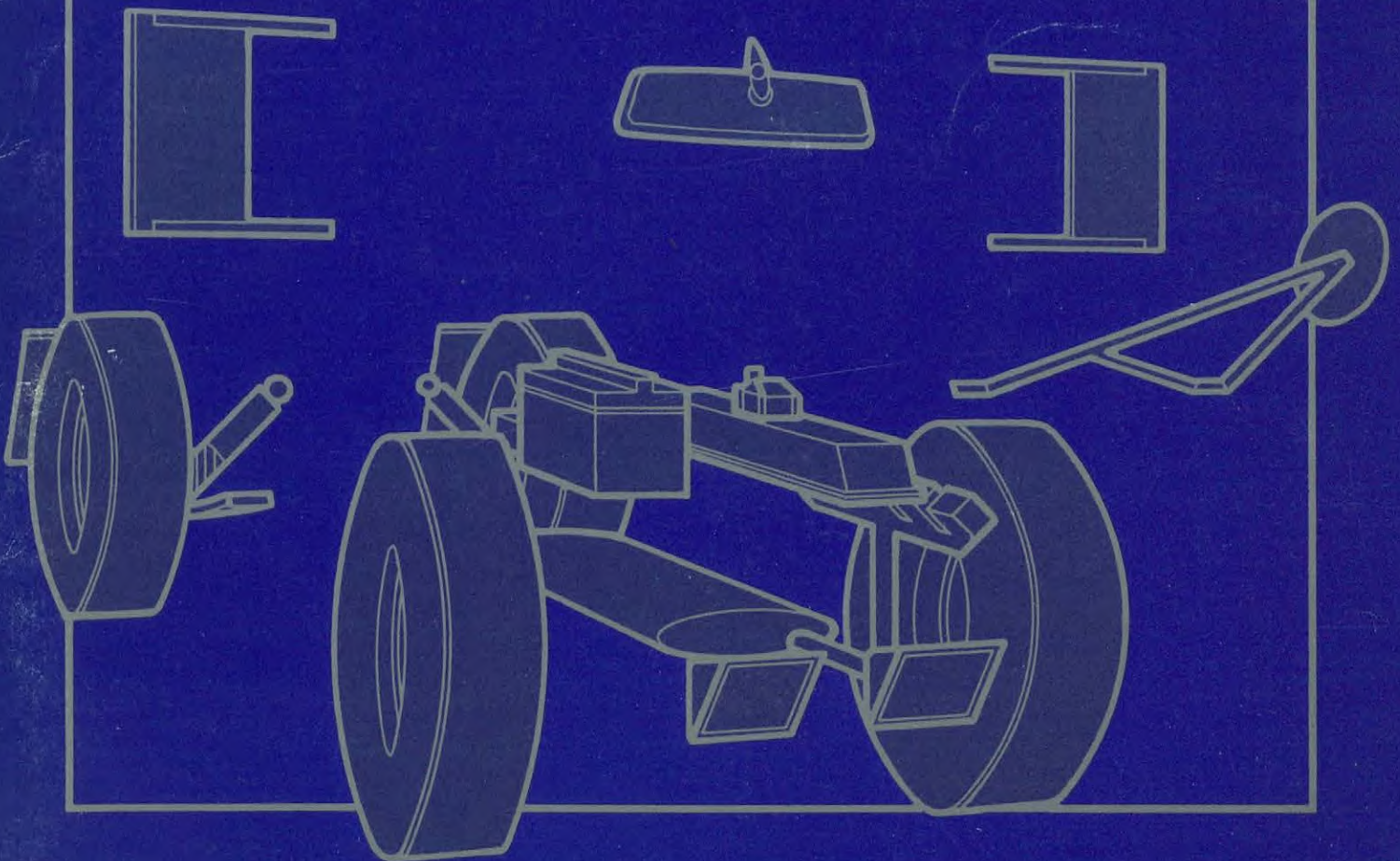


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# EXPORT INFORMATION LATIN AMERICAN AUTOMOTIVE AFTERMARKET



# EXPORT INFORMATION LATIN AMERICAN AUTOMOTIVE AFTERMARKET

**For further information:**

Automotive Parts Division  
Surface Transportation Branch (50)  
Department of Industry, Trade and Commerce  
235 Queen Street  
Ottawa, Ontario  
K1A 0H5

Tel: (613) 995-3201



Government  
of Canada

Gouvernement  
du Canada

Industry, Trade  
and Commerce

Industrie  
et Commerce

Canada

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# THE MARKET

## Latin American Markets Provide Profitable Export Opportunities

Active interest by Canada in the Latin American automotive aftermarket is fairly recent. Intensive on-site investigation and study sponsored by the Department of Industry, Trade and Commerce has emphasized that the export potential for Canadian producers is most promising.

The first major project of the region undertaken under the sponsorship of the Department was a "market access" trade mission to Venezuela in March, 1979. The mission involved officers of the Department and leading representatives of the automotive aftermarket industry.

This was followed by similar missions to Argentina and Colombia in March, 1980, and to Mexico in March, 1981.

As a result of the success of the earlier Venezuelan project, there was a follow-up mission of manufacturers seeking local agents as well as participation under Department sponsorship in the country's foremost automotive trade show "Expomotrix" held in Caracas, Venezuela, November, 1980.

### Impressive Growth

In contrast to the recent downturn in the automotive industries in Canada and the United States, the increase in the vehicle population of the Latin American countries is most impressive. The following is a sampling of seven countries surveyed by trade missions and departmental officers, indicating vehicle population and prospective growth:

#### **Brazil —**

the nation with the largest vehicle population of the countries surveyed, recorded a registration of 6,926,866 passenger cars and 1,875,000 trucks and buses (total 8,801,866) in 1978. The production increased by nine per cent in 1979—which was an additional gain of 12 per cent over the 1977 figures;

#### **Mexico —**

there were 3,009,809 passenger cars and 1,213,858 trucks and buses (total 4,223,667) in 1978. The production showed an increase of 18 per cent in 1979, which was up 35 per cent over 1977. Production projections indicate a continuing significant yearly increase;

#### **Argentina —**

the 1979 registration totalled 2,729,732 passenger cars and 1,133,385 trucks and buses (total 3,863,117). The first six months of 1979 showed a 60 per cent production increase over 1978 levels. Demand appears very strong and growing;

#### **Venezuela —**

the country had a vehicle registration of 1,269,275 passenger cars and 550,845 trucks and buses (total 1,820,120) in 1978. The figures slowed somewhat because of government price controls in 1979, but has since eased considerably;

#### **Colombia —**

there were 470,000 passenger cars and 110,000 trucks and buses (total 580,000) registered in 1978. After four years of slow growth, the market has surged recently and the trend is expected to continue. Auto imports are rising;

#### **Chile —**

the 1978 registrations were 470,000 passenger cars and 110 trucks and buses (total 580,000). The vehicle growth rates is reported to be rising dramatically. During the first six months of 1981, there were 55,000 vehicle imports—up 17,000 over the 1979 period.

#### **Peru —**

the country ranks fifth in vehicle population among Latin American countries. In 1979 there were 305,743 cars and 160,421 trucks and buses registered (total 466,164).

### Study Required

Latin America is not an easy market to penetrate. Canadian suppliers must study the legislation affecting tariffs and import restrictions of the automotive aftermarket of each individual country. The distribution and marketing system is often different from the Canadian and U.S. markets, and the success of an export venture will depend on the total knowledge of the potential markets.

The effort will be worthwhile. The markets are rapidly growing, and offer promise of added sales and profits to Canadian firms that plan to participate.

The Department of Industry, Trade and Commerce is anxious to help your company enter the Latin American automotive aftermarket.

This publication is designed to help Canadian businessmen better understand this lucrative but complex market.

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For further information, please contact:

Surface Transportation Branch  
Automotive Parts Division (50)  
Department of Industry, Trade and Commerce  
235 Queen Street  
Ottawa, Ontario  
K1A 0H5

Tel: (613) 995-3201

— or your nearest ITC regional office (see list, page 31).

Canadian Trade Offices in Latin America are listed on pages 29 and 30. Experienced trade officers may be contacted for assistance and advice regarding import requirements and tariffs of individual countries in Latin America.

## EXPORT STRATEGY

The objective of the Automotive Parts Division, Department of Industry, Trade and Commerce is to increase Canada's share of the rich Latin American aftermarket automotive parts market from the present minimal level to 10 per cent of total imports within the next few years.

Total co-operation by the Department together with a highly motivated effort from all sectors of the industry are essential requirements in attaining this objective.

At present, a large part of the Canadian aftermarket parts producers are apparently indifferent to the vast sales potential of Latin America, which, if properly developed, can provide a profitable source of sales to Canadian companies.

The region should be regarded as a marketing area, rather than a series of individual countries, with varying degrees of perceived market attractions. For the purpose of export studies, the market includes Mexico, Central America, South America and the "pocket markets" of the Caribbean Islands.

### Top-Ranking Markets

An independent examination by the Office of International Marketing Policy (ITC) has ranked the Latin American countries consistently in the top 10 countries with export potential for Canada.

There are few national distributors in most Latin American countries. The system comprises mostly jobbers, retailers and repairmen, ranging from comparatively large firms to "ma and pa" operations.

A thorough knowledge of the region is most important to the Canadian automotive aftermarket parts producers who seek to penetrate the Latin American markets.

Joint ventures or technological information agreements and licensing arrangements with local firms can provide Canadian producers alternate approaches to Latin American markets.

The engagement of a manufacturer's agent or freight forwarder is the proven method of penetrating most Latin American automotive aftermarket parts markets, and should be included in any export program.

A program to acquire firsthand knowledge of the aftermarket parts purchasing and sales methods of Latin America has already been initiated.

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The Department has sponsored several recent trade missions involving representatives of Canadian producers who have visited key countries and discussed sales potential directly with representatives of the Latin American automotive aftermarket parts industry.

Canada has participated in an automotive trade show in Venezuela recently, and has been host to a large contingent of Latin American buyers at automotive trade fairs held in Montreal and Toronto.

### **Expanded Activities**

The Department plans to expand its trade show program activity in Latin America and will continue to sponsor trade missions to the region that will attract a growing number of industry representatives.

This includes plans for a "Grand Slam" back-to-back mission (in two parts) to cover most Latin American countries.

Ten automotive aftermarket parts manufacturers, will travel under the sponsorship of the Department, to three or four countries over a two-week period. Plans will be arranged well in advance to assure as many person-to-person contacts between buyer and seller as time will allow.

This will provide an opportunity to appoint trade agents and select freight forwarders in a program similar to the successful "Product Introduction Days" that has been utilized to introduce Canadian products to the United States.

### **Priority Programming**

Due to the mix of the vehicle population and other access factors, the following countries are listed in order of priority of the Department's programming:

Mexico, Venezuela, Colombia, Argentina, other "Andean Pact" nations and the Caribbean "pocket markets" of Trinidad, and Puerto Rico.

The Andean Pact is a common automotive parts agreement between Venezuela, Colombia, Ecuador, Peru and Bolivia. The agreement has resulted in common external automotive tariffs and import legislation affecting the signatory nations.

Since the local Original Equipment Market (OEM) cannot keep pace with the vehicle assembly needs in some countries, the aftermarkets are being met by imports—principally from the United States. (This situation is particularly acute in Mexico.) These conditions offer an excellent sales opportunity to Canadian producers.

### **Federal Assistance**

The assistance of three federal agencies are available to assist automotive aftermarket parts manufacturers who seek to benefit from Latin American market opportunities. They offer practical advice, financial aid and insurance coverage for the exporter.

- (1) Industry, Trade and Commerce is actively sponsoring and assisting the industry in exploring market opportunities, and arranging for firsthand introduction to potential customers. In addition, it is subsidizing industrial participation in trade shows. The Department arranges "outgoing missions" to Latin American markets, and "incoming missions" of buyers to Canada. (Further details, see page 8)
- (2) The Department's Program of Export Market Development (PEMD-C) offers financial incentives to individual companies that make their own arrangements to participate in trade shows in foreign markets of their own choosing. (Further details on page 9)
- (3) Export Development Corporation (a crown corporation) offers the Canadian exporter financial assistance through the purchase of promissory notes; providing a line of credit; and offering comprehensive insurance for accounts receivable. (Further details, see page 11)

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# GUIDELINES

## For Exporters To Latin America

A prior understanding of conditions and difficulties that are often encountered—from shipping to hiring a cab—will avoid many of the inconveniences when travelling and doing business in Latin American countries.

The following “marketing tips” on payments, shipping and travelling will help simplify many apparent complexities that could create problems for Canadian businessmen seeking to penetrate these markets.

Although the situations may vary from country to country, there are many similarities in business procedures and day-to-day practices that are covered in these guidelines.

### General

Prices should be quoted in United States dollars. Latin American businessmen are unfamiliar with the values of Canadian funds.

Prices should also be quoted f.o.b. various U.S. ports, depending upon the destination: Venezuela, Trinidad and Colombia—f.o.b. Miami; Chile and other countries—f.o.b. New York; Mexico—f.o.b. closest U.S.-Mexican border point.

The c.i.f. price (cost including freight) is the amount that generally is calculated after an f.o.b. price has been offered and accepted. It is the invoice amount that is required for the submission of a proforma invoice; acceptance of which constitutes the formal order.

The engagement of a **freight forwarder** and/or a local import agent is essential to assure correct invoicing and customs regulations.

The majority of customs officers in the countries of receipt insist upon “letter perfect” documentation. If there are discrepancies, shipments are usually set aside, and there may be difficulties freeing the shipments for final destination. The services of freight forwarders are also valuable because of the long shipping delays which could occur, depending on the availability of local flag ships.

### Shipping

Shipping can create significant problems due to various timings which have to be co-ordinated. This involves the actual shipment of goods, as well as the manner in which shipping invoices, insurance papers, customs forms and other documentation are sent to the buyer. The documents **MUST** be in the importer’s hands prior to the arrival of the shipment.

Failure to observe these procedures could result in the impounding of shipments, which would create serious administrative problems before authorities would approve release of the goods.

### Payment Terms

The terms of payment depend on the commercial system of individual countries, however there are certain factors that should be taken into account. The auto parts customer, in most Latin American countries, is accustomed to generous terms because of U.S. competition. Payment is extended over longer periods in comparison to credit terms in Canada and the U.S.

A 90-day sight-draft is a common method of payment. In some countries a demand for a letter of credit from the buyer could reduce potential buyer population to a quarter of the available market.

Buyers in some Latin American countries expect an additional discount from invoice price (as high as eight to 10 per cent) if a letter of credit is demanded.

However, even with the receipt of a letter of credit, it may take from 90 to 120 days before payment is actually received. This is not due to delay on the part of the buyer, but rather because the financial and banking systems are often overloaded and late payments should be regarded as inevitable.

It is important that exporters include the appropriate financial carrying costs in the pricing or discount arrangements.

### Travel

Careful planning, with a long lead time is essential when contemplating a visit to any Latin American country. Travel and hotel reservations should be made well in advance. Some hotels may require a deposit prior to the flight. If the trip is cancelled without notifying the hotel within a specific period, there is a legal liability for one or two nights of the reservation, despite the failure to arrive.

Trip planning should also include time spent in metropolitan areas after arrival. It is often difficult to travel from one point to another in these cities without prior arrangements.

It is recommended that a taxicab be hired on a daily basis, since there is no “dispatcher to cab” communication in most cities, and “flagging down” a cab on certain streets is virtually impossible. The traveller should not expect the same service that is taken for granted in most Canadian and U.S. cities.

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It is important that the fee for the taxicab is clearly understood in advance. It is also advisable to be prepared for the hectic traffic conditions in most larger Latin American cities in order to allow ample time between appointments.

As a result of traffic delays it is not feasible to arrange for more than three customer appointments a day. Anything beyond that number would be straining the allotted time for individual meetings.

### **Communications**

Communications between Canada and most Latin American countries is, at best, uncertain. This results from almost daily breakdowns of telephone and telex services. A first-class airmail letter will take an average of 60 days to arrive at its destination.

When discussing timings, or follow-up timings with potential buyers, it is important to keep the communications problem in mind. It is simply not possible to respond as quickly as is customary between Canada, the U.S., or Western Europe.

Communication between Canada and customers in Latin America can be very slow and unreliable. It requires constant checking and double-checking.

**However, if proper planning and careful attention is paid to all these details, the problems of doing business in Latin America can be overcome. The results should be rewarding.**

## **SHIPPING REQUIREMENTS**

- A. Identification of cases should coincide with the export and/or transit documentation indicating clearly, in Spanish, specifying the number of cases and port of destination.
- B. Whenever possible the merchandise must be sent either in containers, units or on pallets, according to maritime freight standards.
- C. When necessary the merchandise must be packed and baled to withstand rough handling, in addition to being properly insulated against humidity and high temperatures.
- D. All merchandise that is palletized must be strapped.
- E. Bags that cannot comply adequately with (B) must be prestung for easy handling. The bags with identification inscriptions or numbers should be packed in such a way that the identification is clearly legible without unpacking the parcels.
- F. The pallets should be up to I.S.O. (International Shipping Organization) standards or equivalent and should be strong enough to resist the handling from the place of origin to the consignee.
- G. The straps must have adequate tension to keep the merchandise in its position and to avoid damage. The straps should not damage the merchandise but withstand rough handling.
- H. Merchandise requiring big boxes should have a strong platform underneath and hooks to facilitate the transportation by mechanical means (forklift trucks, or cranes). In all cases the packaging must be structurally strong enough for its handling.



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# THE ANDEAN PACT

The Andean common market was created in 1969 by Bolivia, Chile, Colombia, Ecuador and Peru with Venezuela officially becoming a member December 31, 1973.

The objectives of the Andean Pact are to stimulate economic development of the region by reducing or eliminating customs tariffs among its members, establishing common tariffs, and planning, encouraging or rationalizing industries within the region so as to distribute industrial activity and take advantage of mutual economic benefits.

What are the implications of the Andean Pact with respect to the automotive parts aftermarket?

Andean Pact integration and local content rules stipulate that by 1985 there will be as much as 90 per cent incorporation of locally fabricated original equipment market (OEM) components. Tariffs will reach 100 per cent if not more on those imports where local production can fill demand but, in those cases where the demand cannot be met, special importing licences will be issued.

Those OEM components which are either produced in small quantities or not at all are covered by tariffs which are minimal, as low as one per cent. Due to the rapidly expanding market and the fact that as of yet Andean Pact regulations are not being met, the 1985 goal would appear to be unobtainable.

Whether the goal is met by 1985 or 1990 it will be reached someday, therefore Canada must become involved in the more open aftermarket on a much larger scale than is currently being negotiated in order to keep exports in this sector at a high level.

This complex series of inter-country and individual country agreements and individual country plans clearly outlines the volume and country location of the future of the original equipment market (OEM) production of automobiles, trucks, buses, engines, etc. until 1990. These plans allocate to various countries in the Andean Pact, specific areas of manufacturing and assembly responsibility. (The technical details of these agreements are available from the Department of Industry, Trade and Commerce).

# DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

## Federal Support for Expansion Into New Markets

The Department of Industry, Trade and Commerce has played a key role for decades in supporting Canadian firms seeking to expand into export markets, through participation in trade shows and trade missions.

There are two principal incentive methods available to Canadian companies in obtaining assistance and support in reaching export marketing goals.

They are: (a) Department sponsored trade shows and missions planned for groups; (b) The Program for Export Market Development (PEMD) designed for firms preferring to display products or services in trade shows of their own choice, or arrange individual trips to determine market potential for specific products.

### Trade Shows Departmental Sponsorship

There are two principal incentive methods available to manufacturers to participate in trade shows.

The Department acts as co-ordinator and will provide participating firms with a complete exhibition service for which the company pays a participation fee, generally \$500.00 which is fully refunded after the show. This service includes;

- management of the Canadian presentation,
- exhibition space,
- exhibit design and construction,
- employment of interpreters and hostesses (the cost of which is normally borne by the individual participant),
- co-ordinated shipping service (including the customs clearance for participants' product displays and in certain cases payment of 100 per cent of the cost of bringing the products back from the site to the company's plant,
- unpacking and placement of participants' materials on site, **note**; the hook-up of demonstration equipment is normally paid for and supervised by the company representative,
- all utilities at the exhibition except telephone,
- janitorial and guard service at the exhibition,
- provision of a reception and/or business lounge at the exhibition site for participating firms and potential buyers (if considered desirable),

- a co-ordinated publicity program (including press releases, brochures, give-aways, advertising and media interviews),
- marketing counsel at the exhibition, including the arrangement of contacts with local buyers,
- dismantling and repacking of exhibitors' materials.

Repayment of Crown funds is not required.

### **Market Identification**

There are two principal methods utilized to assist companies to identify the market potential for their specific products—departmental missions and the Department's Program for Export Market Development—Section B—Market Identification (PEMD-B).

**Departmental missions** are official in that transportation costs, itinerary, appointments, etc. are made by the Department and the local Trade Commissioner Service Post. This method is generally used for areas in which Canadian manufacturers are either not well known and/or where our level of automotive trade could be increased.

Generally these missions are restricted to three or four members selected by the Department for their expertise in determining the broad marketing parameters and access methods that could be applicable for Canadian parts producers.

A report of their findings and recommendations is made available for the benefit of the entire Canadian automotive parts manufacturing industry. The Department will subsequently organize a group of eight to 10 manufacturers to visit a country as a group to initiate discussions with buyers as a result of these reports.

## **PROGRAM FOR EXPORT MARKET DEVELOPMENT**

### **PEMD-B**

#### **Market Development**

This program is available to individual companies. One-half of the transportation costs and \$100 per diem, including travel time are the program's main features. The ITC Trade Commissioner will assist companies in making appropriate appointments, etc. Repayment of the Crown's contribution is similar to PEMD-C trade shows.

The Department has recently initiated an active schedule of trade missions under the PEMD program for the automotive aftermarket parts products with multi-country missions to visit Argentina, Chile, Colombia, Ecuador, Mexico, Venezuela and Puerto Rico.

### **PEMD-C**

#### **Trade Show Incentives**

This method refers to the Department's Program for Export Market Development—Section C—“Incentive for Participation in Trade Shows.” This method differs dramatically from the departmental trade show sponsorship method in that the Department's role is limited to a financial incentive. Individual companies must make their own space arrangements, exhibit erection and dismantling, etc. The following are the PEMD-C program highlights.

#### **Personnel Costs**

A \$100 per diem allowance for the time spent abroad which will include the number of days that the fair is open, plus a day for setting up the display and a day for dismantling, as well as two days of travel for approved Canadian personnel directly involved in carrying out the project. Normally, the participation of only two company representatives will be eligible for support under this section. A contribution towards in-house labour costs may be made up to 100 per cent of the cost of material used in construction of the exhibit.

#### **Transportation**

The Crown will contribute 50 per cent of the economy return air fare to the location of the exhibit for two people.

#### **Special and Unusual Costs**

These may include: space rental fees, design, construction, material costs, erection and dismantling of an exhibit and return transportation of goods to be exhibited. The Crown will contribute 50 per cent of the approved and actually incurred costs.

Applications for this program are handled by the Department's regional offices across Canada.

### **PEMD-D**

#### **Incoming Buyers**

The objective of this section is to encourage Canadian companies to bring foreign buyers to the company's premises in Canada or to another agreed location in Canada or abroad to influence a purchasing decision.

This section is applicable only to foreign personnel representing buyers located outside Canada.

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The term "foreign buyers" refers to individuals who could play a major role in purchasing decisions affecting a Canada export transaction and/or an industrial co-operation arrangement which would result in significant export benefits to Canada. Foreign civil servants, military personnel, representatives of local standards associations, scientific, and accrediting and certification officials are normally eligible. Arrangements for visits are the responsibility of the company and are not to be considered as official government invitations. However, Department assistance may be available if needed.

### **Eligible Costs**

**Personnel Costs**—The Department will pay a per diem allowance of \$90 for each day the potential buyer is in approved travel status.

**Transportation Costs**—The Department will pay 50 per cent of the transportation costs, up to a maximum of one half of the return economy air fare, from point of origin to the agreed destination in Canada or abroad.

The applicant must pay the remaining half of the fare.

### **PEMD-F Development Program**

The PEMD-F section provides for the development and implementation of a market penetration plan for those who wish to undertake a sustained sales effort in a foreign market.

There should be preliminary indications that the export market in question offers substantial growth opportunities to the firm and long-term benefits to Canada. This section of PEMD is not normally intended to support applicants with no previous exporting experience. Such applicants should review the assistance available under other sections of PEMD.

In most cases the applicant to Section F will have already achieved a small market share at a low level of activity, and will be seeking a greater market share through increased marketing by establishing facilities such as a sales office or a "sales and services" centre in the target market area.

### **Eligible Activity Phase One**

This phase includes two tasks: a detailed study on establishing sustained marketing facilities in a particular export market, and development of a proposal for implementing that plan.

The market study must include:

- 1) The reasons for selecting the specific market for sustained export market development.
- 2) The present total demand for the specified goods and services and projections of future demand.
- 3) A full description of the applicant's past and present activity in the market in question, including total sales for each of the past five years and the date of the firm's first sale in that market.
- 4) The applicant's expected share of that market three, five and seven years in the future. (State projected sales in percentages.)
- 5) The suitability of the company's products or services in relation to market requirements.
- 6) The competitors, their product origins, their respective market shares, and an analysis of their competitive strengths.

### **Phase Two**

This phase covers the implementation of the market penetration plan for a maximum of three years or until the agreed level of sales is attained.

The activities which will be assisted in Phase Two will vary from project to project. Normally the implementation of the market plan will require establishing physical sales facilities in the new market.

It should be noted that Phase Two approval is not automatic, but rather it depends on departmental acceptance of the market penetration plan and the proposal which is developed in Phase One.

### **Eligible Costs (Phases One and Two)**

The requested PEMD contribution may include the following:

- 1) The lesser of 50 per cent of direct salaries or a fixed per diem allowance for each professional and management staff person.\* When an employee is on "travel status" the fixed per diem will apply except where assistance provided is on the basis of 50 per cent of direct salaries. No separate payments will be made for other expenses such as hotels, meals, telephone and communications, taxis and local transportation, and other miscellaneous costs.
- 2) Fifty per cent of travel costs including the return economy air fare to points outside Canada, but not the costs for travel between two points in Canada.

- 3) Fifty per cent of special costs to develop and implement the Market Penetration Plan, such as establishing and operating sales and services facilities abroad including rent, sales promotion aids, local travel in the foreign market, consultant and legal fees, and other costs that PEMD may recognize as necessary and which have a direct bearing on the success of the project. However, capital costs incurred for the acquisition or modification of general purpose facilities and equipment, and expenses related to production (i.e. costs which may be interpreted to subsidize the selling price of goods and services, such as storage and distribution costs, advertising, shipping expenses, warranty expenses, etc.) are not eligible.

Note: The maximum PEMD contribution under Phase One is \$25,000 or 50 per cent of eligible costs, whichever is less.

\*Under Phase Two the cost of Canadian based staff has limited eligibility.

### **Repayment**

The applicant is required to repay assistance received in Phase One and Phase Two if the project results in increased export sales by the company.

The normal terms of repayment of the PEMD contribution under Phase One and Phase Two is at a percentage of the increase in the gross value of export sales for a fixed period of time following the end of Phase Two. If the applicant has had previous sales in the particular market area, a "base" of sales will be established and repayment is then calculated on the increase from this base.

# **EXPORT DEVELOPMENT CORPORATION (EDC)**

## **Financial Aid, Insurance Protection for Canadian Firms**

A key element to the success of Canadian export trade—probably as important as the quality of goods and services—involves the financial assistance and insurance protection made available to the buyers and sellers of made-in-Canada products.

The Export Development Corporation (EDC) is a Crown corporation that provides these services to Canadian exporters and foreign buyers in a program to assist the development of Canadian trade in foreign markets.

The Corporation was established through an act of Parliament in 1945. At the initial stage the Corporation could assume financial commitments to a level of only \$50 million. The effectiveness of the Corporation has grown steadily with the demand for its services. Today EDC can assume outstanding liabilities totalling \$26 billion.

The EDC is sensitive to the needs of the smaller exporter—as is often the case in the automotive aftermarket parts industry. There is no minimum value of export business required for support. The Corporation continually reviews its programs and is prepared to tailor its facilities—within its legislative limits—to meet the specific needs of exporters with growth potential.

### **Insurance**

EDC Global Comprehensive Insurance protection for exporters can now be assigned directly to a bank or a financial institution which agrees to purchase an insured foreign receivable from an exporter.

This feature of the Global Comprehensive Insurance program has been introduced to facilitate trade financing for exporters from banks and other commercial sources through the discounting of export receivables without impairing exporters' existing lines of credit.

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Historically, exporters have been able to direct EDC to pay a bank or other institution the proceeds of a loss payable under an insurance policy. This will continue to apply and is valuable when exporters hold foreign receivables for their own account and use the proceeds of those receivables as partial security for bank lines of credit.

Now, however, when an exporter seeks direct cash flow by discounting an export receivable, the EDC insurance protection itself can be assigned directly to any bank or other institution which discounts the receivable from the exporter on a limited recourse basis.

In addition to the benefit for exporters, this service can be valuable to banks or financial institutions seeking to develop trade financing by offering to discount foreign receivables from exporters.

### **Political Protection**

The Corporation also provides protection against political instability in foreign markets. This covers blockage of funds, war or rebellion, cancelling of import licences and similar problems that may be faced in the event of a foreign emergency. The protection extends to the cancellation of export permits in Canada.

Up to recently, EDC insurance policies covered financial and political risks jointly, but it is now recognized that under certain circumstances, credit information on the buyer is not readily available, and that in certain instances it is not always feasible for the exporter to hold up a shipment while awaiting necessary information.

In these cases where commercial risk insurance is not readily available, EDC will cover the political risk involved in the sale, although under the circumstances, the exporter is obliged to assume the commercial risk.

### **Comment**

Corporation officials emphasize that credit and financial considerations as well as insurance protection, are vital components to successful marketing strategies.

Canadian exporters are encouraged to avail themselves of the experience, skills and services of both the Canadian private banking sector and the Export Development Corporation to build effective marketing programs in foreign countries.

For further information:

Export Development Corporation  
110 O'Connor Street  
Ottawa, Ontario  
Canada K1P 5T9

Tel: (613) 237-2570

## **LATIN AMERICAN AUTO PARTS TRADE SHOWS**

Increased participation in established automotive aftermarket parts trade shows is probably the best way to penetrate or increase sales in the Latin American markets.

The Department has explored the markets thoroughly and has sponsored a successful display in EXPOMOTRIX—the Association of Spare Parts Importers and Distributors CANIDRA in Caracas, Venezuela, which produced significant results for the Canadian companies exhibiting their products.

Similar exhibits are in the active planning stage by the Department.

Financial incentives are available to Canadian automotive aftermarket parts manufacturers who wish to exhibit in these shows under the Program for Export Market Development. (See pages 9 to 11 Department of Industry, Trade and Commerce.)

Further information is available from:

Automotive Parts Division  
Surface Transportation Branch  
Department of Industry, Trade and Commerce  
Ottawa, Ontario  
Canada K1A 0H5

Tel: (613) 995-3201

## LATIN AMERICAN MARKETS AT-A-GLANCE

INPUT DATA	Brazil	Mexico	Venezuela	Colombia	Ecuador	Peru	Chile	Argentina
<b>The Market</b>								
1. Size of Vehicle Population	A	A	A	B	D	C	C	A
2. Vehicle Mix (Preponderance of North American Vehicles)	E	A	A	C/D	C	C	C	A
3. Projected Vehicle Growth	A	A	A	B	B	B	B	A
4. A/M Currently Serviced by U.S. (i.e. not Japan or others)	E	A	A	A	B	B	B	D/E
5. Size and Activity of Local A/M Manufacturers	A	D	C/D	D	E	E	E	D
6. Canadian Capability Known	E	E	E	E	E	E	E	E
7. Payment Record - general reputation of buyers - see EDC	C/D	B	D	C	C	C	C	E
<b>Market Access</b>								
8. Degree of Tariff and Size	A	C	D(A.P.)	D(A.P.)	D(A.P.)	D(A.P.)	E	C
9. Non-Tariff Buyers - i.e. import licences, other administrative blockages	A	B	C	C	C	C	C	C
10. Sophistication of Distribution System	B	E	E	E	E	E	E	D
11. Country Rate of Growth (Affluence)	B	A	A	B	B	B	B	B
12. Ease of Market Penetration (i.e. trade show, conference or other annual ongoing vehicle)	A	D	A	A	C	B	D	E
13. Cdn. Mfg. Capability and Export Match - (i.e. parts for foreign cars)	E	A	A	B/C	C/D	C/D	C/D	B/C

**LEGEND:** A - High (or Excellent) Yes      B - Above Average - Very Good      C - Average - Good - As to Be Expected  
D - Fair - Some Problems      E - Poor, Low  
**Note:** (A.P.) - Andean Pact - Common External Tariff

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# ARGENTINA

## Expanding Aftermarket Provides Trade Opportunities for Canada

### Potential

In March 1980, a trade mission composed of executives of the Canadian automotive aftermarket parts industry visited Argentina to assess the market potential for Canadian producers. The mission was sponsored by the Department of Industry, Trade and Commerce. Officers of the Automotive Parts Division of the Department accompanied the mission.

It was determined that the growth of the vehicle population in the country has created a consumer demand for the import of automotive aftermarket parts. Argentina can provide new, profitable opportunities for Canadian firms willing to gear their marketing methods to conform with the requirements of local customers.

Major imports of aftermarket parts into Argentina were started only recently. Today, aftermarket parts sales are soaring to keep pace with the demand.

Although legislation limits imports to 30 per cent of the local market, foreign parts are often favoured by consumers and distributors. Imports are usually priced to compete with locally made products—or in some cases 10 per cent higher—but distributors have found that consumers are prepared to pay a slight premium for quality imported goods.

The mission reported that the high tariffs, the need for import licences and the Andean pact provisions created apparent barriers to market penetration at first glance. However, further investigation made it clear that "stringent limitations were illusionary."

A follow-up mission by 10 manufacturers in November, 1980, confirmed that Canadian auto parts are competitive and a strong demand can be created through appropriate marketing techniques. The members reported the long-term expectations are "excellent".

The exporter should consider advertising in leading trade magazines. CORSA is one of the best known. A complete list can be obtained from the local Chamber of Commerce through the Canadian Embassy.

Interviews with several importers emphasized that Argentinian aftermarket auto parts distributors were keenly interested in importing Canadian-made products.

### Marketing

In addition to the 3,863,117 cars, trucks and buses on the roads in Argentina, there are approximately one million units of motorized agricultural equipment and off-road trucks in the country. This combines to provide a highly-profitable market to a wide range of Canadian automotive parts producers.

(Argentina's agricultural production should ensure a bright economic future with more than sufficient foreign exchange reserves to pay for imports.)

The Argentina parts market is controlled largely through a warehousing distribution system. Automobile dealers who trade generally in European cars are not a major factor in the marketplace. In establishing outlets in Argentina it is essential to convince the importer of the high quality of products. Quality and price—in that order—are the determining factors in making a sale. Exporters must establish their credibility before major orders can be expected.

There is approximately 40 per cent of locally-made parts available to meet demand. However, inflation has pushed costs upward resulting in opportunities for foreign firms to sell quality parts at competitive prices.

Most of the local auto parts production is destined for the original equipment market (OEM). These producers, however, cannot satisfy the aftermarket demand, which has resulted in large-volume imports to meet current and future requirements.

Most of the major multinational companies have import licences for trade in Argentina. The U.S. is the major supplier at present followed by imports from EEC countries. Canada has yet to enter the market to any major extent.

Before an import licence can be obtained absolutely correct documentation in accordance with legislative and commercial requirements is essential. (Some importers report import licences "are largely perfunctory".)

There is no free trade zone in Argentina. The market is very segmented and the use of a local manufacturer's agent is considered essential.

The generally accepted pattern is that an exporter will appoint four or five distributors to cover the entire country, and will restrict the operation to these agents. This will provide an opportunity of obtaining large volume sales with each other.

Each warehouse distributor or agent usually specializes in types of parts and markets, i.e. electrical parts, brake parts, accessory market, etc. It is important to select a distributor or agent that deals in the exporter's type of product.

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The accessory market is good and growing. The term "accessories" is taken to mean internal, functionally oriented parts such as tachometers, special steering wheels, etc. These accessories are a separate industry sector from the aftermarket and are handled by a separate segment of the distribution system.

### **Financing**

There is considerable variation in the financing of transactions in Argentina that may differ widely from practices in North America. Total knowledge of credit terms, invoicing, interest charges, etc. is important for Canadian exporters selling to this market.

There are many Canadian banks in Buenos Aires which could expedite in resolving problems for Canadian exporters including credit ratings, and other essential information. Credit ratings by banks may not be too accurate. A better "rule of the thumb" is the number of years a firm has been in business. This information can probably be obtained through a Canadian bank.

Customers prefer cost including freight (c.i.f.) quotations in U.S. dollars, but will accept f.o.b. New York or Miami.

Importers prefer long terms due to the current high bank interest rate. Payment through a 90 to 120-day sight draft is common. After 60 days, most importers will accept an interest charge of 1.5 per cent monthly.

"Finding" banks often double their charging fees—to the exporting manufacturer and the importer alike. This should be taken into consideration when arriving at a final price. Some companies now accept sight drafts with the proviso "local charges only."

There may also be a delay in payment by the bank in Argentina to the Canadian bank. As a result, the importer should be advised to notify the Canadian manufacturer when payment is made, to avoid additional interest charges and error in credit ratings. This advice should be forwarded by telex from importer to exporter without delay.

### **Shipping**

The most common error is the timely receipt of all shipping documents by the importer, and the processing of documents at the destination point. If the documents are not 100 per cent correct, including all the information required by officials, the goods are impounded and placed into storage, at considerable expense. Total knowledge of procedure is essential prior to shipment. (An experienced importer suggested the use of the Moore-McCormack Shipping Lines of New York City, which provides 14 days' service between New York and Argentina.)

### **General**

The vehicle model mix is different than in North America. Care must be taken to properly identify the customers' specific car needs and the interchangeability. Argentina is generally European in style. Only the Ford Falcon (circa 1962) has achieved a large share of the vehicle market.

Many of the large automakers have plans to manufacture in Argentina. Ford has announced a \$400 million investment program; Fiat, \$200 million, Volkswagen, \$200 million, Peugeot and Renault have also announced plans for plants in the country.

Most brand names—including many of the multi-nationals—are manufactured in Argentina under licence.

For example, an Argentinian parts producer has been manufacturing Champion spark plugs for 50 years. The brand name—Alemite—is the local Stewart-Warner name and is manufactured under exclusive licence. Prestolite batteries are also manufactured locally. (About 80 per cent of the aftermarket batteries are locally produced by small "backyard" operations.)

### **Personal and Travel**

Consultation with the Canadian Embassy before leaving Canada, and maintaining a close liaison during the visit is absolutely essential.

The following "tips" can be helpful:

- Buenos Aires has a population of 11 million;
- the local climate is the reverse of Canada (March 21 is the first of Fall, although a heat-wave may occur during this period);
- meals are expensive in comparison with Canada, plus gratuities, and value added tax (VAT) of 16 per cent;
- taxis are plentiful but tend to have "fast" meters if hailed in front of a large hotel;
- street safety appears to be good;
- the telephone system is chaotic and unreliable;
- the best travel route is direct from Montreal to Argentina via Argentina Airlines;
- make certain that return flights are confirmed in person (with tickets) at least 48 hours before departure.



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# COLOMBIA

## Promising Prospects for Canadian Aftermarket Parts Producers

### Potential

"There is a market for Canadian aftermarket parts and accessories in Colombia," a Canadian trade mission to that country in 1980 reported. The mission was composed of executives from the Canadian automotive parts industry and officers of the Automotive Parts Division, Department of Industry, Trade and Commerce.

Colombia ranks fourth among Latin American countries with a population in excess of 25.5 million. There are 580,000 cars, trucks and buses registered.

After four years of stagnant growth the market has surged since 1980 and the rate of expansion is expected to increase in the years ahead.

Colombia is a member of the Andean Pact and most of its activities in the automotive parts industry, and all future expectations, follow the pattern of neighbouring Venezuela. The major difference is the vehicle mix with Colombia leaning towards a higher percentage of European models.

A recent study of the industry undertaken by a Canadian trade official was equally optimistic. It stated: "There is a growing market that can be penetrated (by Canadians) as a result of the reduction of aftermarket parts tariffs from 41 per cent to approximately 20 per cent by 1984."

The following conclusions were reached by members of the trade mission after a series of interviews with leading Colombia automotive parts industry executives:

- There is a market for Canadian produced parts and accessories;
- business is conducted in the North American pattern;
- although Colombia is part of the Andean Pact only about 20 per cent of the aftermarket parts is available through local sources;
- there is a tendency for most firms to sell both automotive aftermarket parts and accessories.

### Marketing

Colombia is rated as the second largest automotive parts producer among Andean Pact countries, but there are many manufacturing gaps that are supplied from foreign sources.

The aftermarket is largely serviced by European Economic Community (EEC) based companies with products sold through local dealers. The country is far more European oriented than neighbouring Venezuela and is similar in outlook and customer preference to Argentina. Most vehicles are assembled from completely knocked down units (CKDs).

As yet little is known of Canada as a possible alternative supplier to the United States and EEC countries. The Canadian favourable exchange rate—compared to U.S.—may be an important factor in the sale of automotive parts to Colombia where the current inflation rate runs between 25 and 30 per cent annually.

A well-planned marketing campaign is essential for the successful introduction of Canadian automotive parts and accessories to distributors, garages and consumers in this market.

The appointment of a well-known reputable distributor or manufacturers' agent is the first step. The distribution system is typically Latin American in scope and size. The recognized commission to agents and jobbers ranges from five to 10 per cent.

It is reported there are only five national distributors in the country. The warehouse distribution system—popular in other Latin American countries—does not rank in importance in this market. The absence of mass merchandisers complicates the distribution chain, and has resulted in lack of pricing discipline among dealers.

Joint ventures with local firms has proved to be a highly desirable method of selling foreign brands in Colombia. However, the ownership of a Canadian partner would be limited to 49 per cent of the operation.

Mechanics form an important part of the distribution chain. Generally they recommend a specific brand name to customers or "do-it-yourself" car owners. As a result, a large share of any promotion campaign should be directed toward the mechanics—i.e. calendars, caps, etc.

The "Motrix" magazine published in Mexico is distributed free to the garage community, and can be a valuable medium for delivering the Canadian message; the "Vehiculos Y Requestos", a local trade magazine with a wide circulation in the automotive industry, can also contribute to good Canadian exposure.

There are excellent prospects for the sale of "private brands" through the established distribution system. The quality and reputation of the product must be established and priced to meet competition. The market is quality oriented with price a close second.

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Import licences are required on a wide range of products. Licences are normally readily granted and do not pose a formidable barrier. The licences are usually processed by the importer rather than an agent.

### **Financing and Shipping**

All quotations must be f.o.b. Miami or New York in U.S. dollars, with cost including freight (c.i.f.) added to the final price. Colombia is regarded as a companion market to Venezuela, and similar terms of credit from 90 to 120 days are expected.

Although most customers do expect generous credit terms, many will pay cash if a liberal discount is offered.

Credit checks are dependable and can usually be acquired at a cost of \$15.

Payment, while slow, is fairly safe, with a letter of credit remittance often taking from five to eight weeks.

Tariff schedules are identical to those of Venezuela. Care should be taken to properly identify the type of products contained in a shipment. The parts nomenclature is very important as duties can vary widely from item to item. If there is a rubber content in the product an additional surcharge is levied. Tariffs are reduced considerably if local production is insufficient to meet market demands.

It is not necessary to show the discount structure on documents, the net price of the product will suffice to meet official requirements.

Import problems will arise if documents arrive late and are not properly completed. Errors or delay will result in the impounding of a shipment and high storage costs before clearance is permitted.

Tariff regulations provide for free entry of samples, providing they are limited in quantity. The tariff on sales literature, etc., is dependent on the volume shipped.

The telex service between Canada and Colombia is efficient and the proper use of the service can help avoid many problems between exporter and customer.

### **General**

European automobiles will dominate the market during the next five years, with "sports" models particularly popular among drivers. United States automakers are stepping up activity in the country. G.M. Colombia is planning to produce the Chevette and Citation models under the terms of the Andean Pact.

In the "do-it-yourself" market, the consumer usually replaces the part with original equipment brands. Most garages, however, are more flexible in brand replacement, and provide the exporter with a realistic growth potential in the garage repair trade. Garages account for by far the largest share of the repair business.

There is no franchised automotive industry trade association in Colombia to organize or advance industrial promotion and technology. Most manufacturers regularly visit automotive trade shows in Europe and the United States to keep pace with changes in techniques and products in the world automotive field.

### **Personal and Travel**

The centre of industrial activity is Bogota, a city of five million.

Taxis are plentiful and comparably inexpensive, and the engagement of taxi cabs through the hotel is recommended.

Consultation should be made with the Canadian Embassy before departure, and close liaison with the embassy and trade officials during the stay will be helpful.

Telephone service is good.

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# MEXICO

## Prosperity Has Created Insatiable Demand for Cars and Parts

### Potential

The majority of vehicles—cars, trucks and buses—in Mexico are U.S. types, providing Canadian automotive parts and accessories manufacturers with a unique opportunity to penetrate this rich market with traditional products. The modest but growing proportion of Nissan and Volkswagen vehicles is also sufficient to attract the attention of producers of parts and accessories for imported vehicles.

There is a total of 4,223,858 vehicles in the country serving a population of 67.7 million.

Due to the rich oil resources in the country, Mexico's rate of growth is expected to far outstrip any other Latin American country soaring to well over the 97 million population mark by the end of this decade.

A trade mission composed of leading members of Canada's automotive aftermarket parts industry and ITC officials visited Mexico in 1981 to explore the market potential for Canadian exporters.

The mission report emphasized the favourable conditions that have created wide opportunities for Canadian parts producers. It pointed out, however, the need to fully understand the market and its environment. Exporters must be familiar with legislation and decrees that impose restrictions on automotive imports into Mexico, since it affects both the original equipment market (OEM) and the aftermarket.

The mission report offered a summary of the all-important 1980 Automotive Decree that regulates all automotive imports and exports. (Copies of this report can be obtained from the Automotive Parts Division, Surface Transportation Branch, Department of Industry, Trade and Commerce.)

Since it appears the local OEM parts producers cannot keep pace with the vehicle assemblers' needs, the aftermarket must be met by imported parts—generally from the United States. This demand provides an excellent market for the introduction of Canadian-made products, hardly known in the country as yet, and offers potential for those parts manufacturers who are competitive in U.S. markets.

The aftermarket parts and accessories purchases are rising at an incredible rate of 45 per cent (including inflation) annually. The current market is valued at \$800 million, and it is estimated it will reach about \$1.5 billion yearly by 1983—or about the same as the Canadian scope.

This includes a high demand for automotive service equipment, and a large and growing need for parts for light and heavy duty trucks. Other items in short supply at present that provide access for Canadian exporters are timing gears, engine parts and hydraulic equipment—and many others. There is an equally good market for a wide range of tools, lubricating equipment, valve grinders, etc. Tires, too, remain in short supply for a variety of reasons.

### Marketing

The parts manufacturing industry in Mexico has reached the stage attained in Canada in 1967, with the demand outstripping the supply. The local parts associations predict this situation will remain largely unchanged for at least 10 years.

Low production levels now exist for aftermarket parts from the Mexican subsidiaries of U.S. multinationals. There is little awareness of Canada as an alternative supplier, with the exception of dealers who have attended the U.S. automotive parts shows in which Canadian producers have participated.

It is reported there are as few as eight major wholesalers servicing the country; all of whom distribute to smaller jobbers. There are about 100 large jobbers and approximately the same number of smaller jobbing firms. The usual discount to distributors or large volume jobbers is about 50 per cent. This varies with product and volume.

The aftermarket pricing structure tends to be undisciplined with little sales price differential between volume buyers and small jobbers. The selling chain also includes re-distributing wholesalers (and in many cases major retailers) who sell to all levels of the trade right down to the "mom and pop" jobber and the one-man repair shop.

In the case of OEM imports it appears difficult to expect that any foreign manufacturer can win any major share of the market. Joint ventures, whether by direct involvement or technological exchange, seem to be the only method of introducing Canadian flexibility.

One of the best methods of penetrating the parts aftermarket is through local representatives. However, the volume purchasers often insist on dealing directly with the manufacturer. The commission for a representative ranges from five to seven per cent.

There are several categories of auto parts imports subject to widely ranging tariff charges and licensing requirements under the following Mexican import regulations.

- Items on a "Mandatory" list cannot be imported unless a convincing case is made regarding availability, quality, price, etc. If not made locally then importation is permitted only for a specified period and after plans are made to have it produced locally.
- List No. 2 — Parts "Recommended" for local purchase:
  - (A) Can be imported but require an import licence, however the rate of duty is reduced;
  - (B) parts that can be imported without an import licence but at a high duty rate.
- List No. 3 — Complementary assembly material and parts.
- List No. 4 — Luxury add-on items such as air conditioners.
- List No. 5 — Raw materials and non-automotive components
- Export incentives are used to educate the parts suppliers in their pricing procedures.

The following are the classifications governing automotive parts imports under the federal regulations as published in the official government Gazette on December 22, 1980.

### Products

Camshafts; oil pumps; water pumps and their parts; vacuum pumps for air brake couplings on diesel engines; crankshafts; compressors for air brakes, with or without pressure regulating valve; full differential assembly (transaxle); single and double axles with differential and their parts, for vehicles with gross weight of more than 11,000 kg.

Constant speed axles (homokinetic); power brakes (Mastervac); lever-operated drum brakes; complete diesel engines, except for chassisless buses; mechanical transmissions for buses and trucks, weighing 120 kg or more; turbochargers for diesel engines.

#### A. May be imported without prior authorization

Batteries; alternators; shock absorbers; crankshaft vibration dampers; flexible shafts ("chicotes" — sic); electrical harnesses; seats and their parts; strips; frames (chassis); ignition coils; electric horns; fuel pumps; ignition plugs; inner tubes; seat belts without retractors (static); condensers for distributors.

Disk and baffle plate assemblies with outside diameter of 33 cm or less; distributors, except for electronic ignition; gas filters; drum brakes; cylinder-type hydraulic jacks and mechanical jacks; generators; runner guides or mechanisms for adjusting front seat; wiper blades; hydraulic brake hoses with terminals; radiator hoses; starters; electric or pneumatic windshield wiper motors.

Laminated springs with or without couplings or U-bolts; windshields, rear window panels and side windows, flat or curved; heater parts; points; AM radios; radiators; voltage regulators; wheels or rims; mufflers or exhaust pipes; fuel tanks, except those made of plastic; distributor caps, rotors and other components identified as distributor parts.

Lockable caps for gas tanks; preformed pipe for brake systems, fuel lines, diesel fuel injection and emission controls; mechanical transmissions weighing less than 120 kg; push rods for valves; (padded) sun visors, door panels and liners, armrests and headrests; steering wheels.

#### B. Components which require prior authorization

Piston rings; retaining rings; liners or cylinders; single-venturi (throat) carburetors; bodies for buses, stake trucks, pickups, dump trucks and vans; bearings or bushings with inside diameter equal to or less than 152.6 mm.

Disk and baffle plate assemblies for trucks, and their parts; cylinder heads for internal combustion engines; front axles and their component parts, including connections to brake mechanism; seat belts with retractor mechanisms; oil filters, air filters, fuel filters; axles with universal joint; diesel fuel injectors; universal joints (crosspieces).

Engine gaskets, disk brake equipment; monoblocs for internal combustion engines; complete gasoline engines; intake and exhaust manifolds; pins for pistons; aluminum pistons; ball-races for bearings; front or rear members (axles), with differential (for vehicles with gross weight of 11,000 kg or less); ball bearings; conical roller bearings; intake and exhaust valves and valve plungers.

#### List of Raw Materials and Non-Automotive Components (List 5)

Motor oil; steel; wire; carpets; aluminum; anti-noise equipment; underpad; electric cables; protective waxes; cotters; adhesive tapes; edging tapes; cardboard covers; plastic covers; tire removers; electrolyte; cardboard packaging; enamel paints; labels; fire extinguishers; fibreglass; phosphatizers; fuses; clamps; grease; coarse cotton material for upholstery; lacquers; canvas; lubricants; open-end wrenches; smelting materials.

Polyurethane ingots; fibreglass parts; glues; metal sections; pliers; low density polyethylene; primers for paint; products to be plated; stuffing for cushioning; rivets; springs, except for suspension springs; asphaltic coatings; washers; latches or fasteners; sealers; rubber seals; welding compounds; solvents; rugs; cloth for upholstery; plasticized cloth; electrical terminals; screws; paper and polyvinyl chloride tubes; nuts; grease guns.

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(The above lists entered into force on January 1, 1981, and will be in effect until December 31, 1982. The mandatory lists are subject to change each year.)

For further information on mandatory lists contact:

Lic. Eulogio Bautists  
Direccion General de Fomento Industrial  
Industria de Autopartes  
Hermosillo 26  
Mexico 7, D.F.  
Tel: 574-1288, 584-8279.

### **Financing and Shipping**

The history of payment by Mexican automotive parts importers is good due in large measures to the proximity to the United States and the ease of communication between North American countries. (Prudent commercial caution is, of course, strongly advised.)

Canadian banks have agencies in Mexico City acting as brokers, but not involved in commercial activities. These banks can offer a valuable service in providing credit information regarding prospective customers.

Usual terms are discounts of two to three per cent for sight drafts. A higher discount is generally expected on letter of credit transactions of 30 to 90 days, depending upon volume, price, etc. The price discount structure often tends to be undisciplined with very little regard given to volume.

Buyers prefer price quotations in U.S. dollars, f.o.b. Brownsville or Laredo, Texas, or other similar U.S.-Mexico border points. Shipments in less than container load lots are normal for exports of automotive parts. Final quotes must include cost including freight (c.i.f.).

Transport from the U.S. border points is often chaotic resulting in part shortages and vehicle assembly delays.

There are no government price regulations for aftermarket parts, and imports simply follow the list of government decrees. There are, however, some incidences of unorthodox pricing which is apparently due to "dumping" as a result of stock lifts, etc.

The importer is responsible for obtaining a permit, if one is required, which takes from one to two weeks for approval. No other special documents are needed.

The duty is calculated on invoice price in about 90 per cent of the shipments. Most tariffs are in the 20 to 30 per cent range. In addition to import duties there is a three per cent state tax on the duty paid value and a two per cent incentive tax. (Mexico is not a member of GATT.)

Careful attention must be paid to correct documentation prior to shipment. Improper invoicing such as unclear product definition or description is the most common error, and can result in costly delays before goods are cleared.

There is a special procedure for shipments of samples which could be tax exempt, or subject to a small fee. There is no problem in forwarding a small amount of catalogues, although a large volume of catalogues could be dutiable.

**For prior ruling on customs, duties, catalogue and sample shipments, reference should be made to:**

Ministry of Finance  
20 November Street, 195  
3rd Floor  
Departamento Pericial Calificadore  
Mexico City, D.F.

### **General**

Plans are under way for a government agency to assume the role of a national trading company. It will act as an aggregating purchasing agency when there is a short supply of raw material or products, including automotive parts. It will also become an export agency (similar to the Canadian Commercial Corporation).

There is no tire, battery and accessories (TBA) operation by the state-owned PEMEX oil company, which is serviced by tire companies.

The vehicle assemblers aftermarket private brands of parts do not represent a large market share but there is a strong move in that direction.

The replacement cycle for parts is much faster than in Canada or the U.S. due to hard use, lower specifications and quality. This has created strong demand for imported parts. The supply of steel is also very tight.

The various associations of importers and distributors interviewed by the members of the Canadian parts trade mission were most anxious to contact Canadian suppliers. The complaint, "We never see any Canadians." was heard frequently.

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# VENEZUELA

## Oil Rich Economy Creates Auto Parts Market

### Potential

Oil-rich Venezuela today enjoys the fastest growing economy in Latin America, making it a major potential customer for Canadian automotive parts and accessories.

In fact, Venezuela is Canada's fifth largest buyer of goods and services among international trading partners.

The population is estimated at 124 million, with about 2.7 million persons living in the capital city of Caracas—the hub of commercial activity in the country. Venezuela enjoys the highest per capita income in South America at \$3,000 (U.S.) annually.

Passenger car registration was estimated at 1,269,275 in 1980—or about ten persons per car. There are 580,845 trucks and buses on the road for a total vehicle population of 1,850,120.

The automotive parts and accessories market was valued at \$650 million (U.S.) in 1980 and it is expected to attain the \$810 million mark by 1985.

Venezuela is a mountainous country with a definite lack of rail transportation. As a result, Venezuela drivers demand larger, more powerful North American types of cars rather than the smaller less powerful European and Japanese models.

The preference is reflected in the vehicle mix—about 80 per cent North American automobiles and commercial vehicles against 20 per cent from all other sources. This gives the Canadian producer of aftermarket parts and accessories a distinct advantage over most other countries in selling made-in-Canada parts to Venezuelan customers.

Canadian firms seeking to penetrate the automotive parts market will be faced with strong competition from the U.S., now accounting for about 65 per cent of the market share in the country. Only about 35 per cent of the auto parts are manufactured locally.

The U.S. is also the major exporter of accessories. Venezuela is a typical Latin American country in that automobiles are either very expensive or sold at government controlled prices. The vehicles are equipped with a minimum of trim and accessories which has created an excellent "dress up" market.

Fuelled by oil revenues, Venezuela has overloaded its industrial capacity. The demand versus supply has boosted the inflation rate to 60-80 per cent annually. There is no known proposal to slow inflation through extreme measures at this time.

A recent independent study of the Venezuelan automotive parts market, commissioned by the federal Department of Industry, Trade and Commerce stated:

"The incorporation of domestically made components and parts in locally assembled vehicles stands at approximately 45 per cent of value. The industry is developing rapidly and some assemblers are having trouble complying with incorporation requirements.

"As the development of the manufacture of new parts in Venezuela is not proceeding at the same rate as the goals set by national automotive policy, suppliers are having difficulties meeting assemblers' needs. Imports are now responsible for satisfying this demand and will continue to do so in the near future."

### Marketing

A Canadian automotive aftermarket parts trade mission, sponsored by ITC visited Venezuela recently to explore the export potential of the country. The mission report noted that wholesalers are eager to do business with Canadian producers, but as yet there is "a virtual absence of Canadian parts producers" in the region.

The report stated that Venezuelan parts producers are also eager to discuss joint ventures, or technical expertise arrangements as they feel "Canada understands their scale of production problems better than U.S. manufacturers."

The aftermarket in Venezuela has been served for more than 50 years by U.S. producers. The U.S. brand names dominate. Long relationships have been established with the agents' importers and distributors. Most of the Venezuelans in the industry have been visiting U.S. automotive aftermarket trade shows for the past 30 years.

The key to doing business in the Venezuelan automotive parts industry is the appointment of a good, reliable representative/agent. Not only do the representative organizations sell products, they provide additional service that is invaluable.

A representative or agent will assess credit worthiness of customers; follow orders through customs, clearances, etc.; apply for import licences of Canadian products; pursue methods to lower duty rates on items with an apparent prohibitive duty charge, etc. It is estimated that about 80 per cent of all automotive parts imports are sold through representatives/agents.

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Representatives/agents are the "sales arm" in the country, and expect to be treated as such. Not only do they operate in the major cities, but most sell through the entire country, state-by-state.

Promotion plays an important role in any sales deal, but it is particularly applicable to a market where awareness of Canadian products is limited. Sales promotion directed at representatives, wholesalers or local agents should be followed up by annual visits. (Most U.S. producers visit their representatives at least twice yearly.)

The mission strongly advised bringing Venezuelan representatives not only to trade shows in Canada, but to Canadian factories for familiarization of individual company products.

Canadian exporters should advertise products to the Venezuelan trade directly through local trade media. (The "Guia Automotriz de Venezuela", an annual publication, and the monthly "Automovil de Venezuela" are two publications that were suggested.)

Exposure at a trade show is a definite asset in order to enter the market or, if established, increase sales in Venezuela. Ten Canadian companies, under the sponsorship of ITC, successfully displayed automotive parts at EXPOMOTRIX—held by the Association of Spare Parts Importers and Distributors (CANIDRA) in Caracas in November 1980. Similar exhibits are in the active planning stage by the Department.

As a signatory of the Andean Pact, Venezuela applies some very high duties on automotive products. The government is, however, realistic in its attitude. In the many instances when domestic suppliers cannot supply a specific item, or if there is no local manufacturer of the product—which is normally the case—an import licence is readily granted and the duty generally reduced to about one per cent.

There are high duties and restrictions on the imports of promotional material.

Import licences and duty exemptions are usually granted from within 30 to 60 days, and are obtained through the services of a local representative or agent fully familiar with the market demand, and local availability, of particular products.

To achieve success, the Canadian exporter must provide evidence of accepting the discipline required in the sale of foreign products. A well-planned program of marketing, a thorough follow-up, reliable delivery and a long-term commitment are among the basic requirements. The use of PEMD-F is recommended. (See page 10.)

Canadian auto parts producers exporting to Venezuela must be prepared to extend liberal credit terms—usually 60, 90 and 120 days—similar to the credit lines now extended by U.S. firms. Letters of credit are not usually favoured, due to local difficulties making the necessary arrangements. If insisted upon, firms extending letters of credit expect discounts of from seven to ten per cent. As in the case of most other Latin American buyers negotiations must be expected.

Exporters should be aware that Venezuelans have been dealing in imports from the U.S. for many years, and are accustomed to certain brand products, prices, credit terms, etc.

Canadian manufacturers must be prepared to compete with the U.S. counterparts if they are to succeed in this market. In other words, Canadian credit terms must be equal or better than those of the most important competitors—the U.S. producers.

Japan, Taiwan and European suppliers sell to Venezuela on a letter of credit or cash against document basis. To soften the blow, exporters of these countries offer discounts of four to seven per cent.

Imports from Canada, however, will not be replacing Far Eastern and European producers, but rather the automotive parts from the U.S. It is the credit pattern set by the U.S. competitors that will have to be faced.

Payment, though slow, is reputed to be good in Venezuela. Caution must be taken in extending lines of credit, particularly for the first time. The sound advice of a reliable agent/representative is essential.

Canadian manufacturers should "throw away" their local price lists, as Venezuelan buyers are suspicious of firms quoting from sellers' domestic schedules. An export price list should be developed for the specific market on a cost plus basis, allowing for discounts when necessary. Firms must be prepared to list prices on a cost including freight (c.i.f.) basis, f.o.b. Miami or other designated ports.

Warranty arrangements follow the usual North American plan due to the preponderance of U.S. firms selling in the market.

### **Shipping**

There are freight forwarders in Miami who specialize in servicing Venezuela and can be of invaluable assistance to Canadian exporters in the preparation of documents, translation into Spanish for invoice preparation and completing other necessary legal papers. The freight forwarders also ensure the cargo is properly booked on the earliest possible vessel to Venezuela.

As the sailing time from Miami to Venezuela is relatively short, it is necessary that shipping documents be delivered to either the importer or a corresponding bank as early as possible.

Most Miami forwarders expedite shipping documents via a courier service connected with airlines which speeds safe and reliable delivery of these important papers.

Generally, two forwarders are required. One to arrange overland shipping to Miami and the second to arrange the shipment of goods to Venezuela.

The biggest problem in dealing with the customs officials is correct documentation. Past experience has shown documents are not being filled out correctly thus creating long delays at customs. Documents **must** be forwarded when shipment is made.

The following documents must be prepared by Canadian automotive parts suppliers:

- Original or master copy of export invoice clearly stating terms and conditions of sale;
- packing slip;
- an inland bill of lading;
- completed B13 Canada customs export declaration;
- bank draft instruction memo;
- format for marine insurance policy if quoted c.i.f.;
- forwarder-carrier bill of lading instructions memo.

Merchandise must be securely packed for inland and ocean transport. It is recommended that the goods be palletized on strong, durable skids, steel-strapped and shrink-wrapped with plastic weather proofing. All cartons must be numbered and related to a corresponding packing slip. The cargo will be handled several times and may be exposed to the elements. Several companies offer expert packaging service if it cannot be done in house.

Miami is best suited for service to Venezuela for many reasons. For example:

1. Inland freight from eastern Canada, in particular southern Ontario, is relatively inexpensive to Miami. Cheaper rates are available from independents.
2. Miami has become a consolidation point and because of the sheer volume of freight, sailings to Venezuela are frequent and reliable.
3. Venezuelan flagged vessels are available out of Miami. Such vessels have preference over non-Venezuelan flagged carriers when unloading at the various ports of entry along the Venezuelan coast.

4. There are freight forwarders in Miami who specialize in servicing Venezuela and are therefore familiar with the necessary documentation, use of Spanish for invoice preparation and proper legalization of papers. It is also their function to ensure cargo is booked on the earliest possible vessel to Venezuela.

### **General**

Venezuela has a General Motors plant, a Ford assembly plant and other smaller assembly units for European vehicles. Chrysler—the third-ranking producer—has ceased operations in the country, GM and Ford are expected to fill the production gap.

The market demand for automobiles—60 per cent of which are government price-controlled—far exceeds production capability. A nine-month to one-year waiting period for an automobile is commonplace.

One hundred per cent of completely knocked down (CKDs) units for the GM plant originates in Canada. Something in excess of 50 per cent of Ford's CKDs are also supplied by Canadian plants. The components for the CKDs for both GM and Ford are made by the International Divisions of both companies in Canada and no sales can be made by Canadian OEM parts suppliers directly to the Venezuelan assembly operations.

Mack Truck has dominated the heavy duty truck market for many years. Certain of the parts components are of Canadian origin.

The major suppliers of mechanics' tools are Taiwan, Japan, Spain, Federal Republic of Germany and the United States. There appears to be a demand for high quality tools for both U.S. and metric specifications, which could be imported from Canadian sources.

The United States, Federal Republic of Germany and Italy are the main sources for service equipment. The conditions are now favourable for imports of a wide range of service equipment from Canada. The sale of service equipment requires support services within the country. Canadian exporters are advised to appoint an importer/distributor rather than a manufacturer's representative to cover this field.

Canadian firms must register their trademarks and company names when doing business in Venezuela.



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## Travel Tips

- Air Travel — Direct connections (Pan Am and Viasa) are available out of New York/Miami, travelling time New York to Caracas approximately four to five hours. Tourist visas are readily available from airlines or your travel agent.
- Accommodation — Hotel space is at a premium and it is suggested bookings be made well in advance. The Tamanaco (Inter-continental) and Hilton are both convenient and comfortable to name two.
- Taxi Service — Caracas' taxi fleet is the best method of getting around and is relatively inexpensive.
- Caracas is the business centre for Venezuela. In most cases it is not necessary to venture to other cities.
- The Canadian Embassy has a commercial staff willing to assist you and answer any questions you may have. Advise in advance of your visit.

# BRAZIL

## Tariff Barriers Inhibit Automotive Parts Imports

### Potential

Brazil enjoys the largest motor vehicle population in Latin America, with a registration of 6,926,866 passenger cars, plus 1,875,000 trucks and buses in 1978.

The 1979 production of vehicles was up nine per cent over the previous year, which marked a jump of 12 per cent over the 1977 figures.

However, due to high tariffs and many non-tariff barriers, the sale of Canadian automotive parts in the country faces formidable difficulties.

The local parts industry employs an estimated work-force of 100,000—about twice as large as Canada. The Brazil parts producers are not active in selling to the automotive market in other South American countries.

Brazil's population growth has slowed significantly over the past two years reflecting the general economic slump caused by soaring oil prices. Projections call for a very modest growth rate over the next three years. Gasahol production and the rate of conversion to gasahol is increasing.

### Marketing

A recent survey indicates there is an almost complete lack of awareness of Canada as a supplier of automotive aftermarket parts supplies.

Reports prepared from a wide variety of sources show that Brazil is self-sufficient in most of the original equipment market (OEM) and the aftermarket parts. It is difficult to assess the import potential.

Detailed information on tariffs is not readily available, but enquiries revealed that exorbitant tariff classifications result in charges of 120 per cent—which is considered about average.

There are also several "non-tariff" barriers which include import taxes and other complex administrative burdens. The single largest impediment to imports is the need for a permit for virtually all parts goods arriving from foreign sources. These licences are rarely granted.

Several major automotive trade shows are held in the country each year, and there are provincially-sponsored trade missions from Canada which provide an opportunity for Canadian producers to study the market firsthand.

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Little information is available regarding the automotive parts distribution system in the country.

### **Financing**

Due to lack of past experience in the field, little is known about the payment record of Brazilian buyers. It is expected that the record follows the pattern of other South American countries, which results in much slower payment of accounts than is the case among North American and most European customers.

## **CHILE**

### **Imports of Auto Parts Encouraged to Fill Domestic Gap Potential**

#### **Potential**

Chile ranks fifth in automotive vehicle population among South American countries with 470,000 passenger cars, and 110,000 trucks and buses registered in 1978.

The vehicle growth has been rising dramatically over the past few years. There were 55,000 vehicles imported into Chile in 1981—up 17,000 from 1980. Local production at 20,000 remains at a virtual standstill.

The automotive aftermarket parts field is sourced almost exclusively by imports, according to a recent study by Industry, Trade and Commerce officials.

Chile, a member of the Latin American Free Trade Agreement (LAFTA) recently reduced all automotive parts import tariffs to a nominal 10 per cent to stimulate the inflow of badly needed products.

Tariffs on imported cars will drop from 70 per cent to 50 per cent in 1983, with a further drop to 35 per cent by 1986. Local production of automotive vehicles is expected to cease.

#### **Marketing**

There is little Canadian activity in the country, and particularly no knowledge of Canada as a possible aftermarket parts supplier.

The aftermarket parts industry is largely serviced by U.S. firms, and Europe Economic Community (EEC) based companies. The Japanese have recently started to raise their profile in the region.

There is a mix of European and U.S. model vehicles on the roads, which include many older U.S.-type cars and trucks.

An intensive marketing and public relations campaign directed at representatives/agents and the trade is a vital first step in selling Canadian parts to Peruvian consumers.

The distribution system is fragmented but, in general, it follows the normal Latin American operations. Import arrangements, sales and distribution are handled through representatives/agents.

Any Canadian firm now selling into the U.S. and EEC, or producing products for imported vehicles should be able to compete for a share of the Chilean automotive parts aftermarket.

There is also a burgeoning demand for accessories as the import of vehicles continues to increase.

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## Financing

Payment appears to be prompt according to recent reports. This is in stark contrast to a decade ago, when foreign exchange controls and other factors disrupted normal commercial transactions.

Terms of credit are in line with other countries of South America with payments taking from 60 to 120 days. Exporters are cautioned to check credit arrangements with their appointed representatives/agents.

## General

There has been some significant advances in the economic and population growth during the past several years. The expansion is expected to continue.

The present democratic government appears to have resolved the earlier political stability problems and has introduced significant foreign exchange improvements.

# ECUADOR

## Canadian Auto Parts Have Gained Acceptance in Promising Region

### Potential

Ecuador and Colombia may be considered "companion markets" to Venezuela for practical exporting purposes. The similarities make it advisable for auto parts producers to consider visiting the three countries when planning a sales trip to the region.

Although the Ecuador automotive parts market may be ranked as comparatively small, the potential for sales growth of Canadian firms is most promising.

Canadian auto parts have become fairly well known and accepted in Ecuador. Recent studies indicate that a well-planned marketing campaign could result in Canadian producers attaining from 10 to 15 per cent of the total market within the next few years.

Rebuilt parts offer the greatest immediate opportunity for significant gains by Canadian exporters, although it will require considerable promotion to gain consumer and dealer recognition.

The auto parts market in Ecuador was estimated at \$45 million in 1979. Sales are expected to total about U.S. \$300 million over the next five years.

The vehicle population is generally limited to older types of U.S.-made passenger cars and a mix of older and new models of North American trucks and buses. This has resulted in a widely-assorted need for auto parts and accessories to maintain vehicles in good running order.

The U.S. producers are by far the largest suppliers of auto parts, with Japan ranking second. The domination of North American vehicles provides an excellent opportunity for Canadian-made parts to serve the current needs.

### Marketing

Ecuador is a member of the Andean Pact, but as yet there has been no major tariff barriers identified that would seriously hamper imports of Canadian automotive parts.

However, local production is protected by high import duties, and foreign products are subject to prior import licensing. The domestic output is negligible, with an estimated value limited to about U.S. \$3.5 million annually.

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As is the case in most Latin American countries the engagement of a reliable representative/agent is high on the priority list of any successful sales campaign as there is a large number of individual automotive spare parts stores scattered all over the country.

Arrangements for import licences and other legislative requirements are usually handled by the local representative/agent.

### **Financing**

Prices should be quoted in U.S. dollars f.o.b. New York or Miami.

Long-term credit is a basic requirement. Some importers of auto parts expect generous credit extensions—usually up to 120 days for initial major orders.

## **PERU**

### **Lack of Local Production Created Dependence on Imported Parts**

#### **Potential**

The automotive aftermarket parts potential of Peru is relatively light in comparison to larger Latin American countries. The vehicle population in 1979 totalled only 466,614 passenger cars, trucks and buses. The vehicle mix is principally European, with only about 30 per cent represented by North American models.

Due to the almost non-existent local parts production capacity, all automotive aftermarket parts are imported, with the greatest proportion originating in the United States and Europe Economic Community countries. The Japanese producers have also entered the market in recent years.

There is little Canadian presence in the country as yet, but with the dependence on foreign imports, there is a good opportunity for the introduction of made-in-Canada products in the field. Companies now selling into either the U.S. or EEC should be manufacturing parts that are compatible to the requirements of Peru.

#### **Marketing**

Peru is a member of the Andean Pact and the Latin American Free Trade Agreement. This should pose no problem for Canadian producers as there is practically no domestic production to protect.

Marketing should be approached in the pattern of most other Latin American countries with exports channelled through reliable representatives or agents. Careful selection is strongly advised if success is to be achieved.

It is equally important to launch an effective campaign to introduce unfamiliar products to this market. Advertising and promotion should be directed at the representatives/agents in addition to the trade in general.

There is an annual automotive show held in Lima which was initiated in 1978. This affords Canadian companies with an excellent opportunity to test the market and win acceptance of their products. Several major Peruvian buyers also attend the EXPOMOTRIX in Venezuela on a regular basis.

Import licences may be required as a result of the influence of the Andean Pact. This should be handled by the local representative/agent. Import permits are normally obtained without difficulty.

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## **Financing**

The payment record is about average in relation to other countries of the region. A study is under way to obtain information on all aspects of the credit system of the country, as it pertains to the automotive parts market.

Inflation remains high. However, stabilization and reorganization of the country's economic affairs has been progressing satisfactorily.

## **General**

The present democratic government appears to have halted the economic decline, and consumer confidence is reported to be rising. This is reflected in the re-establishment of Ford and General Motors dealers after a 12-year absence.

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