

## CLEANING UP THE ENVIRONMENT

*Mexico's economic crisis has temporarily slackened environmental enforcement, but in the medium term, the nation's environmental problems are simply too severe to ignore.*

The environmental sector has become a promising market for Canadian exporters. Although environmental products and services have not traditionally ranked among Canada's major exports to Mexico, new markets are beginning to emerge. These opportunities derive mainly from recent efforts by Mexican authorities to strengthen regulation of the environment and improve public infrastructure. While the devaluation of the peso in late 1994 sharply reduced imports of most products, the nation's environmental problems are simply too severe to ignore. Although some major projects are now on hold, none have been cancelled, and some observers see the return of annual growth in the 15 percent range by the end of 1996. Mexico is under mounting pressure to act decisively, partly as a result of the North American Free Trade Agreement (NAFTA) and partly because of U.S. intervention, especially in the border region. Both the World Bank and the Inter-American Development Bank have allocated funding for Mexican environmental projects. Moreover, Mexico currently lacks the technical capabilities and the service industry needed to meet these new demands on its own.

The contamination of the Mexican environment has reached alarming levels. More than 25 percent of all industry is located in the Valley of Mexico, where excessive emissions, high altitude and temperature inversions combine to make Mexico City the most polluted city in the world.

At the national level, only 20 percent of municipal wastewater and 15 percent of industrial wastewater were treated in 1994. Less than 10 percent of industrial air emissions are controlled. Only 20 percent of municipal solid waste is disposed of in a landfill. The technology to solve these problems will initially come from foreign firms. Gradually, technology will be transferred and Mexican firms will increase their participation, in partnership with foreign firms.

Public alarm about environmental pollution has provoked government action, most notably the 1988 *Ley de Equilibrio Ecológico y Protección al Medio Ambiente*, Law of Ecological Equilibrium and Environmental Protection. This was followed by new enforcement mechanisms in 1992. But other government policies have made it difficult for many small- and medium-sized companies to comply. For example, a tight money policy has kept interest rates high. Also, trade liberalization has exposed companies to aggressive foreign competition and lowered their profit margins.