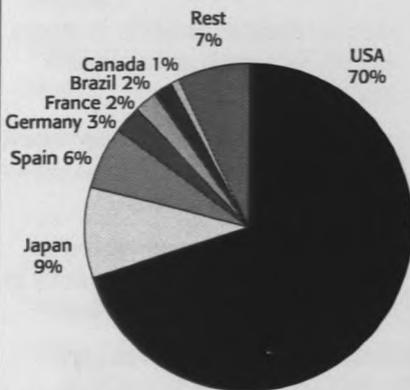


Import Shares of Electrical Power Generation and Distribution Equipment



Source: Government of Mexico import data and Statistics Canada World Trade Database.

broad view of the sector. Some other estimates put total imports at around half of the levels indicated.

Imports fell significantly in 1994, compared with the previous year. Some observers believe that capital expenditures by the *Comisión Federal de Electricidad (CFE)*, Federal Electricity Commission, were cut back in anticipation of major private sector projects that were due to be commissioned.

CUSTOMERS

Traditionally, the *Comisión Federal de Electricidad (CFE)*, Federal Electricity Commission, has been the principal end-user of electric power generation, transmission and distribution equipment. The *CFE* generates approximately 90 percent of Mexico's electric power.

In August 1995, the *CFE* announced that six new facilities would be put out to tender for private construction under turnkey contracts. Under the terms of those contracts, the private developers will make most of the procurement decisions for equipment and services.

In 1994, the *Luz y Fuerza del Centro (LyF)*, Central Light and Power

Company, became an independent utility. It is now responsible for all generation and distribution of electricity in the Mexico City metropolitan area. *LyF* has several major procurements in the planning stages.

Private companies are now permitted to generate their own electric power. In early 1995, new licences were issued for nine new private self-generation or co-generation facilities. *Petróleos Mexicanos (PEMEX)*, the national oil company, has always had this right and it operates several generation plants.

COMPETITION

The Mexican power equipment manufacturing industry comprises about 2,000 manufacturers employing 150,000 people. Major global firms have manufacturing ventures in Mexico and along with domestic companies supply almost 40 percent of market demand.

The domestic industry has developed over many decades in a protected environment. The *Comisión Federal de Electricidad (CFE)*, Federal Electricity Commission, was the only major customer, and it gave preference to Mexican suppliers. But now, consortia of private companies will have control over equipment procurements for most major new electric power projects. The companies in this industry, therefore, will be under great pressure to rationalize their operations to retain market share. This is creating increased interest in technological partnerships with foreign suppliers.

In 1993, import penetration in the market for electric power generation, distribution and transmission equipment was about 62 percent, according to United States Department of Commerce estimates.

The U.S. claimed 70 percent of the import market, followed by Japan

and Spain, with 9 percent and 6 percent respectively. Other important competitors included Germany, France and Brazil. Canada's import market share was 1.3 percent.

PRODUCT TRENDS AND OPPORTUNITIES

Privatization

The *Comisión Federal de Electricidad (CFE)*, Federal Electricity Commission, has announced that the generation facilities at Mérida will be the first of a new wave of privately-operated build-operate-transfer (BOT) generation plants. Until now, private participation has been through build-lease-transfer (BLT) arrangements based on guaranteeing the value of future production.

The alternative forms of BOT and build-operate-own (BOO), involve much greater risk, but they also offer the greatest potential for raising private investment for infrastructure development. It is not yet clear whether the Mexican government can deliver all of the needed guarantees. Although there have been high expectations and many promises, no actual construction had taken place as of the third quarter of 1995.

There have been a number of false starts to the privatization program. For example, the proposed coal-fired *Carbón II* plant that was to be built in the state of Coahuila was scrapped because the investor-operators demanded the right to set rates for electricity generated at the plant in order to pay for costly anti-pollution equipment.

Mexico City Central Light and Power

In February 1994, the government reached an agreement with the *Sindicato Mexicano de Electricistas (SME)*, Mexican Electrical Workers Union, to legally transfer management of *Compania de Luz y Fuerza del Centro (LyF)*, Central