

## PRODUCT TRENDS AND OPPORTUNITIES

*Small-scale self-generation plants, alternative energy systems and technologies to improve energy efficiency are niche markets of special interest to small- and medium-sized Canadian companies.*

### PRIVATIZATION

The Mexican government has implemented an aggressive program to stabilize the economy following the December 1994 devaluation of the peso. The initiatives have included a 50 percent increase in the *impuesto al valor agregado (IVA)*, value-added tax, increased petroleum exports, restraints on government budgets and accelerated privatization plans. There has been much speculation that these efforts might include privatization of the energy sector, including *Petróleos Mexicanos (PEMEX)*, the national oil company, and the *Comisión Federal de Electricidad (CFE)*, Federal Electricity Commission.

The government has made it clear that neither of these entities will be privatized outright. On the other hand, the first few months of 1995 brought several announcements of plans to increase the participation of private investors in the energy sector. Developments in the primary energy sector are closely related to those in electricity generation.

In the case of *PEMEX*, the transmission of natural gas was opened to private operators partly as a means of supplying the proposed *Mérida III* power plant with natural gas. The *CFE*, for its part, has announced that the generation facilities at the city of 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. Risks are associated with potentially unpredictable fuel price increases by *PEMEX*, with possible labour disputes and with uncertainty concerning future electricity prices. All of these factors are manageable, given appropriate government guarantees. It is not yet clear whether the Mexican government can deliver the necessary arrangements. Although there have been high expectations and many promises, no actual construction had taken place as of the third quarter of 1995.