

For many years, Mexican officials viewed natural gas as a by-product of crude oil extraction and not as an energy resource in its own right. As a result, a large proportion of gas was wasted. Recently, Mexico has begun to utilize its natural gas more effectively, but it remains seriously underutilized, largely because of an inadequate storage and distribution infrastructure. This has prevented customers from taking advantage of government incentives for switching to natural gas

According to *PEMEX* officials, the use of natural gas in the power generation industry is expected to grow 5 to 6 percent annually until the year 2000. To meet this increased demand, *PEMEX* will need to invest US \$5 billion. In 1994, two major gas production projects were underway and are to be completed in 1995. The first, *Emu*, consists of five wells and two pipelines and will cost N \$51 million pesos. The second, *Merced*, consists of seven wells and three pipelines and will cost N \$107 million pesos. Another exploration project, which was to be located in Burgos, Nuevo León, has been postponed.

PEMEX Gas y Petroquímica Básica also plans to develop industrial plants to process 73 thousand barrels per day of condensates, 36 thousand barrels per day of liquid petroleum gas, 52 million cubic feet of combustibles and 16,000 barrels of naphthas. By law, the company has a monopoly over the production of petrochemicals classified as "basic".

Currently, natural gas imports and exports are roughly in balance, but analysts predict that increased demand for natural gas and stagnant investment will force Mexico to be a net importer in the future. In August 1993, AMOCO began to sell 35 million cubic feet per day of natural gas to Mexico under a 14 month contract. In December 1993, *PEMEX* began to sell natural gas to CONOCO, with a volume of 20 million cubic feet per day. In 1994, *PEMEX* and AMOCO bought natural gas from each other according to their needs.

PEMEX PETROQUÍMICA

PEMEX Petroquímica is responsible for the production of petrochemical products that are not considered part of the basic petroleum industry. It was created specifically to handle the products that are open to private competition.

This subsidiary has had difficulty rationalizing its operations to accommodate liberalized trade policies. The list of basic petrochemicals reserved for the state was reduced from 20 products in 1989 to eight in 1992. The company has also been burdened with regulated prices that are in effect consumer subsidies. It lost N \$738 million pesos in 1993, but in 1994 it managed to earn a small profit of N \$202 million pesos on a volume of more than N \$7 billion pesos.

Petróleos Mexicanos (PEMEX), the national oil company, announced its intention to begin to withdraw from

the secondary petrochemical business in early 1993. Officials said it would close some plants and privatize others. This process was delayed because of low world prices for petrochemicals. Instead of selling the plants at fire sale prices when privatization was first announced, some were simply shut down to wait for the market to rebound. The privatization plan has now been re-activated and as of early 1995, the government was trying to privatize 61 petrochemical plants.

PEMEX INTERNATIONAL

Petróleos Mexicanos Internacional (PMI), is responsible for international trade of petroleum products. It is owned 85 percent by *Petróleos Mexicanos (PEMEX)*, the national oil company, 7.5 percent by *Nacional Financiera (NAFIN)*, National Development Bank, and 7.5 percent by the *Banco Nacional de México (BANAMEX)*. It operates independently of the four main *PEMEX* subsidiaries. Formerly, it was responsible for international procurements, but that responsibility is now being shifted to the subsidiaries. *PMI* specializes in trading crude and refined petroleum products. It negotiates all international agreements and is responsible for building strategic alliances.

COMPETITORS

Imports of commodities are limited mainly to the northern border areas. There is little infrastructure for transporting commodities into central Mexico. Most petroleum-based commodities are supplied to *Petróleos Mexicanos (PEMEX)*, the national oil company, by companies located in Texas and California. The United States also dominates the market for equipment and services. Some of the most active companies in commodities, equipment and services, include:

Petrochemicals Classified as "Basic" under Mexican Law

| | |
|----------|--------------------------------|
| Butane | Ethane |
| Heptane | Hexane |
| Naphthas | Penatanes |
| Propane | Raw materials for carbon black |

Source: *Petróleos Mexicanos (PEMEX)*, the national oil company.