

CONFORMED COPY

LOAN NUMBER 2919 ME

(Fertilizer Sector Loan)

between

UNITED MEXICAN STATES

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated June 13, 1988

LOAN NUMBER 2919 ME

GUARANTEE AGREEMENT

AGREEMENT, dated June 13, 1988, between UNITED MEXICAN STATES (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated February 25, 1988, (the Fertilizer Sector Policy Letter) from the Guarantor describing a program of actions, objectives and policies designed to achieve adjustments to and restructuring of, the Guarantor's fertilizer sector (hereinafter called the Program), declaring the Guarantor's commitment to the execution of the Program and requesting assistance from the Bank in financing imports, works and services required during such execution;

(B) by an agreement (the Loan Agreement) of even date herewith, between the Bank and NACIONAL FINANCIERA, S.N.C. (the Borrower) the Bank has agreed to extend to the Borrower a loan in various currencies equivalent to two hundred sixty-five million dollars (\$265,000,000), on the terms and conditions set forth in the loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan and to undertake other obligations set forth in this

Agreement;

(C) the Guarantor, the Borrower and FERTILIZANTES MEXICANOS, S.A. (FERTIMEX) having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement, have requested the Bank to assist in the financing of the Project; and

(D) by an agreement (the Project Agreement) of even date herewith, between the Bank and FERTIMEX, the latter has agreed to undertake the obligations set forth in the Project Agreement;

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985 (the General Conditions), with the modifications set forth in Section 1.01 of the Loan Agreement, constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to, and Section 1.02 of, the Loan Agreement have the respective meanings therein set forth.

#### ARTICLE II

##### Guarantee; Transfer and Provision of Funds

Section 2.01. (a) The Guarantor declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement and, to this end, without limitation or restriction upon any of its other obligations under the Guarantee Agreement, the Guarantor hereby unconditionally guarantees, as primary obligor and not merely as surety, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan, and the punctual performance of all the other obligations of the Borrower and FERTIMEX, as set forth in the Loan Agreement and the Project Agreement.

(b) The Guarantor shall enter into the contractual arrangements referred to in Section 3.01 (a) of the Loan Agreement and, unless the Bank shall otherwise agree, shall not change or fail to enforce any provisions of such contractual arrangements.

Section 2.02. Without limitation to, or restriction upon the provisions of Section 2.01 of this Agreement, the Guarantor specifically undertakes whenever there is reasonable cause to believe: (i) that the funds available to FERTIMEX will be inadequate to meet the estimated expenditures required for the carrying out of the Project, including without limitation, the funds required to comply with Section 4.02 of the Project Agreement, to make arrangements, satisfactory to the Bank, promptly to provide such funds as are required to meet such expenditures; and (ii) that the funds available to implement the Investment Program will be inadequate to meet the estimated expenditures required for its implementation, to make arrangements promptly to provide such funds as are required to meet such expenditures.

#### ARTICLE III

##### Other Covenants

Section 3.01. Without any limitation to, or restriction upon, any of its obligations under this Agreement, the Guarantor shall: (i) take all measures required to assist FERTIMEX in carrying out its obligations under the Project Agreement; and (ii) not take or permit to be taken, any action which would prevent or interfere with the performance by FERTIMEX of its obligations under the Project Agreement.

Section 3.02. The Guarantor shall provide or cause to be provided in a timely manner, all documents and records for expenditures financed out of the proceeds of the Loan required to enable the Borrower to comply in respect of Part A of the Project with the provisions of Section 4.01 of the Loan Agreement, and FERTIMEX to comply in respect of Parts B and C of the Project, with the provisions of Section 4.01 of the Project Agreement

Section 3.03. Except as the Bank shall otherwise agree, the procurement of goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 3.04. Except as otherwise provided in this Agreement and the Loan Agreement, the Bank and the Guarantor hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Project shall be carried out by the Borrower in respect of Part A of the Project in accordance with Section 3.03 of the Loan Agreement, and by FERTIMEX in respect of Parts B and C of the Project in accordance with Section 2.03 of the Project Agreement.

Section 3.05. The Guarantor shall:

- (i) enter into a medium-term contract, acceptable to the Bank, with FERTIMEX (the FERTIMEX Convenio) for purposes, inter alia, of enhancing the financial autonomy of FERTIMEX and defining performance objectives and targets;
- (ii) cause PEMEX to enter into an agreement, acceptable to the Bank, with FERTIMEX (the PEMEX Agreement), for purposes, inter alia, of coordinating and planning ammonia and fertilizer production.
- (iii) except as the Bank shall otherwise agree, the Guarantor shall not change or fail to enforce any provision of the FERTIMEX Convenio, and shall take all measures necessary to prevent PEMEX from changing or failing to enforce the provisions of the PEMEX Agreement.

Section 3.06. (a) The Guarantor shall cause the prices for domestically produced ammonia paid by FERMITEEX to PEMEX to increase in order achieve the following percentages of the Export Price for Ammonia, by the dates listed below:

Percentage of Export Price for Ammonia	By
(i) 48%	March 31, 1989
(ii) 54%	December 31, 1989
(iii) 63%	December 31, 1990
(iv) 71%	December 31, 1991
(v) 80%	December 31, 1992

For purposes of this paragraph "Export Price for Ammonia" means the average of prices prevailing during the previous twelve months preceding a price increase, for ammonia exported by PEMEX (F.O.B. Coatzacoalcos), or if PEMEX does not export ammonia in a particular month, the price prevailing for such month for ammonia

purchased at United States Gulf ports (F.O.B. U.S, Gulf Coast price) minus ten dollars.

(b) The Guarantor shall cause:

- (i) the domestic prices for fertilizer listed by the Guarantor to be adjusted, on at least a twice-year basis, until such prices so listed reach import parity, or FERTIMEX has achieved financial self-sufficiency, whichever occurs first. For purposes of this subparagraph, the term "import parity" means the point at which the price of fertilizer marketed by FERTIMEX at major distribution points is equal to the estimated price of equivalent imported fertilizer delivered to such distribution points; the term "financial self-sufficiency" has the same meaning as that term is used in the Fertilizer Sector Policy Letter, namely, that revenues of FERTIMEX shall be equivalent to its total operating costs, including production, distribution, sales and administrative expenses, financial costs and an 8% return on amounts (other than debt) paid for new investments;
- (ii) such fertilizer prices to be adjusted, on a monthly basis during 1988 and in accordance with the terms of the Pacto de Solidaridad Economica, in order to maintain such prices, in real terms, at the base prices prevailing on March 1, 1988; and
- (iii) the average weighted fertilizer prices to be increased each year after 1988, by 12.3% of the Constant Fertilizer Price, such annual percentage increase to be adjusted in accordance with the world inflation index referred to immediately below. For purposes of this subparagraph, the term "Constant Fertilizer Price" means a fertilizer price of \$105 in constant United States dollars determined as of December 1987, calculated in accordance with a methodology satisfactory to the Bank and utilizing an index of world inflation acceptable to the Bank, such price to be converted into pesos at the rate of exchange prevailing between the dollar and the peso on the date of such increase; and
- (iv) each fertilizer price increase made during a year after 1988 shall be approximately equal to other increases made during the same year.

Section 3.07. The Guarantor shall refrain from applying Non-tariff Barriers to imports of fertilizers and raw materials for fertilizer production and shall maintain the tariff structure for such fertilizers and raw materials existing as of December 15, 1987, in a manner consistent with the objectives of the Program.

Section 3.08. The Guarantor shall: (i) assist FERTIMEX in carrying out the study referred to in Section 2.06 of the Project Agreement; and (ii) assist in implementing the withdrawal from consignment and retail operations referred to in such Section.

Section 3.09. (a) The Guarantor and FERTIMEX, pursuant to Section 2.05 of the Project Agreement, shall on a twice-yearly basis and at the request of any party, exchange views with the Bank on the progress achieved in carrying out the Project, the Program and the actions specified in the Schedule to this Agreement.

(b) Prior to each such exchange of views, the Guarantor shall furnish to the Bank, a report in such detail as the Bank may reasonably request on such progress achieved.

ARTICLE IV

Representative of the Guarantor; Addresses

Section 4.01. The Director General de Credito Publico of the Secretaria de Hacienda y Credito Publico of the Guarantor is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 4.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

Direccion General de Credito Publico  
Secretaria de Hacienda y Credito Publico  
Palacio Nacional  
Edificio 10, P.B.  
06066 Mexico, D.F.  
Mexico

Telex:

1777313-SHDCME

For the Bank

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

UNITED MEXICAN STATES

By /s/ Gustavo Petricioli  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Barber B. Conable  
President

SCHEDULE

Actions to be Taken Prior to Availability  
of the Second Tranche

1. FERTIMEX shall have implemented the Plant Closure Program for 1988;

2. FERTIMEX shall have completed the study described in Part C.1 of the Project and the first phase of the study described in Part C.2 of the Project, and shall have complied with its obligations under Sections 2.06 (d) and 2.07 (c) of the Project Agreement;

3. FERTIMEX shall have: (i) carried out the Investment Program for 1988; and (ii) reviewed with the Bank the Investment Program for 1989 and the Bank is satisfied that it meets the investment criteria stated in said Section 2.09 of the Project Agreement.

4. That the Guarantor and FERTIMEX shall have made satisfactory progress in carrying out the Pricing Actions, including:

(a) compliance with the obligations of Section 3.06 (a) (i) of the Guarantee Agreement;

(b) with respect to Section 3.06 (b) of the Guarantee Agreement, increasing the weighted average of fertilizer prices by 2.9% of the Constant Fertilizer Price;

(c) ensuring that the price paid by FERTIMEX for sulfur to domestic suppliers shall have remained, at the F.O.B. Coatzacoalcos price for sulfur, adjusted for difference in quality.

