

PETROCHEMICALS

The chemical and petrochemical industries are closely related because of the influence of *Petróleos Mexicanos (Pemex)*, the national oil company. The availability of feedstocks supports a large petrochemical industry accounting for some 2.4 percent of gross domestic product (GDP). *Pemex* has a monopoly over "basic" petrochemicals, but the number of products included has gradually been reduced.

Petrochemical operations are handled by two different *Pemex* divisions. *Pemex Gas y Petroquímica Básica* produces the eight basic petrochemicals where *Pemex* still has a monopoly. *Pemex Petroquímica* is responsible for the production of petrochemical products that are not considered part of the basic petroleum industry. It is regarded as a holding company for operations that will eventually be sold to the private sector. In 1995 *Pemex* initiated the process of privatizing the company's 61 petrochemical plants, located in 10 complexes.

Petrochemicals Classified as "Basic" Under Mexican Law

butane	ethane
heptane	hexane
naphtha	penatanes
propane	raw materials for carbon black

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

RATIONALIZATION

The Mexican chemical industry developed in a highly-protected environment. But there was an influx of new competition after the trade liberalization of the late 1980s. The advent of the North American Free Trade Agreement (NAFTA) in 1994 increased competitive pressures and at the same time opened new markets to Mexican producers. To

meet this competition and take advantage of the export boom caused by the devaluation of the peso, Mexican chemical manufacturers have been forced to modernize and rationalize their operations. Pressure from environmental regulators has also motivated some companies to buy new equipment and adopt new technologies.

As the industry has reorganized, it has focussed on products where Mexico has competitive advantages and has moved out of commodities where it can no longer compete. Trade in chemical products between Mexico and the other NAFTA partners has increased in both directions.

FOREIGN TRADE

Estimates of Mexico's foreign trade in chemical products vary widely. There is no universally accepted definition of a chemical. The broadest definitions include basic petrochemicals which might otherwise be classified as part of the petroleum industry. Plastic resins may or may not be considered chemicals. Artificial fibres are sometimes classified as chemicals, but they can also be attributed to the textile industry. By a very broad definition which includes oil by-products, *Banco de México*, Mexico's central bank, estimated 1995 imports at US \$8.6 billion and exports at US \$5.1 billion. Using a somewhat narrower definition, the *Asociación Nacional de la Industria Química (ANIQ)*, National Association of the Chemical Industry, estimated Mexico's 1995 chemical imports at US \$4.7 billion and exports at US \$3.7 billion.

This publication focusses on chemical products as defined in chapter 28 (inorganic) and 29 (organic) of the harmonized system of commodity classification (HS). According to Mexican customs data, imports of these chemicals fell by 12 percent to

US \$1.9 billion in 1995. More than half of these imports originated in the United States. Canada's market share was less than 1 percent, with sales totalling US \$13.3 million in 1995, a drop of about 6 percent from the previous year.

These estimates of Canada's exports to Mexico are substantially larger than corresponding statistics published by Statistics Canada. According to Canadian government data, 1995 exports of Chapter 28 and 29 chemicals to Mexico were only C \$3.5 million, down from \$7.1 million in 1994. Import statistics are usually preferable to export statistics because the need to collect duty and taxes makes reporting more rigorous. Canada's exports to Mexico are often undervalued because of transshipments through the United States.

In addition to the recorded exports, there is also substantial Canadian value added incorporated into American chemical exports to Mexico. Several chemical companies interviewed for this profile reported increased integration with US affiliates over the past few years.

Canada's sales were strongest in the category of inorganic chemicals, which increased by 23 percent in 1995, in spite of Mexico's economic crisis. Canada's share of this market was about 2.5 percent. Phosphates made up more than half of the total. Other important inorganic exports include hydrogen peroxide, precious metals and their compounds, radioactive chemicals, and titanium oxides.

CUSTOMERS

The markets for both commodity and specialty chemicals in Mexico are highly diverse. The following sections briefly describe the business environment in each of the major sectors that are important chemical consumers.