

canada 1979 commerce

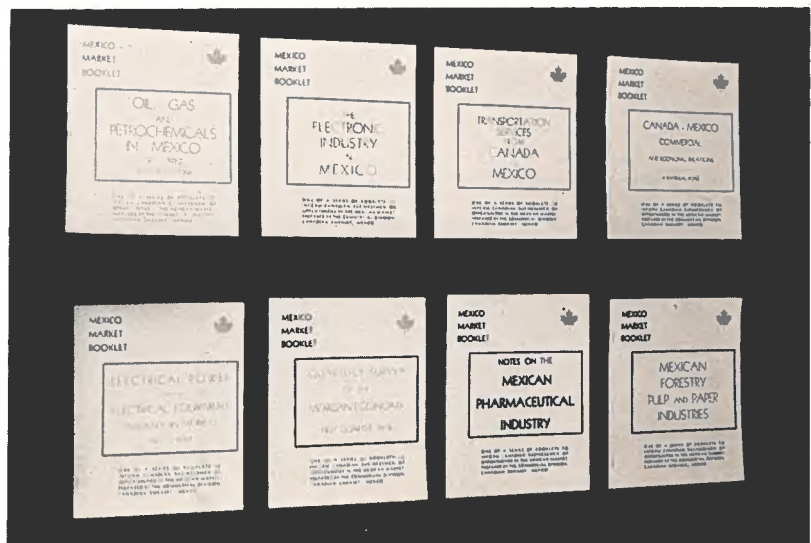
Canada-Mexico Report



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The post in Mexico City has prepared a series of booklets covering key sectors of the economy, which outline current development priorities, projects under consideration, provide names of agents, end users, etc. Sectors covered include: oil, gas and petrochemicals, mining, forestry, fisheries, and electric power. Shorter surveys on electronics, pharmaceuticals and transportation services are also available, as is a Quarterly Survey of the Mexican Economy, and a yearly statistical review on Canada-Mexico commercial and economic relations. For further information write to the: Commercial Division, Canadian Embassy, Apartado Postal 5-364, Mexico City 5, D.F., Mexico.



Canada-Mexico

Mexico is now Canada's third largest market in Latin America, after Venezuela and Brazil. In 1977 our exports to Mexico reached \$210 million and shipments for 1978 are expected to equal that amount.

On the other hand, the value of Mexican exports to Canada really grew during the years 1970-77, expanding by a whopping 313 per cent — to a record \$194 million — and, from the signs, it appears that this trend will continue. (See Table.)

While the trade described above will continue to grow, Canadian industry must look for fresh opportunities and new ways to profit from them. The Mexican Government intends to attain self-sufficiency in a wide range of commodities and to encourage industrial development and import substitution by means of joint ventures between Mexican and foreign partners.



Lic. Jorge De la Vega, Minister of Commerce (Mexico), Mr. A.R.A. Gherson, Director General, Western Hemisphere Bureau, ITC, Ottawa, Ambassador James C. Langley and Lic. Hector Hernandez, Under-Secretary of Commerce (Mexico), on the occasion of Canada-Mexico Commercial and Industrial Consultations, April 1978.

To explore these avenues of doing business, a series of regular meetings between Canadian and Mexican industry and government leaders has been underway since 1970. At that time, at the urging of the Mexican Ambassador to Canada, the Canada-Mexico Businessmen's Committee was established and, with CALA (Canadian Association for Latin America) co-ordinating Canadian participation, has met annually since then to discuss ways of strengthening trade and industrial relations. In May of 1978, 25 Mexican and 50 Canadian businessmen met in Montebello to discuss topics such as energy, bilateral trade, joint ventures, transportation links and taxation.

At the same time a Joint Ministerial Committee was established and, at the latest meeting in November 1977, agreement was reached between the Honourable Jack Horner, Minister of Industry, Trade and Commerce and his Mexican counterpart, His Excellency Fernando Solana, that officials would meet to identify more closely areas of mutual interest.

These talks, which took place in Mexico in April 1978 have resulted in a clearer definition of Canada-Mexico co-operation concentrating on such specific sectors as: agriculture, transportation, fisheries, energy (oil and gas), mining and manufacturing. Within these sectors of immediate interest to Canadian exporters were the following projects: Mexico City Metro, Reynosa gas pipeline, the \$15 billion, five-year oil development program and the nuclear program. (For these and other opportunities for Canadian exporters, EDC has in place or is negotiating lines of credit in excess of a billion dollars.)

Following the officials meeting in Mexico, a mission of officials from the Mexican Department of Natural Resources and Industrial Development visited Ottawa in June 1978 to ascertain, at first hand, Canadian industrial capacities in key sectors of mutual interest. The Mexican delegation focussed on the following potential areas of co-operation where Canadian technical and manufacturing capabilities could be related through joint ventures to Mexican priority development requirements: transportation industries, fisheries, fish processing, forestry, mining, metal, mineral processing, pulp and paper industries, agro-industry, food processing, hydro gas turbines, petroleum and petrochemical industries. (See following articles for details.)

A high level Mexican mission, composed of businessmen and government officials, will visit Canada shortly to establish working groups in these sectors. In the near future, we can expect a series of industrial missions to lead to joint venture and other arrangements whereby Canadian technology can be profitably shared with Mexican companies in ways which will further the industrial development aspirations of both countries.



Lic. Jorge De la Vega, Minister of Commerce (Mexico) and Mr. A.R.A. Gherson, Director General, Western Hemisphere Bureau, ITC, Ottawa, on the occasion of Canada-Mexico Commercial and Industrial Consultations, Mexico City, April 1978.

Canada-Mexico Report

The climate for doing business with Mexico is perhaps better today than at any time since the posting of Canada's first Commercial Agent to Mexico in 1904. The new government of President Jose Lopez Portillo has established clear development priorities, many of which relate closely to Canadian industrial expertise and skills, and is anxious to meet its objectives before the next change in the Presidency, in 1982. Discoveries of oil and gas have attracted worldwide attention, and ambitious production plans promise to have a major balance of payments impact by the early 1980s. The push for development will require a further expansion of the country's already sizeable industrial infrastructure, opening up possibilities for co-production, licensing and joint venture agreements.

Canada is in an excellent position to expand its economic and commercial ties with Mexico. We share the same continent, with the benefits of efficient communications and transportation links. Similarity in natural resource endowments provides a base for the flow of expertise, investments, and equipment originally developed to meet Canadian project requirements. Complementarity of climate offers a natural trade in tourism and tropical, semi-tropical and seasonal imports of agricultural products.



Closer economic relations with Mexico will not, however, come about without a considerable effort. The Mexican market is a complex one, highlighted by extensive government involvement in many aspects of the economy, a sometimes confusing array of regulations, organizations and policies, and the requirement of doing business in a culture, language and social structure quite different from our own.

In many areas American companies represent our major competition. These companies are the first logical choice for a Mexican customer looking for a supply source, particularly when reputation and proximity are complemented by the ability of these firms to quickly assess the potential which the Mexican market holds. The Europeans and Japanese, in seeking to develop closer economic relations, are aware of Mexico's tremendous natural resources as well as its need of technology inflows through joint ventures in order to provide job opportunities for its rapidly expanding labour force. While Canadians are well accepted by their Mexican counterparts, we will have to move far more quickly in view of the intense competition in the Mexican market.

The following series of articles were prepared by the staff of our post in Mexico City. They are designed to briefly emphasize some of the opportunities in the Mexican market, to provide some basic advice on the art of doing business there, and to encourage Canadian companies to write, telex, telephone or visit for further assistance and information.



Mexican Economy

In the two and a half years since the devaluation of the peso, in September 1976, the Mexican economy has slowly but steadily returned to the stable pattern it had known for the previous twenty years. Signs of the return to stability are: the ability of the floating peso to maintain its value (at about 20 to the Canadian dollar, unchanged for eighteen months); the trickling back of funds which left the country just before and during the devaluation period; the gradually increasing tempo of business investment; and the confidence expressed by the International Monetary Fund and many foreign bankers (including Canadian) in Mexico's prospects for continued prosperity.

Indeed there is every reason to believe that the country could return to the annual growth rates of five and six per cent which it knew for nearly two decades. Oil reserve figures are revised upward constantly, and massive new projects are underway in petrochemical production, transportation systems and fisheries. Secondary manufacturing too is expanding with government encouragement and the aid of well-trained technicians.

Two serious problems, however, still confront the nation's economy. One is the rapidly increasing population which, despite government efforts to limit family size, out-stripped growth in the GNP during 1977 (3.1 per cent population growth: 2.8 per cent GNP growth).

The other problem is the chronic inability of the agricultural sector to feed the population. Imports of essential food-stuffs grow dramatically each year and could, if farm production does not expand quickly, absorb a large part of Mexico's revenue from oil and gas in future years. These problems are recognized by the present administration and serious efforts are being made to come to grips with them. Mexico's continued growth and prosperity will depend on the government's ability to find a solution.

Canadian Trade with Mexico (Canadian \$'000)

Canadian Exports to Mexico	1977	1978
Cattle, dairy, purebred, n.e.s.	1,491	6,776
Newsprint paper	49,162	16,078
Railway rails	4,535	9,741
Parts and accessories for motor vehicles, n.e.s.	3,262	5,141
Asbestos milled fibres, group 4 and 5	14,235	23,144
Milk powder, skim milk	18,317	18,350
Railway, street rolling stock and parts, n.e.s.	34,049	12,328
Sheet and strip, steel, n.e.s.	21,940	21,136
Pipes and tubes, iron and steel, n.e.s.	7	10,431
Card punch sort tab., computers and parts	1,444	2,783
Total of main items	148,442	125,908
Total of all items	210,900	229,200



Canadian Imports from Mexico	1977	1978
Coffee, green	41,326	18,253
Tomatoes, fresh	19,136	12,933
Electronic equipment components, n.e.s.	2,147	2,540
Parts and accessories for motor vehicles, n.e.s.	13,572	10,107
Shrimps and prawns, fresh or frozen	7,961	6,442
Crude petroleum	—	13,294
Fluorspar	4,982	9,820
Denims, cotton	5,879	1,848
Strawberries, frozen	5,226	5,468
Cotton, raw	5,002	5,341
Pants, slacks, women's and girls', cotton	2,125	1,718
Total of main items	107,356	87,764
Total of all items	194,300	184,200



Sector Profiles

Oil, Gas and Petrochemicals

Exciting new discoveries of oil and gas have taken place in the past two years, raising Mexico's proven reserves of crude oil, natural gas liquids and natural gas to 40 billion barrels as of December 31, 1978. It is estimated that probable reserves total 44 billion barrels, with possible or potential reserves totalling 200 billion barrels.

The state oil company, Petroleos Mexicanos (PEMEX), is responsible for the development of these reserves and of all primary petrochemical plants. PEMEX 1976-82 expansion program calls for total expenditures of \$16 billion. Average daily production of oil, condensate and natural gas liquids is scheduled to grow from the current level of approximately 1.5 million barrels a day to over 2.2 million by 1982. Basic petrochemical capacity will grow from 4 million tons in 1977 to 18 million tons in 1982, requiring expenditures of \$2.5 billion. There will be a corresponding expansion in the manufacture of secondary petrochemicals which, under Mexican law, must be undertaken by companies owned 60 per cent by Mexican nationals.

The magnitude of PEMEX expansion program has attracted worldwide interest from both industry and banking circles. There is no doubt that PEMEX will have the required financial resources to manage its program, and a wide range of offers for the equipment and material which it will need, including pipe, valves, boilers, heat exchangers, storage vessels, compressors, data acquisition equipment, drilling rigs, etc.

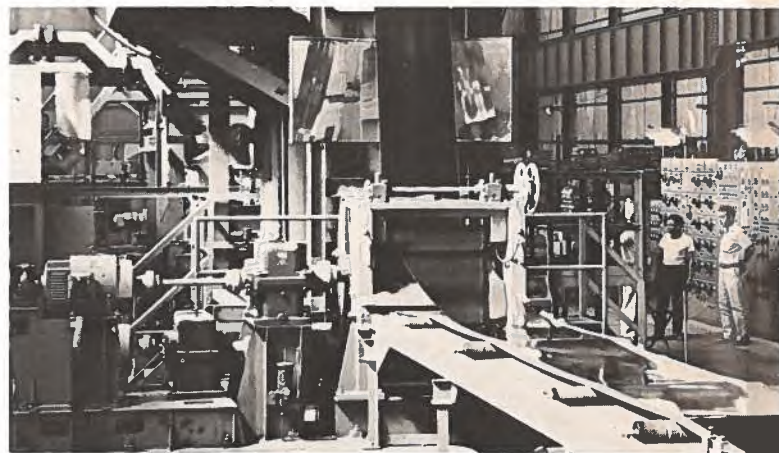
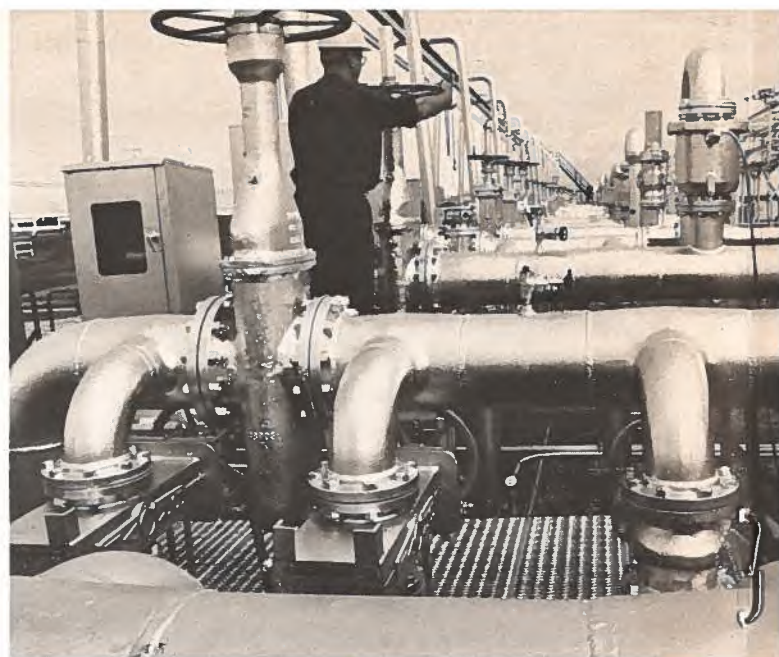
The pace of PEMEX expansion program, the preoccupation of its officials with meeting their ambitious targets, and the intense sales efforts displayed by companies from all over the world, makes selling to PEMEX a considerable challenge. Mexican industry can already build about 60 per cent of the equipment and machinery which PEMEX requires, and with the priority attached by the government to expanding this capacity, success can often best be achieved by close association with a local manufacturer for partial assembly, manufacture under license, or a full joint venture.

In July 1978, the Export Development Corporation (EDC) granted a line of credit to PEMEX for up to \$250 million, the first \$20 million being available immediately for disbursement to Canadian suppliers. Full details are available from EDC.

Mining

Mexico's mining industry has been closely associated with the evolution of the country, from the early extraction of gold and silver in the 16th century to the current time, when the value of the industry's production exceeds \$1.2 billion. Mexico is the world's leading producer of silver, fluorite, celestite and graphite, and a major producer of arsenic, antimony, barite, lead, sulphur, bismuth, zinc and mercury.

Plans for the period up to 1982 are impressive. The government intends to invest \$2.2 billion in expansion projects, while the private sector estimates its expenditures in the \$2 billion range. The administration plays an active role in the industry's development, and companies in which it has a strong equity position are estimated to account for about 35 percent of





industry activity. The exploitation of certain minerals is reserved exclusively for the state, while other specified minerals require that Mexican equity interests hold 66 per cent equity capital, rather than the normal 51 per cent.

A number of Canadian mining companies are well established in Mexico, either in producing mines or in exploration ventures. The local mining fraternity is made up of knowledgeable, technically competent individuals working for aggressive well regarded companies. As in all joint ventures, the key to success lies in the selection of a partner with similar objectives and goals and with the ability to assist the Canadian company through the appropriate government decision-making steps and procedures.

Exporters of mining equipment have made notable progress in establishing themselves in this market. Canadian participation in the Acapulco Mining Exhibition in 1977, followed by a mission of key decision makers to Canada in May 1978, resulted in many firm orders and a new awareness of the ongoing potential for equipment sales.

Forestry

While Mexico's 44.5 million hectares of prime forest represent a resource of some potential, the industry's expansion has been constrained by a number of social, economic and financial factors. As a result, the rising domestic consumption of paper products has necessitated imports of newsprint and pulp. Canada has maintained its traditional position as a major supplier to the Mexican market. Over 25 per cent of Canadian exports to Mexico in 1977 were pulp and paper products.

Since the late 1960s, the Mexican Government has been actively involved in the industry's growth through the creation of a number of companies and development organizations, often with emphasis on a particular geographic area. State companies pursuing expansion programs include PROFORMEX (sawmilling and pulpwood), FABRICAS DE PAPEL TUXTEPEC (newsprint expansion), and MEXICANA DE PAPEL PERIODICO (newsprint from bagasse). Private sector plans include kraft, linerboard, paperboard and paper mill expansion.

Mexican manufacturers can meet local requirements for the sawmilling industry where low volume, labour intensive operations are common, and in this manner, import license controls protect domestic equipment manufacturers. As most pulp and paper making machinery is imported, current expansion and upgrading projects offer interesting opportunities for Canadian manufacturers.

Fisheries

Mexico's fisheries industry has not traditionally played a major role in the country's development. The growth of this industry has been hampered by an out-of-date fleet and a limited local demand for fisheries products.

An analysis of the industry's potential, however, has led to the realization that an expanding fisheries industry could provide a higher level of protein in the Mexican diet, generate additional foreign exchange resources through increased

exports, and create new job opportunities in the fishing, processing and shipbuilding sectors.

As a result, the Mexican Government has given high priority to the industry, and progressive targets for expansion have been set. It is planned that the industry's output will rise from 562,000 metric tons in 1977, to 2,400,000 metric tons in 1982. The Fisheries Department has been reorganized and now stands as a separate government entity headed by a full member of the Mexican Cabinet.

The Mexican Fisheries Development Program includes expansion of both the fleet and onshore facilities. Stress is laid on establishment of joint ventures with foreign companies in fishing, processing, and enabling the country's industrial capability to produce the machinery and equipment the industry will require.

There will be import requirements for a wide range of products including ships, processing equipment, marine hardware, winches, steering systems, refrigeration equipment, communications equipment, etc.

While a number of Canadian exporters have traditionally sold marine equipment here, the potential volume of Mexican requirements is such that assembly/manufacturing in Mexico is an attractive proposition, and a number of joint venture possibilities are now being explored. Other companies are finding that in order to sell major pieces of equipment (e.g. ships, processing equipment, etc.) it is necessary to present a complete package proposal, including vessels, training, processing facilities, export marketing assistance, etc., in a joint venture package, including both direct equity investment and debt financing.

These initiatives are to be encouraged, as they clearly meet Mexican requirements. They also enable Canadian companies to meet the promotional techniques of competing European countries, that often require the end fisheries product for their domestic market and thus use joint ventures as a prime means of meeting their own objectives. A key to understanding the potential which the fisheries development program holds is to visit the Department of Fisheries, which will provide assistance and advice as to current requirements, and how to formulate proposals for their consideration.

Transportation

In terms of the distribution of its population, Mexico is in many respects similar to Canada. It has both far-flung pockets of settlement, often separated by empty plains or mountain ranges, and urban centres where the great density of population plus high city growth rates has made the search for better modes of public transport a necessity.

Like Canada, Mexico relies heavily on rail service to link its distant communities to one another and to the major cities. Under a program financed by the World Bank, Mexico is undertaking a major program of railway modernization and expansion. Some of its features will be: reballasting and relaying of track, doubling of existing lines, tunnel and bridge improvement, construction of new lines to service ports and industrial centres and purchase of new rolling stock and

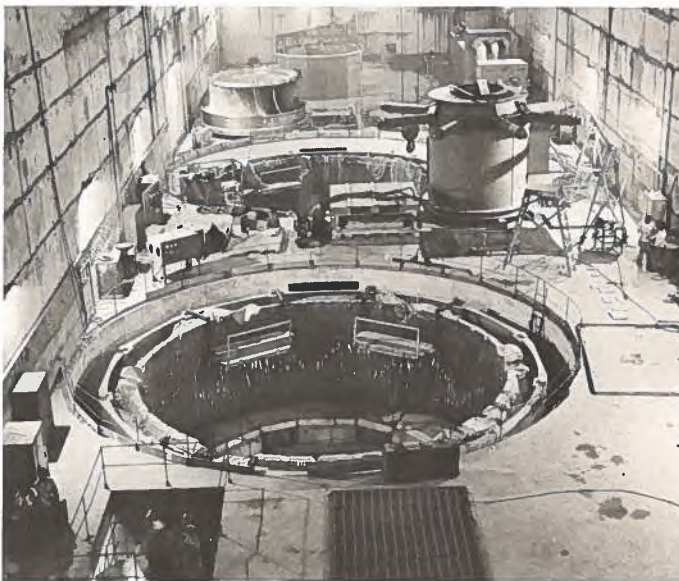
signalling equipment. Two projects of particular interest are the electrification of major lines and the Alfa-Omega Project, which would link the Atlantic and the Pacific by a high speed container line across the narrow Isthmus of Tehuantepec. Canada is a major supplier of railway equipment including locomotives, rolling stock and rail.

In the major cities — Mexico City, Guadalajara, Monterrey — there is a new emphasis being given to transportation planning. The need to move large numbers of people rapidly and economically has led to the development of concepts such as articulated public transit vehicles and creation of broad cross-town thoroughfares with reserved lanes. Mexico City, with a population of well over 13 million, is doubling the length of its subway lines from 40 to 80 kilometers and expects to have eventually 400 kilometers. Expansion of bus and trolley bus fleets in all three cities is under consideration. Mexico City has recently decided rather than enlarging its streetcar routes to rely on trolleybuses. Five hundred new buses are now on order, with 2,000 the near term requirement. Propulsion control systems will be imported.

There is a strong desire on the part of Mexican transit authorities to manufacture all types of equipment locally. Mexican industry has the capability to manufacture metro cars, railway rolling stock and buses. Sale of specialized equipment for the transportation industry will require not only competitive prices, delivery and service, but also a willingness to enter into licensing, co-production or joint venture arrangements.

Electric Power

On the basis of current population growth rates and the planned increase of Mexican industry, it is estimated that in 25 years the country will require 10 times the amount of electric power it currently generates. The responsibility for meeting these growing requirements falls to the Federal Electricity Commission (CFE), the government-owned electricity generating utility.



The current expansion program of CFE calls for increasing generating capacity from the current level of 11,000 MW to 20,000 MW by 1982. Expenditures of \$8.1 billion are programmed. By 1982 the planned expansion will reduce the reliance on oil burning plants to 52 per cent, with other energy sources being coal six per cent, geothermal two per cent, nuclear seven per cent, and hydro 33 per cent. Planning is underway now on the next expansion phase which will raise generating capacity to 30,000 MW in the mid-eighties.

The market for electrical generating equipment is highly competitive, with European, Japanese and American firms very active. CFE raises funds through international banks as well as supplier credits. The Export Development Corporation is holding discussions with CFE to establish a line of credit for CFE's current purchase requirements, with the line to be expandable to include major project financing. The Mexican Government has given a preferential rating to its electrical equipment manufacturing industry, and expects to establish new plants under licensing or joint venture agreements.

Mexico's first LWR nuclear plant supplied from the United States is expected to come on stream in 1983. Mexico has considerable uranium reserves, and long-term studies are now underway to determine the number of nuclear stations to be built, the choice of the most appropriate technology, and the degree of local manufacture which can be undertaken.

Agriculture

Agricultural policy represents the predominant policy concern of the Mexican Government. If agricultural output is not increased, observers estimate that much of Mexico's new export revenues from oil and gas will be required simply to pay the import bill to feed the expanding population.

Distribution of agricultural land to small farmers was a major tenet of the Mexican Revolution. Since 1911, some 80 million hectares of land have been distributed to 2.5 million farmers. The amount of land which can be worked by a farmer is limited, and the lands cannot be leased, sold or mortgaged. While the communal land system covers about 70 per cent of the farm population, it contributes only 35 per cent of the annual production.

Large private sector farms, some concentrating in production of fruits and vegetables for export, account for over 50 per cent of the annual production, although they represent a small percentage of the country's farm units. The redistribution in 1976 of some of these units gave way to distrust, prompting a high level review of land redistribution policy.

Canada has been a traditional supplier of a number of agricultural products — to meet current consumption needs and to lay the basis for expanding production. Sales of skimmed milk and other dairy products totalled \$21 million in 1977, and ongoing sales are expected. There are continuing requirements for unregistered cattle, beef cattle, purebred swine and chicks. While Mexico is a large importer of oilseeds, so far there have not been commercial shipments of rapeseed. Mexico manufactures tractors and agricultural equipment, but imports combines and large tractors.

Consulting Services

With the exception of technical services provided under World Bank or Inter-American Development Bank funding, the effective market in Mexico for consulting services from Canadian consulting firms doing business from their Canadian offices is nil. This is due to: (a) a 42 per cent tax levied by the Mexican Government on gross consulting billings by offshore consultants; and (b) the inability under Canadian tax laws for companies to credit this against their global corporate income taxes.

Bilateral tax treaties between Canada and other countries normally contain provisions to avoid problems of this sort. Although there have been discussions on a tax treaty between the two countries, Mexico has not, as a matter of policy, concluded double taxation treaties with any other country.

There are other jurisdictions, for example, the United States, where the taxes paid to Mexico can be applied against corporate taxes to be paid on global income, therefore, utilizing a U.S. subsidiary might provide a solution to those companies having such subsidiaries and, on this basis, project financing could be provided by the Export Development Corporation for equipment, and the Canadian chartered banks for consulting services, down payment financing, and local costs.

Another possible solution is the establishment of a joint venture (maximum 49 per cent interest) with a Mexican firm. There are local regulations which establish a ratio between the number of foreign consultants and local engineers which must be employed by such firms. While such regulations are designed to ensure that the local entity absorbs the relevant know-how, it is often the case that the technology required is highly specialized, and that there is no viable local market for such technology on an ongoing basis. As far as is known, there have not been any joint ventures between Canadian and Mexican engineering firms.

It should be noted that it is illegal under Mexican law for a Mexican company to pay for engineering services through the device of including such services in the price of any equipment provided for the project.

The Mexican consulting industry is well developed, with several of the larger firms pursuing engineer/procurement/construction contracts in Latin America. These companies have an excellent reputation for their technical skills, as well as planning and project management. Export financing assistance is available from the Mexican financial community.

There have been, and undoubtedly will continue to be, Mexican requirements for consulting services of a type where Canadian firms have the required expertise. Until such time as the taxation question is resolved, there appears to be little reason for companies to pursue such business opportunities.

How to do Business in Mexico

While Canadians often regard Mexico as a “developing country”, it must be recognized that the country already has a GNP per head of \$1,000 which reflects, among other factors, a growing, broadly-based, industrial infrastructure. To achieve further economic growth, the Mexican Government operates a tariff policy which either restricts entirely the import of items already made in Mexico through the requirement for import permits, or will allow imports of goods made in Mexico without an import permit, but with high tariff rates. These are important factors to consider when approaching the Mexican market.



Developing a Marketing Strategy

Mexico holds great promise as a market for machinery and equipment related to such sectors as mining, fisheries, forestry, oil, gas and petrochemicals, and electric power generation. In all of these sectors the Mexican Government has given high priority to the development of a domestic manufacturing industry capable of meeting the long-term requirements of the domestic market.

In many cases the potential export market in Mexico will favour only foreign companies which offer joint venture possibilities as part of their marketing approach. The rationale for this, from the Mexican viewpoint, is easily understood. Mexico has large under-utilized natural resources, and in many areas lacks the financial, technical and

organizational expertise to reach its extensive development targets. With a high degree of both unemployment and under-employment, as well as a rapidly growing labour force, the generation of jobs in all sectors is vital. Joint ventures can supply not only know-how and financing, but also the assurance that foreign companies are committed to the Mexican market, and are not simply capitalizing on opportunities on a “spot” basis.

Canadians should recognize this interest in joint ventures, and seek to evolve strategy which takes manufacturing under license, co-production arrangements or joint ventures into account. A willingness to discuss these options at the outset may enhance your more imme-

diately sales prospects. In one recent case, a Canadian manufacturer is seeking to have components manufactured in Mexico for use in his bid on an equipment package in a third country. His objective is to achieve a lower bid price based on Mexican industrial costs which are well below those in Canada, while at the same time seeking to enlist the support of his Mexican licensee in the development and selling work necessary to eventually open up a market for his company's products here.

Visiting the Market

Over 150,000 Canadians visit Mexico each year to savour the delights of Acapulco, Zihuatanejo, Cancun and other tourist centres. These trips will not, however, give Canadian companies a fair appreciation of the commercial environment in which they must do business, nor will a half day of business calls in Mexico City tacked on to the end of a holiday accomplish a great deal.

The Mexican market is a complex one, in part because of the extensive involvement by the government and government-owned or controlled companies in a number of sectors. Responsibilities between Ministries, and among various government entities, change with considerable frequency, and thus time must be allowed in order to gradually piece together the appropriate information as to who are the key decision makers.

While information is more readily available on private sector companies, the process of evaluating the relevance of various company operations to your particular requirements takes time. In addition, the logistical constraints of moving around a crowded city of 13 million people means that fewer sales calls can be made in the course of a day.

Appointing a Representative

Experience has shown that the services of a competent local agent or representative are virtually indispensable for exporters selling to either public or private sector companies. While written communication is welcome, Mexicans like the personal contact. A key element in the success of some of Canada's competitors has been the maintenance of on-the-spot representation, either through a branch sales office here or through local Mexican agents. The most successful

Canadian companies here follow similar practices.

The selection of an agent will depend upon many factors. One of the most important is an analysis of the potential market for your company's product, and the most likely channels of distribution that should be used. There is a wide variety of potential agents in Mexico. Some are highly specialized according to product, while others may concentrate exclusively on a certain buying agency, handling a wide range of products required by the agency.

By law, all representatives of foreign companies must be legally appointed. The executive officer of a company should sign and present to the nearest Mexican Consulate a letter appointing the company's local representative. The Consulate will legalize this document, which should be forwarded to the local representative who will use it to establish official accreditation with the appropriate authorities and public sector companies with whom he is pursuing business. Mexico maintains Consulates in Montreal, Toronto, Winnipeg and Vancouver, in addition to the Embassy in Ottawa.

Registering for Sales to Government Agencies

One of the prerequisites in selling to decentralized government agencies is the need for foreign suppliers to be registered with a central registry authority, as well as with the potential customer. Not until all the legal paperwork has been completed, will a supplier be invited to participate in any bid. Thus, in order to know what business potential exists, a Canadian company must ensure that it is appropriately registered. There are very few, if any, advertised international tenders in Mexico — hence the necessity for registration.

The Mexican Government maintains an office specifically for the registration of suppliers and contractors to the Federal Government and/or its decentralized agencies. This office is:

Lic. Enrique del Val Blanco
Director General
Secretaria de Comercio
Direccion General de Normas sobre
Adquisiciones y Almacenes
Padron de Proveedores del Gobierno Federal
Lorenzo Boturini 205, 6° Piso
Mexico City 8, D.F., Mexico

This agency must be supplied with a notarized copy of the company's charter and specimen signature of the executive officer legalized by a Mexican Consulate in Canada, accompanied by literature, drawings, pictures, etc. of products being offered, plus an original price list on the company's letterhead signed by the executive officer.

A fee of \$50 is payable for the initial registration and about \$25 for the renewal fee to be made each year during the month of January. If it takes place in any other month, the cost mentioned above doubles. These monies must be paid in Mexican currency in the form of a certified cashier's cheque, bank draft, etc., made payable to the Tesoreria de la Federacion.

In addition to the information required above, equipment suppliers are required to provide balance sheets or financial statements for the previous year, an indication of the number of factories in operation, their location, number of persons employed, etc. On completion of the above, the Ministry will register the foreign company, issuing a receipt for monies received, and will advise the corresponding registration number.

Companies must also register with each of the specific buying agencies with which they intend to do business, for example, the Federal Electricity Authority, PEMEX, CONASUPO, etc.

Arranging Financing

Mexican importers of capital goods are particularly interested in the nature and type of financing facilities which can be made available to them. Both the Export Development Corporation and Canada's chartered banks have been active financiers for Mexico's import requirements for many years, and have a considerable degree of expertise in structuring financial offers.

In early 1978, the Export Development Corporation offered lines of credit to Mexican public and private sector organizations totalling \$1.4 billion, the largest offer ever made by EDC to any country. EDC is now concluding negotiations on a number of these lines of credit. The first line to be concluded is with the state oil company PEMEX, for up to \$250 million, of which the first \$20

million is now available for PEMEX purchases. Exporters are encouraged to contact EDC at the earliest opportunity, in order to discuss this and other lines of credit.

Selecting a Joint Venture Partner

In some instances, the trading relationship established between a Canadian and Mexican firm will evolve naturally into a joint venture partnership. Both sides will be convinced of the future market for the product, and both will realize that if local manufacturing exists, perhaps starting on a partial assembly and moving into a fully manufactured phase, then protective tariffs will be set up by the Mexican Government which will, in effect, provide a considerable degree of protection from imports.

For other companies, the selection of a joint venture partner will be more difficult, and a considerable amount of time will have to be spent on this task. Canadians should note that the present gross interest rate on two-year bank deposits in Mexico is 18.52 per cent, thus providing a low risk, high yield alternative to industrial investment. Local investors, therefore often will not risk their money in projects which have a rate of return of less than 25 to 30 per cent, including a quick payback period.

In some sectors, Canadian companies may find that they have a mix of Mexican private and public sector investors as their joint venture partners. While government shareholder involvement may be required under Mexican law, and may appear attractive to the other shareholders, there should be no illusions that government equity participation in a joint venture will necessarily facilitate dealings with the various Mexican Government Ministries and Departments from whom various approvals will be required.

Under Mexican law there is a considerable degree of discretionary authority which passes to implementing Departments. Virtually no two cases requiring administrative decisions are ever the same. Patience, tact, persistence and a sensitivity to Mexican attitudes to foreign investment are essential.

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