of this trend. Knowledgeable observers predict that 1995 imports will fall by about half.

Mexico imported a total of US $789 million worth of wood and cellulose products in 1994, an increase of 7.5 percent over the previous year. The United States accounted for more than three-quarters of this market. Canada's exports of these products increased steadily from US $22 million in 1991 to more than US $55 million in 1994, for a market share of more than 6 percent in the latter year. More than 90 percent of Canada's wood exports are in the form of pulp. Other wood products totalled less than US $4 million.

The devaluation will affect these market shares in 1995. Cheap imports from the Far East, especially plywood, are now flooding the market in spite of countervailing duties. Brazil has also increased its exports of eucalyptus-derived cellulose.

CUSTOMERS

The Construction Industry

The construction industry consumes about three-quarters of Mexico's wood production. The industry includes 25 companies with annual sales in excess of US $100 million, and five with sales of more than US $1 billion.

For several years, the commercial construction sector had been growing faster than the rest of the economy. Many projects, however, came to an abrupt halt when the peso was devalued in December 1994.

Mexico has a deficit of close to seven million housing units and the government has implemented programs to build low-income homes. But wood frame construction is rare in Mexico, and unlikely to be included in these programs. The barriers to wood include concern about fire, termites, rot and earthquake, as well as rules imposed by insurance companies, mortgage lenders and building codes.

The demand for wood products is mainly for doors, window frames, moldings, flooring, decorative panels and other value-added wood products. Decorative panels are becoming increasingly popular.

Furniture

The Mexican furniture industry is the largest end-user of plywood, accounting for 30 percent of the total market. Prior to the devaluation of the peso in December 1994, annual growth was forecast at 3.5 to 4.5 percent, but sales have fallen off in 1995. Particleboard is also widely used in the Mexican furniture industry.

According to industry experts, there is growing interest in Canadian woods such as poplar, red maple and alder for use in higher-quality furniture. There are about 2,400 furniture makers in Mexico. The major producers of high-quality furniture are in Guadalajara, San Luis Potosí, Monterrey and Mexico City. Some of them are interested in importing rough components for finishing in Mexico.

The Automotive Industry

The automotive sector accounts for 25 percent of the market for plywood veneer panels. Ford, General Motors, Chrysler, Volkswagen, and Nissan are the principal manufacturers. *Diesel Nacional (DINA),* in a joint venture with Mercedes Benz, produces trucks and buses, and *Trailers de Monterrey* manufactures tractor trailers.

Telephone and Power Poles

There are two large users of power poles in Mexico: *Teléfonos de México (Telmex),* the national telephone company; and *Comisión Federal de Electricidad (CFE),* Federal Electricity Commission. *Telmex* purchases poles through its construction subsidiary *Grupo Contelmex*. Bidding on contracts for such purchases is a lengthy and formal process.

Railway Ties

Ferrocarriles Nacionales de México (FNM), the Mexican national railway, is a major user of wooden railroad ties. Periodic tenders are issued for large purchases. Procurements are managed by Tlaxcala-based *Grupo Itisa*, which is the company that manufactures pre-stressed concrete ties for the *FNM*. The most recent call for tenders was in the spring of 1995.

Pallets

Wood containers and pallets account for 10 percent of Mexican plywood consumption. The market has grown as trade liberalization has increased the flow of exports. The specifications for pallets, including strength requirements, are fairly strict but Canadian spruce meets these requirements in most cases. The market is highly competitive but there is a demand for pre-cut rough lumber. There are a few large companies producing volumes in the range of 2,000 to 3,000 pallets per day.

COMPETITION

The sharp devaluation of the peso in December 1994 has changed the competitive situation considerably. Prior to the devaluation, the markets for wood and paper products were strongly oriented towards quality and service. Now, customers are more interested in price and financing.

Construction buyers are switching to material with little potential for re-use, in exchange for lower prices. In general, the focus has shifted to short-term considerations, with little concern that this might actually be more expensive in the long term. The willingness to accept lower quality is an advantage for Mexican firms, which generally have difficulty meeting international quality standards.