celebrated in Mexico as a day of "national pride".

The national pride attached to *PEMEX* is a powerful force limiting the desire of the Zedillo administration to privatize parts of the energy sector. Privatization of state enterprises has been government policy since 1988, but the energy sector was excluded. In January 1995, the government announced that as part of its stabilization plan, it would accelerate the privatization process. The possibility that this might include *PEMEX* has caused considerable debate, and the government has moved cautiously.

So far, the government has announced that 61 existing petrochemical plants will be sold, and that transmission, distribution and storage of natural gas will also be privatized. But to calm opposition, President Zedillo has assured the nation that *PEMEX* will continue to control the exploration, extraction and processing of oil and gas reserves, as well as the production of basic petrochemicals.

The idea of completely privatizing *PEMEX* seems to receive more international media attention than in Mexico, where the concept is regarded by the public as simply unthinkable. Nevertheless, officials argue that private investors must be brought into the natural gas industry, by one means or another, to support needed expansion. Canadian companies are expected to play an important role in the coming privatizations.

THE OIL AND GAS SECTOR

Energy is the most important sector of the Mexican economy. The nation holds about 5 percent of the world's oil reserves and about 1 percent of natural gas reserves. It accounts for 4.5 percent of world petroleum production.

At the end of 1994, Mexico had total proven reserves of oil and gas of 63 billion barrels, the eighth largest in the world. This figure does not include some recent finds in the Bay of Campeche which, if proven, could increase reserves by as much as 50 percent. Mexico's proven reserves are about double those of the U.S., but less than those of Venezuela, the other major oil producer in the hemisphere.

Petróleos Mexicanos (PEMEX), the national oil company, is the only producer of oil and gas in Mexico. By law, it has exclusive authority for all exploration, production and distribution of petroleum products.

In spite of the nation's immense resources, regulated prices and protectionist procurement policies have stood in the way of achieving world levels of efficiency. Beginning in 1988, the government introduced sweeping economic reforms, and established a liberalized commercial environment. In response, *PEMEX* has launched a massive modernization program, much of it based on imported technology.

Mexico's petroleum industry has long been one of the least efficient in the world. At one point, labour requirements per barrel of output were four times as high as those in Venezuela. A complex and highly-politicized decision-making structure and a powerful and corrupt trade union have helped to perpetuate this situation. In spite of these obstacles, the Salinas administration ordered a modernization program in 1992, and labour requirements have been cut sharply. The work-force has been cut from 215,000 to less than 110,000 over the last three years with no loss of production.

The need to modernize is compounded by demands that *PEMEX* reduce its impact on the environment. The effort to simultaneously expand, modernize and clean up the energy sector, will create substantial demands for imported equipment, supplies and services. The company will spend more than US $20 billion on modernization and expansion over the next few years.

THE ROLE OF IMPORTS

Mexico is a net exporter of energy. It exports close to half of its crude oil, and also substantial amounts of electricity. Its imports of refined petroleum products are relatively small and irregular, and largely offset by exports of similar products.

Nonetheless, a large proportion of the equipment used in Mexico's oil and gas sector is imported. Import penetration in most product categories exceeds 50 percent. The average annual growth rate of imports over the next five to ten years was forecast by the U.S. Department of Commerce at 10 to 20 percent, before the December 1994 devaluation.

More than 70 percent of imported oil and gas production equipment originates in the United States. Other important suppliers include Japan, Germany and Italy. Canada is not presently a major supplier, but there is considerable potential for an increased market share.

Officials of *Petróleos Mexicanos (PEMEX),* the national oil company, interviewed for this study said that Canadian firms are highly regarded in Mexico. There is a general preference for dealing with Canadians over Americans, based on a perception that Canadians share many of the same problems. Nonetheless, given that most services and equipment has traditionally come from the U.S., Canadian firms in this area are not well-known.