest in investing in private petrochemical complexes in Mexico, which would allow them greater control over the operations of the facility. (Sources: Associated Press, 02/19/99; Excelsior, 01/08/99, 01/25/99, 02/20/99; Novedades, 01/08/99, 02/01/99, 02/20/99; La Jornada, 02/03/99, 02/20/99; Proceso, 01/17/99, 02/21/99; El Universal, 01/13/99, 02/02/99, 02/20/99, 02/22/99; Reuters, 02/03/99, 02/19/99, 02/22/99; El Economista, 01/08/99, 01/19/99, 01/25/99, 01/27/99, 01/28/99, 02/17/99, 02/19/99, 02/22/99, 02/24/99)

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