

The economy began to recover in the second quarter of 1996, following a 1 percent drop in the first quarter, compared with the same quarter in 1995. The recovery has been stronger than anticipated, with year-over-year increases of 7.2 percent and 7.4 percent in the second and third quarters respectively. A GDP increase of 4.5 percent is predicted for 1996 as a whole, and growth in 1997 is forecast at about 5 percent. Growth was especially strong in the industrial sector with the construction industry experiencing a rebound of 25 percent growth in the third quarter.

Forestry production also rebounded on the strength of this market growth. Industry observers are predicting an increase of as much as 30 percent in roundwood production during 1996, with continued expansion in 1997. Wood industry GDP rose by 16.8 percent and 9.3 percent during the second and third quarters of 1996 respectively. Paper products was one of the last industries to recover, with declines in production continuing in the first half, followed by growth of 2.2 percent in the third quarter. This growth has been fuelled mainly by export markets, while domestic demand remains weak.

## REGULATORY ENVIRONMENT

The Mexican forestry sector is regulated under the authority of Article 27 of the Mexican constitution. This article establishes natural resources as public property subject to special control. The administration of the forestry sector is governed by the *Ley Forestal*, forestry law, of December 1992. Regulations under the *Ley Forestal* are the principal means of managing the sector. The *Ley General del Equilibrio Ecológico y la Protección al Ambiente*, the General Law of Ecological Balance

and Environmental Protection, also influences decisions in this sector.

Under the administration of former president Salinas, the *Secretaría de Agricultura y Recursos Hidráulicos (SARH)*, Secretariat of Agriculture and Water Resources, was the administrative body responsible for the enforcement of the *Ley Forestal*. It was also responsible for the maintenance of an inventory of resources and for publishing statistical data on the sector.

In early 1995, the Zedillo administration created a new department, the *Secretaría de Medio Ambiente, Recursos Naturales y Pesca (Semarnap)*, Secretariat of Environment, Natural Resources and Fisheries. It took over responsibility for the forestry sector from SARH. The inspection and regulation of forest product imports rests with *Secretaría de Agricultura, Ganadería y Desarrollo Rural (Sagar)*, the new Secretariat of Agriculture, Livestock and Rural Development, although this may change in the future.

The change is intended to increase the synergy between the various segments of the natural resource sector and to develop them in a sustainable, environmentally appropriate way. Within SARH, forestry had been seen as a competitor with agriculture for available land, rather than a renewable resource. There are no changes expected to the *Ley Forestal* as a result of this reorganization, although Semarnap is expected to implement its land reform provisions more aggressively.

The exploitation of forestry resources is reserved exclusively for Mexican citizens and requires the prior authorization from Semarnap. Permits are issued only after technical and socioeconomic studies are submitted, including an environmental impact assessment. These regulations are presently under revision.

Virtually every aspect of forestry exploitation is subject to permits, studies and a variety of other requirements. Most observers believe that compliance with these requirements will become less onerous under Semarnap, given the policies of the government, which encourage the development of forestry resources.

## MARKET ENTRY STRATEGIES

The Mexican market for forestry, pulp and paper equipment is specialized and developing rapidly. Statistical data describing this market is scarce, and historical patterns are unlikely to provide much guidance. Canadian companies seeking to enter this market are advised to consult with the major industry associations. They include the *Cámara Nacional de la Industria Forestal (CNIF)*, National Forest Industry Chamber, as well as the *Cámara Nacional de las Industrias de la Celulosa y del Papel (CNICP)*, the National Chamber of the Paper and Cellulose Industries. Membership in a national chamber is mandatory under Mexican law, and these organizations are responsible for statistical gathering and industry analysis.

In addition to being generally familiar with emerging technological trends, these chambers maintain directories of their members and are also aware of upcoming trade shows of interest to companies in their sectors. Many Canadian companies have found that participation in trade shows is the most effective way to learn about the market and meet potential customers and partners. The Canadian Embassy in Mexico City and the consulates in Monterrey and Guadalajara will also provide assistance to companies that have prepared an export strategy and are looking for specific market intelligence.