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BUILDING BUSINESS PARTNERSHIPS: MEXICO AND WESTERN CANADA.

A summary of the Conference.

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BUILDING BUSINESS PARTNERSHIPS: MEXICO AND WESTERN CANADA.

INTRODUCTION

The North American Free Trade Agreement has greatly strengthened the relationship between Canada and Mexico. It has opened up new and important opportunities for cooperation among businesses, governments, academic institutions and many other organizations and individuals in Mexico and Canada. This conference, with the theme "Building Business Partnerships: Mexico and Western Canada" was conceived as one means of highlighting the best potential which exists for mutually beneficial collaboration between our two countries.

The Faculty of Business at the University of Alberta and the Instituto Tecnológico Autónomo de México (ITAM) share in the belief that strong academic linkages across national boundaries serve not only to enhance the educational experience of the student, but also to augment the commercial and business ties of the private sector in the two countries. With the generous support of Western Economic Diversification, Canada, as well as that of many other organizations and individuals (see list of sponsors), the University of Alberta and ITAM were able to join forces and provide business leaders, government officials, educators and students with the opportunity to learn more about each other and to consider the many avenues which exist for future cooperation and collaboration. A sincere appreciation is extended to all those whose commitment of time and resources made this conference possible.

Held in Banff, Alberta, Canada, the conference opened on the evening of May 31, 1995 with a reception and special Western Canadian welcome for the contingent from Mexico. The proceedings summarized here began on the following morning and continued through June 2, 1995. The first section, following the list of donors, reports onall keynote addresses. The discussion of current economic, political and social devlopments in Mexico is summarized in section two, and a presentation on the energy sector makes up section three. Summaries of the panel discussions on finance, law and information gathering follow, as sections four, five and six respectively.

1. KEYNOTE SPEECHES

The Honourable Lloyd Axworthy, Minister of Western Economic Diversification, was one of the two opening speakers. He emphasized the importance of forging a whole network of connections between individuals and institutions in the two countries. This web of relationships is essential in building a lasting and robust base for economic and cultural exchange between the two countries. These endeavors, Mr. Axworthy stated, are greatly facilitated by personal contacts between Mexicans and Canadians. There is an appropriate role for governments in providing a framework within which these relationships can take place and thrive.

The second speaker was **Mr. Brian MacNeill**, President and CEO of IPL Energy Services Ltd. He referred to the importance of increased interaction between the private sector and universities, something encouraged by seminars such as the 'Building Business Partnerships' Conference. Mr. MacNeill stressed the variety and depth of expertise present in Western Canadian business, and how by increasing accessibility, the NAFTA has made it easier for Western Canadians to capitalize on these strengths. The region's most notable strengths include forest products, equipment and services; fish and fruit; mining services and equipment; agricultural and livestock products and expertise; oil and gas equipment and services; and engineering and environmental services.

Mr. MacNeill pointed out that some of the world's most technologically advanced companies are located in Western Canada. Some of these companies have recently become active in the Latin American market, encouraged by the restructuring of state owned energy companies to achieve cost reduction and increase efficiency. Accompanying restructuring was a need for additional pipeline capacity to realize their potential for growth. Pipelines have been privatized, and private capital is now being used to incorporate modern technology into their construction and operation.

One of the featured speakers at the Conference was **Her Excellency Sandra Fuentes**, Mexico's Ambassador to Canada. She stated that Canadians and Mexicans need to put away the stereotypes they have of each other to achieve the full advantages of the economic integration resulting from the NAFTA. There is a need for each to understand the complexities of the other. The world of the future is about understanding differences. Canadians need a better grasp on key information about Mexico, and to understand that Mexicans prefer to do business in person, not by phone and FAX. The Mexico Mrs. Fuentes knows is a "culture of faces, not a culture of FAXES."

Mrs. Fuentes pointed out that Canadian businesses possess some general advantages in Mexico. Their technology is more readily adaptable to small and medium sized enterprises. Also, Canadians are very willing to sit down and discuss needs from the perspective of the customer. She urged Canadian business to overcome any hesitancy occasioned by recent events; Canadian business needs to emphasize the promise of what is possible.

In a wide ranging address, **The Right Honourable Joe Clark** reinforced Ambassador Fuentes' concerns about stereotypes. Media reports on dramatic events, such as the peso crisis, often obscure the slow, steady and progressive economic and political changes in Mexico. Canadians and Mexicans have much to learn from each other, and perhaps Canadians have the most to learn from relations with Mexico.

Mr. Clark spoke of the substantial evolution in Canada-Mexico relations over the past decade. The initiatives for, and subsequent adoption of, free trade led

Canada to become a full member of the Organization of American States (OAS), and thus changed the politics as well as the economics of the hemisphere. It is in this way that Mr. Clark sees Canada as the principal beneficiary of the NAFTA, because Canadians have been forced to break away from traditional patterns and practices of their history. Now Canadians need to see Mexico as a port of entry to the whole of Latin America. New trade flows will emerge as a result of the changing attitudes necessitated by the NAFTA. The lessons learned from Canada's trade with Mexico will serve the country well by requiring us to see trade as something more than links with traditional export markets in the U.S. and Europe.

In closing, Mr. Clark emphasized the importance of Canada's relationship with Latin America as a region. He regards country specific approaches as inferior to those which focus on the entire region. Major transformations are underway in Latin America and their full impact will be underestimated if we look only at the events taking place in individual countries.

Mr. Luis Garcia Cardenas, Director General for International Affairs of the Mexican Department of Energy, informed the Conference of recent changes in legislation affecting the energy industry. He spoke about the relaxation of controls over the transport, distribution and storage of natural gas. He pointed out the significant impact on the demand for natural gas that will occur in 1998 when industry in Mexico will have to shift to non-polluting combustibles.

His Excellency David Winfield, Canadian Ambassador to Mexico, stressed how the breadth and depth of Canadian-Mexican contacts had flourished in the past five years, bringing about a mature and growing relationship between the two countries. He viewed Canadian companies going to Mexico as making an excellent long term decision.

2. CURRENT DEVELOPMENTS IN THE MEXICAN ECONOMIC, POLITICAL AND SOCIAL ENVIRONMENT

Dr. Arturo Fernandez, the Rector of ITAM, concentrated on two issues in his address: the Mexican financial crisis and the structural change taking place in the economy. The causes of the financial crisis of recent months are now clearer. In early 1994 Mexico was recording a current account deficit amounting to 8% of GDP, permitted by the autonomous inflow of capital from 1991 to 1993. The bases of the inflow were Mexico's economic reforms, its renewed prosperity during these years, and the recession in the United States. In the second quarter of 1994, capital inflow to Mexico ceased quite suddenly, in part due to higher interest rates in the U.S. To compensate, the government increased the rate of domestic credit expansion while maintaining the exchange rate—partly as an anti-inflationary policy—in a fixed band against the US$. The response of foreign and domestic investors to these developments was to ask for US$ denominated securities (tesobonos). However, capital inflows remained below the 1991-93 trend resulting in a dangerously high exposure to US$ denominated securities. Dr. Fernandez stressed that this resulted not in an insolvency crisis, since the ratio of government debt to GDP at 30% is low by international standards, but in a liquidity crisis.

Unfortunately, the response to the liquidity crisis was a delayed one, a fact serving to increase uncertainty. A key policy response was to allow the exchange rate to float freely, thus allowing a rapid response to the changing situation. The Bank of Mexico also established specific targets for the expansion of domestic credit. Government policy also restored the futures and forward markets in the peso, thus allowing short term hedging by companies. Fiscal policy was tightened by raising the value added tax from 10% to 15% to compensate for the anticipated fall in income tax revenues accompanying adjustments in the economy, and to sustain the surplus required by the government to amortize public sector debt. Dr. Fernandez anticipates the result of the package as (a) stabilization of the exchange rate in the range of 5.8-6.2 pesos to the US$; (b) an inflation rate in 1995 of about 50%; (c) a decline in real wages of some 25%; (d) a decline in the nominal exchange rate of 70% and in the real exchange rate of 20%; and (e) a fall in the current account deficit from 8% to 2% of GDP.

Dr. Fernandez then turned to a discussion of structural change in the Mexican economy based on four building blocks: trade liberalization; deregulation; privatization; and institutional change. Some of the changes that he saw as of great importance included: the elimination of protectionist policy to provide a stable long term financial framework; rigorous deregulation opening up new opportunities in natural gas transmission and distribution; more competition in telecommunications; the revamping of the social security system to provide private accounts which should raise domestic savings rates; and changes in farm land tenure which should increase agricultural efficiency. He concluded by expressing his optimism about the future of the Mexican economy.

Dr. Federico Estévez, Professor of Social Science at ITAM and an Advisor to President Zedillo spoke about the course of Mexican politics over the last decade and what can be expected of the Zedillo Administration. He stated that Mexico has been living through a decade of profound political change and that this has taken place simultaneously with economic change. He emphasized that these changes have occurred not in decisive episodes (media sound bites on Mexico to the contrary), but incrementally, involving concessions, negotiations, constitutional revision, and different ways of carrying out basic political actions.

A key element in political liberalization has been limits on the exercise of central power, which means limits on presidential power. The driving force for this has come from two sides. The first of these is electoral politics. This has taken the form of growing competition from the opposition, a realignment of the electorate, and a change in the way politicians act. These are reflected in the loss of ruling party control of the lower House of Congress, and the fact that the Supreme Court now possesses a right—previously unknown in Mexican politics—of judicial review. Congress has acquired the oversight power. The result is that no constitutional change can now occur without bipartisan support. Effectively, the economic change over the past 7 years could not have taken place without some multi-party consensus. Dr. Estévez believes that these changes were assimilated relatively easily.

A second key element in political liberalization is recognition that a functioning market economy required a reformation in the institutions of public power. Economic reforms involved a progressive separation of the economy from politics, as government "tied its hands" where the economy was concerned. Economic reform undercut the social bases of the PRI, weakened ancient institutions of power, accelerated the movement to decentralization, and subdued the powers residing in the Presidential Office.

Dr. Estévez then suggested some political lessons from the experience of the last decade. One is that reform of institutions is possible under pressure. A second is that since the PRI can adapt to change and still win, resistance to change within the party is reduced. A third is that because the government can continue to govern despite sharing its power, then fear of this sharing largely disappears. The result is that the Zedillo Administration has understood the imperative of avoiding polarization. This is expressed in incorporating opposition views into reform, and in making the decision to contain and isolate armed dissent as in Chiapas.

Dr. Estévez then turned to the future directions of reform. Judicial reform will emphasize judicial autonomy and professionalism. This will take time, but such a precedent will have an important effect on state systems. Electoral reform will encompass the financial regulation of political parties; the full autonomy of other electoral bodies from the central government; and principles of equitable access to the media. In federalism he saw a major push to administrative decentralization in areas such as primary health care and the administration of the excise tax. The federalism issue is already apparent in conflicts between the bureaucracy and state governors over grant disbursement, and in reactions against the power of 'Mexico City'. Recent experience also shows that it is going to be expensive to decentralize. A final important future direction of reform is the in-house reform of the PRI. This must occur if the President is to win mid-term elections because the party cannot be seen as weak in the face of future challenges. This is likely to take the form of more competitive candidate selection, and a diminution in the power of the party bureaucracy relative to the elected leadership.

Finally, the speaker turned to two general problems that might impede progress toward political reform. The first of these concerns the social situation. Mexico has gone through six months of great difficulty, and though Mexicans are not happy about the situation, they are not protesting in the streets. Fear of unemployment among the urban working classes is very great. This social issue will be addressed by redesigning social and family security programs, providing greater access to education and health care, and by continuation of the anti-poverty (Solidaridad) program. The second obstacle to political reform concerns the situation in Chiapas. While it is not clear what the design of a final agreement will be, the fact is that talks are underway and the armed movement is at the negotiating table. The profile of Chiapas will continue to be lower so long as the talks proceed.

Like Dr. Fernandez, Dr. Estévez was optimistic about the future course of Mexican developments. The incentives for the major political actors are toward negotiation, consensus, and arrangements that allow reforms to continue apace without prejudicing social and political stability.

3. THE MEXICAN ENERGY SECTOR: THE PERSPECTIVE OF A CANADIAN COMPANY

Mr. Gordon Berard, Vice-President of Novacorp International, explained that in 1993 his company decided to establish a presence in Mexico. He offered several reasons for this decision. These included: Mexico's strategic location; the presence of large "unassociated" proven reserves (despite the fact that about 85% of the gas currently produced there is in association with oil); delivery systems are still rudimentary so there is substantial potential for pipeline construction; and the recent changes in Mexican laws permitting investment in new gas transmission and storage facilities.

The speaker looked forward to continuing growth in the demand for natural gas in Mexico. New power generation facilities are likely to be served by gas suppliers. As a result, industrial growth will require gas feed stock.

In carrying out its commitment to participate in the Mexican market, NOVA has followed a number of principles. These include: recognition of the importance of reputation; the need for networking; knowledge of prospective customer needs; sensitivity to socio-cultural differences; adaptability to changing conditions and circumstances; the importance of local content in whatever activity is undertaken; and the need to practice patience and perseverance.

4. MEETING THE FINANCIAL CHALLENGE: A REVIEW OF MAJOR FINANCING SEGMENTS

A panel chaired by **Neil Bowker** of the Americas Trading Corporation discussed financing issues in the Mexican marketplace.

Luis Martinez of the Bank of Montreal and Nesbitt Burns pointed out that Canadian banks in Mexico can help Canadians understand the marketplace there. Canadian firms going to Mexico need to contact those who are knowledgeable about local conditions and prospective partners. To illustrate this point he indicated that many small firms in Mexico will have unaudited financial statements. Only when company revenue exceeds a threshold amount is an audited statement required by the government. He also pointed out that business credit reports are still in a nascent stage in Mexico.

Bank financing in Mexico is now both very difficult and very expensive. The term 'long term financing' in Mexico means something very different than it does in Canada. There the time horizon is perhaps twelve months, while in Canada we generally think of long term as ten years or more. Securitization is just coming to Mexico, and on those occasions when it is employed to finance a joint venture, the capacity of the project to generate export earnings is essential.

Ian Reid, Managing Director of Bear Stearns & Co. of New York, spoke about public offerings for the financing of joint ventures and acquisitions. The aggregate market value of shares listed on the BOLSA, Mexico's single stock exchange, amounts to about one-third of Mexico's GDP. In contrast, the aggregate value of shares listed on the NYSE alone amounts to about 84% of American GDP. An important consequence is that access to the equity markets is available only to the larger Mexican companies, such as TELMEX, and not to medium sized companies. As a result, larger companies can raise funds at costs of capital less than one-half of small Mexican companies. These facts, together with demographics (the youthful median age of Mexico's population) that preclude high rates of domestic savings, point to the pressing need for foreign capital.

Where strategic investments have occurred in Mexico, they have mostly been by large multinationals. These have been attractive to Mexican companies for three reasons: (a) the investor brings technological and organizational skills to a rapidly growing business; (b) they meet the Mexican partner's need for liquidity; and (c) the size of the deal may be sufficient to generate a listing on a major exchange, implying an independent source of capital to support future growth. He pointed out that the peso futures market, whose effect is to reduce currency fluctuations, is important to large companies. These markets permit the company to hedge short term transactions, but it is still impossible to hedge a long term investment in Mexico.

Recognizing that Western Canadian companies are more likely to be interested in Mexican small and medium sized enterprises (SMEs), Reid stated that commercial banks are the best repositories of information about them, but there is much room for improvement in the quantity and quality of the information available, and in the willingness of banks to share it. He outlined some important characteristics of Mexican SMEs. Many are family owned. In structuring them, tax and management issues are significant. A consequence is that many financial statements may exist for a single company, each of which is correct, but when aggregated they become meaningless. You cannot simply look at a balance sheet to get an overview of the company. It therefore takes a long time to put the different pieces of the corporate puzzle together. A second consideration is that in these SMEs the shareholders and the managers are one and the same. Hence, there is a need to understand the investment horizon of the owning family before any commitment is made. Thirdly, he emphasized that minority shareholder rights in Mexico are generally protected under mercantile law. He emphasized that any Western Canadian firm considering investment in a Mexican SME should be clear about whether the commitment is occurring with the objective of a superior financial return over a relatively short time horizon, or alternatively, whether the objective is long term strategic positioning.

Raúl Jimenez-O'Farrill of Bancomer, Mexico's second largest bank, agreed with Reid that sources of financing in Mexico are very expensive. His presentation was primarily concerned with identifying the nature and legal position of trusts in Mexico as they relate to transfer and ownership of real estate. He pointed out that foreigners cannot own any land in an area 50 km from the coast or 100 km from the border in what are known as "restricted zones". This land can be held by foreigners only through a trust. He considered three cases of real estate purchase: (a) the purchase of a site for a plant; (b) investment into residential development projects; and (c) the purchase of a resort condominium for personal use.

Glen Hammond, Vice-President of the Export Development Corporation (EDC) discussed the role of the EDC in export trade with Mexico. He saw Mexico as in many ways a unique market because of the strong Canadian embassy, and the great Mexican interest in doing business with Canada.

He stated that the EDC prefers to work with other financial partners wherever possible. For example, the agency has worked with Mexican banks to provide funding for ventures involving small to mid-sized companies going into the Mexican market. Financial instruments used by the EDC are principally loan guarantees and subordinated debt. Equity positions are taken only if they bring leverage.

The energy and power sectors dominate the EDC's project financing. The risk factors considered in project financing include the country's stability, access to foreign exchange earnings, cash flow, and the regulatory environment.

5. A Discussion of Legal and Tax Considerations

A panel moderated by **Shawna Vogel** of Vogel & Vogel, Barristers & Solicitors, reviewed a variety of tax and legal questions of importance to Western Canadian businesses considering the Mexican market.

Carlos Bernal, Senior Partner of Noriega and Escobedo in Mexico City emphasized that almost all Mexican commercial and tax laws are federal. The legal system itself is based on written rather than common law with transactions governed by a commercial and civil code. Most businesses in Mexico tend to incorporate as a liability company.

He pointed out that Mexico is a much less litigious society than Canada, and certainly less so than the United States. The reasons are partially legal, partially cultural and partially practical. Litigation is not popular in the Mexican tradition and is neither fast, cheap, nor easy. In general, the business culture sees much truth in the saying that a "bad settlement is preferred to a good litigation".

Labour law is extensive and labour relations are heavily regulated. Labour laws generally favour the employee. The costs of compliance are high, and generally a foreign company will find that benefits are extensive and their costs as a percent of payroll are higher than in Canada. Costs include housing, social security and retirement benefits, and a provision for profit sharing whether or not the company actually turns a profit.

Bernal offered the opinion that environmental laws are extensive but the enforcement, though improving, remains weak in part because of the pressures of economic circumstance.

With liberalization and privatization, the laws relating to foreign investment have changed from restrictive to very open with ownership constraints in only a few areas such as radio and television, telecommunications, and financial institutions. Foreign ownership of 100% is allowed in most areas of the economy including mining.

Eduardo Ramos, Resident Partner in New York of Bryan, Gonzalez Vargas y Gonzalez Baz, stressed two key points affecting Mexico-Canada business relations. The first is that Mexico is a country of laws which are followed and which protect foreign investment. While there is always room for improvement, there are old and well established legal institutions.

Secondly, he pointed out that Mexico is determined to modernize and keep on the path of openness despite the obvious difficulties of 1994. For example, Mexico has positioned itself as an export spring board to Latin America having put in place free trade agreements with Chile, Bolivia, Venezuela, Colombia and Costa Rica. In addition, trade agreements have been negotiated with Japan and the European Community.

Laws have been changed so that foreign traders cannot be victimized by government regulation. The laws respecting foreign trade are patterned after US laws and leave much room for legal interpretation. He pointed out that tax treaties have been signed with the US and Canada. Mexican foreign trade laws have been used against apparel, clothes, and shoe imports from Asian countries, partly as an attempt to get Asian companies to produce in Mexico and as a means of meeting the domestic content requirements present in the NAFTA.

Andrius Kontrimas, Shareholder in Jenkins and Gilchrist of Houston, began with an overview of the Mexican tax system. Corporate income tax rates have fallen substantially in recent years. Like Ramos, he reported that Mexico, as part of its program to decrease trade barriers, has negotiated tax treaties which are in place and are effective. The Mexican tax system is quite simple, requiring the filing of only one tax return. The tax structure consists of a 34% flat tax on business profits, a 15% value added tax, and a 1.8% tax on the gross value of business assets which acts like a minimum tax since it is offset by any income tax payable. There is one state and local tax, viz., a 2% real estate transfer fee on the disposition of real property.

Kontrimas felt that international developments had affected Mexican tax law. These included the initial reduction in tariff levels when Mexico joined GATT, and subsequently, with Mexico's entry into the NAFTA. There is also increasing attention being paid to transfer pricing problems.

He stated that the joint venture, defined as any association designed to achieve a common business objective, was the most popular form of inbound investment in the recent past. Generally, the purpose is to assure a sharing of financial risks and of technology. Joint ventures may involve co-equity ownership or a fee for service contract. They provide an opportunity for the foreign company to participate in any industry protected by foreign investment laws where 100% foreign ownership is impossible. Preferences for joint ventures under the Mexico-US tax treaties extend to Canadians.

Brian Felesky Q.C., Partner in Felesky and Flynn of Calgary and Edmonton, stated that tax regimes in Canada and Mexico are very compatible with the tax treaty between the two countries following the standard OECD model. The presumption is that when Canada negotiates a tax treaty the level of tax in Mexico is about equal to the level in Canada. Under the treaty dividends can flow from a Mexican subsidiary to a Canadian parent company free of any tax in Canada. When profit sharing is included, the Mexican corporate rate on a subsidiary doing business in Mexico is about 40.6% compared with a Canadian rate applicable in Alberta of 44.6%. Further, there is no withholding tax in Mexico on dividends coming to a Canadian parent. Some other advantages of the Mexican tax law is allowance for the full deduction of inventory costs, and a one time write off of new equipment. One disadvantage is that the minimum tax of 1.8% in Mexico is not a tax credit but a deduction. Another disadvantage is that Mexican law requires a monthly calculation of the inflationary gain on all liabilities.

He discussed the most suitable way for Canadian companies to set up business in Mexico. He found the establishment of a subsidiary in Mexico superior to setting up a branch plant to manufacture in Mexico. Under the branch plant approach, although the losses in the Mexican branch can be deducted against Canadian source income, there are several disadvantages: income subject to a higher Canadian tax rate; foreign tax credits may not work completely due to differences in computing income; the reduced flexibility in deducting interest and other expenses of the Mexican operation; and the fact that the tax treaty does not provide for a subsequent tax free transfer of a branch operation to a Mexican subsidiary (significant if there have been capital gains).

He then turned to the tax status of a Mexican subsidiary in which a Canadian corporate shareholder has an equity position of at least 10%, and which has a majority of Mexican directors (with meetings held in Mexico) necessary for it to qualify as resident in Mexico. The dividends paid out of the after tax profits of the subsidiary will not be subject to either Mexican withholding tax or to income tax in Canada by the parent corporation.

Felesky then discussed the question of tax considerations in financing a Mexican subsidiary. The classic approach would be to fund the subsidiary through equity, using funds borrowed by the parent since the interest expense is applicable to the higher Canadian tax rate. He stressed that any loan to the subsidiary should be made in Canadian$ since this protects against the possible adverse tax consequences of currency fluctuations. He also considered the tax status of joint ventures. He pointed out that where the parent company wishes to undertake a joint venture in Mexico, it will normally want to establish a Mexican subsidiary to avoid Canadian tax on income.

Felesky also considered the case of the offshore financing of a Mexican subsidiary. In this instance funds are borrowed in Canada, and used to set up an offshore banking company (in a non-tax treaty jurisdiction) which in turn lends to the Mexican subsidiary. Here the advantage is that interest expense is deductible by both the Canadian parent and the Mexican subsidiary. Generally he advised against this approach since the Canadian company loses a benefit of the tax treaty through imposition of the 30% Mexican withholding tax on interest payments to non-arms length parties. This almost fully offsets any Mexican tax savings on the interest expense. The effectiveness of the method depends on the rate of withholding. He indicated that the withholding rate is less, however, for selected types of financing.

6. Intelligence-gathering in the Mexican Marketplace

Frank Hart, Partner in KPMG Management Consulting of Regina, moderated a panel whose members had considerable experience in acquiring intelligence about the Mexican marketplace.

Miguel Jáuregui Rojas, Founding Partner of Jáuregui, Navarrete, Nader & Rojas and a member of the Executive Committee of the Mexican Business Council for International Affairs (CEMAI) provided a guide through the Mexican structure of business councils. In emphasizing the specific responsibilities of a wide variety of organizations, he described how they could be helpful to Canadian businesses assessing the Mexican market. They can provide peer information, an understanding of context and useful knowledge respecting the traditional ways of doing business in Mexico. All of these can reduce the frustration often experienced by many Canadian businesses considering opportunities in Mexico.

Luis Ventoza, District Manager of PCL Construcciones in Mexico City, related some experiences since the setting up of the Mexican subsidiary at the beginning of 1994. PCL came to Mexico because many of their North American customers were either in Mexico or about to establish a presence there. He emphasized, like NOVA's Gordon Berard, the importance in the business setting of patience and flexibility, the building of trust, and direct personal contact. In discussing possible joint ventures for a subsidiary in Mexico he indicated that an important issue is whether to opt for a long term relationship with a Mexican partner, or enter into joint ventures only on a project by project basis. He stressed the importance of intelligence gathering to the pre-selection of those parties in Mexico with whom a relationship is desired.

Henri Pellicer, Director for Latin America of the B. C. Trade Development Corporation, stated that only by gathering the correct tools can a competitive edge be achieved. The B. C. Trade approach to intelligence-gathering has been to develop a network of international consultants with a focus on acquiring the information that business needs through cost recovery. The approach depends on specialized private sector consultants who build on the knowledge and contacts made possible by embassies and consulates. Pellicer considered it important to spin off information gathering to private sector organizations.

Pellicer discussed the role of B. C. Trade in developing flexible networks among small and medium sized enterprises as a means of sharing experiences and reducing the up-front costs of obtaining knowledge about the Mexican marketplace. It is still difficult to say what will work and what will not in foreign markets. The companies Pellicer deals with always go through a unique experience. He stated that one unfortunate consequence is much 'project chasing' by individual companies without the laying of essential groundwork. Some of that may be mitigated by network partnering, though that is far from being a part of the business culture. He summarized the attitude of the companies which he serves as one of cautious optimism.

Rosalind Wilson, partner in Latitudes Consulting, emphasized that consultants can take a Canadian company only 'so far' in entering the Mexican market. They can be of assistance in facilitating their initial presence, but success depends on sustained presence in Mexico. Despite the fact that Canadian companies are well received in Mexico, their success rate is low. This she attributed to the fact that company interests are frequently sporadic and time horizons are often too short. There has been difficulty in identifying consistently appropriate access strategies.

She has found that many Canadian companies overlook the importance of market intelligence. Too frequently one information source is considered to be enough. Many come to Mexico thinking that doing business there will be as simple as it is at home. If they have a good product or service and some money to invest, then things will usually fall into place for them. In some cases a company may go to a trade show, find a partner, discuss ideas, and then wonder why after a year no purchase order has been received. Nothing is that easy in the Mexican market. In addition to these often baffling experiences, any Canadian business faces stiff competition from German, French, and Japanese companies.

Wilson perceives that Canadian companies, frustrated by their experience, too frequently brand themselves as 'victims'. However, the likely fact is that they did not know enough about Mexican markets, competitors, and buyers. They may know all about these things when doing business in Canada, but they have simply not done their homework in Mexico. Companies interested in Mexico must be prepared to pay 'up front' for intelligence gathering.

She warned that intelligence gathering must be done on the spot–not from Canada. It is costly, it must be done from scratch, and with the rapid changes now taking place in Mexico, it is also very difficult. It is likely to continue to be so with the reorganization of government and the decentralization of departments. In these circumstances, intelligence-gathering requires the time, patience and contacts to provide verification at all levels. She advised Canadian companies to be aware of what resources are required, to find out where the information can be obtained, what it will cost, what budget they can allot for the purpose, and when to stop spending.

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