

Oil and Gas Products and Energy Equipment



THE OPPORTUNITY

The Mexican oil and gas sector offers many opportunities for Canadian suppliers of energy commodities, equipment and consulting services.

- *PEMEX*, the national oil company, has not been entirely successful in matching its products with domestic demand.
- *PEMEX* has had considerable difficulty rationalizing its operations to compete in the newly liberalized trade environment.
- The devaluation of the peso has pressured the government to privatize some *PEMEX* operations, most notably natural gas distribution and petrochemical operations.
- A lack of investment in exploration and development, combined with increased exports to meet foreign debt obligations, has put Mexico in a position where it may have difficulty keeping up with domestic demand growth.

Although individual Canadian sellers are not well-known in Mexico, Canada enjoys a good reputation and is in a position to compete against the American companies that presently dominate the market.

A SYMBOL OF MEXICAN SOVEREIGNTY

Mexico and Canada have much in common in their experiences with the oil and gas sector. They have traditionally regarded energy as a special case for industrial policy, for reasons of both economic security

and national sovereignty. Successive governments in both countries have intervened to manage supply, regulate prices, control exports and limit foreign ownership. This intervention has been much more pervasive in Canada and Mexico than it has been in the United States. Canada and Mexico obtained special treatment for energy resources under the North American Free Trade Agreement (NAFTA). Mexico's petroleum sector "carve-out", however, was more extensive than Canada's.

The public ownership of energy resources is enshrined in Mexico's constitution. Article 27 reserves all rights to subsoil minerals for Mexican citizens, and prohibits foreign participation in strategic parts of the energy sector. Until 1938, this policy was not consistently implemented. In 1938, the government expropriated the private oil companies and established *Petróleos Mexicanos (PEMEX)*, the national oil company, to consolidate the industry under exclusive government control. The oil companies retaliated by boycotting Mexican oil, but this action was short lived because of the strategic requirements of the war. March 18, the *Día de la Expropiación Petrolera* is still

SUMMARY REPORT

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