

At the same time, the energy sector is under growing pressure to reduce its impact on the nation's badly polluted environment. One means of achieving this goal is a shift towards cleaner fuels, especially natural gas. Mexico has substantial natural gas reserves which have not been fully exploited. *PEMEX* will spend more than C \$20 billion on modernization and expansion over the next few years.

Constraints

The national pride attached to *PEMEX* is a powerful force limiting the will of the Zedillo administration to privatize parts of the energy sector. In January 1995, the government announced that it would accelerate the privatization of some state enterprises and expand operating concessions to private companies as part of its stabilization plan.

The possibility has been raised that this might include *PEMEX*. To calm opposition, President Zedillo has assured the nation that *PEMEX* will continue to control the exploration, extraction and processing of natural gas reserves, as well as the production of basic petrochemicals. Nevertheless, officials argue that private investors must be brought into the natural gas industry, since limited government resources are inadequate to support the expansion that is desperately needed. New regulations have now been published and may clarify this situation for Canadian investors.

Canada is expected to be an important player in future privatizations. One reason is concern about increased domination of the sector by the United States, which is Canada's principal competitor. Since the Zedillo administration took office in December 1994, Canadian businesses have participated in regular private meetings with *PEMEX* officials.

In spite of this interest in Canadian capabilities, *PEMEX* remains a complex and cumbersome organization. Potential suppliers must be registered in advance, and understanding the unique business practices followed by *PEMEX* typically requires personal connections. Most Canadian firms will need a Mexican agent or partner with extensive *PEMEX* contacts to penetrate this market.

Action Plan

The trade action plan recognizes that strong sales efforts will be needed for Canadian firms to compete effectively with established American suppliers. The plan stresses the development of personal contacts within *PEMEX* and with potential agents and partners. A regular annual incoming trade mission to the National Petroleum Show in Calgary will bring Mexican energy specialists to Canada. The visitors will include both *PEMEX* officials and potential private sector buyers. The mission will attend the show in Calgary in June 1996.

Exhibiting at trade shows is not seen as a major priority. But Canadian firms are encouraged to use the Canada information booths at key shows and conferences as a base for gathering information and building contacts. The annual show of the Society of Petroleum Engineers is an example. Targetted market research will be conducted to identify business opportunities and to create a buyer profile directory.