TO: **Executive Director**
Office of the Legal Advisor
United States Department of State
Room 5519
2201 C. Street NW.
Washington, D.C.
20520

NOTICE OF INTENT TO SUBMIT A CLAIM TO ARBITRATION UNDER ARTICLE 1119, SECTION B, CHAPTER 11 OF THE NORTH AMERICAN FREE TRADE AGREEMENT

The disputing investor, Methanex Corporation ("Methanex"), hereby serves notice of its intention to submit a claim to arbitration, under the provisions of Article 1119 of the North American Free Trade Agreement.

Name and Address of Disputing Investor

METHANEX CORPORATION
1800 Waterfront Centre
200 Burrard Street
Vancouver, British Columbia
Canada V6C 3M1

PROVISIONS WHICH HAVE BEEN BREACHED

Methanex alleges that the Government of the United States has breached its obligations under the provisions of Article 1105 and Article 1110 of the North American Free Trade Agreement ("NAFTA") entitling Methanex to claim damages under the provision of Article 1116 thereof.

FACTUAL BASIS FOR THE CLAIM

1) Methanex is a company incorporated under the laws of Alberta and continued under the *Canada Business Corporations Act*. Methanex is a producer and marketer of methanol with production facilities located in North America, New Zealand and Chile.

2) Methanex Methanol Company ("Methanex US") is a Texas partnership indirectly owned entirely by Methanex.

3) Approximately 40% of Methanex US' sales of methanol in the United States are to third parties who use methanol for the production of methyl tertiary-butyl ether ("MTBE").

4) The principal uses of MTBE are as a source of octane and as an oxygenate for gasoline. MTBE is soluble in water.

5) When gasoline containing MTBE is discharged into the environment some of the MTBE may dissolve in the surrounding ground water. A resultant plume of MTBE in water often travels faster than other gasoline components and is more readily apparent, as it has a characteristic taste and smell. MTBE detection in water may be considered the indicator of gasoline in the environment.

6) On March 25, 1999 the Governor of the State of California issued an Executive Order which provided (among other things) for the removal of MTBE from gasoline at the earliest possible date, but not later than December 31, 2002.

7) The California State Legislature has, since March 25, 1999, taken additional measures to implement and expand on the Governor's Executive Order.

8) The measures taken by the Governor and by the California State Legislature are unfair and inequitable. The measures:

(a) are not based on credible scientific evidence;

(b) penalize and ban one component of gasoline solely because it provides evidence of the release of gasoline into the environment;

(c) failed to consider alternative effective measures to mitigate the effects of gasoline releases;

(d) result from the failure or delay in enacting appropriate and/or enforcing legislation to reduce or eliminate gasoline releases into the environment; and

(e) failed to take proper consideration of the legitimate interests of Methanex and Methanex US.

9) The measures go far beyond what is necessary to protect any legitimate public interest.

10) The measures taken by the State of California Legislature and the Governor have and will end Methanex US' business of selling methanol for use in MTBE in California. This constitutes a substantial interference and taking of Methanex US' business and Methanex's investment in Methanex US. These measures are both directly and indirectly tantamount to an expropriation.

11) As of the date hereof, neither the State of California nor the United States has offered compensation for the expropriation.

12) The ban on MTBE has caused and will cause losses including, *inter alia*:

a) the loss to Methanex and Methanex US of a substantial portion of their customer base, goodwill and market for methanol in California and elsewhere;
b) losses to Methanex and Methanex US as a result of the decline in the global price of methanol;
c) loss of return to Methanex and Methanex US on capital investments they have made in developing and serving the MTBE market;
d) the loss to Methanex of a substantial amount of its investment in Methanex US.

ISSUES

1. Has the State of California taken measures inconsistent with the obligations of the United States under Article 1105 and Article 1110 of the NAFTA?

2. If the answer to 1 is yes, what damages have been suffered by Methanex?

RELIEF SOUGHT AND DAMAGES CLAIMED

1. Methanex claims damages under the provisions of Article 1116 for breach of Article 1105 and Article 1110 of the NAFTA.

2. The approximate amount of damages claimed is U.S. $970,000,000.

3. Methanex also claims:

   (a) the costs and expense of any arbitration including professional fees and Canadian goods and services tax, if applicable; and

   (b) pre-award and post-award interest at a rate to be fixed by the arbitral tribunal.

Dated this 2nd day of July, 1999.

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