

ENERGY SECTOR : QUESTION #7

How will the Canadian petrochemical industry fare under NAFTA? What changes are expected in the continental markets?

Background:

The petrochemical industries in Canada and Mexico are approximately the same size, however, the Mexican industry concentrates mainly on production for the domestic market, whereas approximately one half of the Canada production is exported.

PEMEX holds exclusive rights for the production of 20 basic petrochemicals. The liberalization of the petrochemical reserved lists has reclassified 14 basic petrochemicals from exclusive state production to the secondary in the production of which only minority foreign participation is permitted. In addition, 539 previously classified "secondary" petrochemicals have been reclassified as "tertiary", open to 100% foreign participation.

At present Mexico operates a two-tiered pricing system for petrochemical feedstocks through which product used for domestic consumption is priced at set a lower rate than product for export.

There exists the possibility of investment opportunities developing under NAFTA. Under the 1989 Investment Decree, the manufacture of secondary petrochemicals is an activity in which foreign investment of up to 40% of the capital stock is permitted. Such investment, over the long term could conceivably hinder exports by Canadian producers as Mexican companies become increasingly competitive on a continental basis.

RESPONSE:

- THE LIBERALIZATION OF THE PETROCHEMICAL INDUSTRY COULD PROVIDE SIGNIFICANT EXPORT OPPORTUNITIES FOR CANADIAN PRODUCERS IN MEXICO.