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President Vicente Fox's administration has announced plans to construct a giant petrochemical complex along the Mexican Gulf Coast that could give a major boost to the ailing industry. The construction of the complex, known as El Fenix, will be a joint venture among state-run oil company PEMEX and private companies Grupo Idesa and Indepro of Mexico and Canadian-based Nova Chemicals. The Mexican-Canadian partnership won the right to participate in the project over eight other companies that included Spain's Repsol, German-Dutch conglomerate Basell, and Saudi-based company Sabic.

Mexico's petrochemical industry is open to private and foreign investment, but PEMEX has a monopoly on the production of raw materials such as ethane and naphthas. The complex, projected to cost about US$2.7 billion, could eventually reduce Mexican imports of petrochemical products and fuels by 30%, said PEMEX director Raul Munoz Leos. Because of a lack of domestic capacity, Mexico has been forced to import almost 60% of its US$18.3 billion annual petrochemical consumption, said the PEMEX director.

El Fenix complex to be constructed along Gulf Coast

The facility will be constructed either in Altamira in Tamaulipas state or Coatzacoalcos in Veracruz state, both of which are already home to major PEMEX facilities. Altamira will be the location of a liquefied natural gas (LNG) terminal for the state-run electrical utility company Comision Federal de Electricidad (CFE). Coatzacoalcos is home to the Morelos petrochemical complex.

PEMEX officials expect to announce the location sometime in 2005, pending the completion of a feasibility study. They declined to say which location they were favoring, but noted that access to raw materials and rail and ocean transportation would be important. Each of the two locations has its advantages. Coatzacoalcos is closer to the principal PEMEX production facilities, while Altamira is closer to the US market. Juan Bueno Torio, director of the PEMEX subsidiary Pemex-Refinacion, said the private partners would have significant input on where the new facility would be located. "This is going to be a major project, and the decision will not be easy," said Bueno Torio, who noted that the access to raw materials could be the deciding factor.

Nova Chemicals president Jeffrey Lipton said the feasibility study would also examine the proposed ownership structure and the investment format for the complex. "If the study concludes that the plan is feasible for the three private partners, then construction would start as soon as possible, with the goal of opening the complex by 2009 or 2010," said Lipton. "We expect to develop a world-scale facility that is globally cost competitive and will produce a wide range of high-quality products, depending on market conditions," Lipton told Bloomberg news service. Arturo Garcia, the PEMEX official in charge of El Fenix project, is confident that the project will gain final approval from

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all parties. He said the management decisions would all be in the hands of the private partners. "PEMEX does not intend to operate the business," Garcia said. "Our role is one of a promoter."

New facility would boost ailing petrochemical sector

The Fox administration views El Fenix complex as a major step toward bringing the Mexican petrochemical sector out of its long depression. The industry has faced almost a decade of uncertainty after proposals by former President Ernesto Zedillo to partially privatize the country's 10 existing petrochemical plants fell through (see SourceMex, 1995-08-02, 1996-10-23 and 1999-02-24). "With this, petrochemical investment will be reactivated after decades of falling behind," Fox told participants at a chemical-industry conference in Mexico City in late October.

El Fenix project was announced at a time of global tight supplies of polyethylene, the world's most widely used plastic. The American Plastics Council estimates that polyethylene plants in North America are operating at 97% of capacity, a huge jump from about 83% a year ago. The complex will include an ethylene plant with annual capacity of about 1 million metric tons and at least two polyethylene plants.

The Mexican Congress has strongly endorsed construction of El Fenix complex and has pledged to allocate the funding necessary to allow PEMEX to proceed with the project. Deputy Angel Buendia, chair of the budget committee (Comision de Presupuesto), and Deputy Francisco Salazar, chair of the energy committee (Comision de Energia), both offered their support for the project during meetings with Munoz Leos. "We will work to ensure that PEMEX obtains the necessary budget for this project," said Buendia, a member of the former governing Partido Revolucionario Institucional (PRI).

Depending on the level of participation from the private partners, PEMEX will require between US$675 million and US$1.3 billion for construction costs, some analysts said. The only funding the project would need in the 2005 budget would be to cover preliminary engineering work. "We anticipate the largest investments will need to be made from 2006 to 2008," said Rafael Beverido Lomelin, director of the PEMEX subsidiary Pemex-Petroquimica. (Sources: Spanish news service EFE, Dow Jones newswires, Bloomberg news service, Reuters, 10/21/04; The Herald-Mexico City, La Cronica de Hoy, El Universal, 10/22/04; Notimex, 10/24/04; La Jornada, 10/22/04, 10/25/04; El Financiero, 10/25/04)

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