

## Mexican Competitors

The largest manufacturers of industrial and business paper are Kimberley-Clark, *Compañía Industrial de San Cristobal*, Scott Paper and the Jefferson Smurfit Group of Ireland (SMURFIT). They manufacture a full range of papers, except for newsprint. They have pulp mills throughout the southern, eastern and central regions of the country. Some of these mills are integrated with papermaking facilities. Others send the pulp to a paper mill closer to major markets. These companies prefer to import fibres rather than finished products.

All of Mexico's newsprint is produced by *Productores e Importadores de Papel (PIPSA)*, Producers and Importers of Paper, which is a group of three government-owned or government-backed plants. *PIPSA* is also responsible for purchasing most imported newsprint.

## Foreign Competition

Mexican paper producers are expected to have no difficulty selling their entire output. The capacity of the industry, however, is less than three-quarters of the demand, by volume. Therefore the principal competitors for Canadian producers are other foreign suppliers. The United States claimed an 84 percent import market share in 1994. Canada was the second-largest supplier with about 5 percent of the import market, followed by Brazil with 2 percent. Brazil is expected to increase its market share as a result of the devaluation.

## PRODUCT TRENDS

Government and industry officials predict that the pulp and paper industry will expand to full capacity and may grow slightly over the 1996 to 1998 period. Plants that were idled in 1994 are being brought back

into production as a result of the devalued peso. But the industry still does not have sufficient capacity to supply local demand for either pulp or paper.

There is some concern that Mexican pulp and paper producers will take advantage of the devaluation to export some of their output. This would allow them to earn hard currency to service their debt. But it would also open new opportunities for foreign suppliers to build market share. The *Cámara Nacional de las Industrias de la Celulosa y del Papel (CNICP)*, National Chamber of the Pulp and Paper Industry, is trying to get voluntary agreement on a no-exports policy, because they fear that otherwise the government might act to reserve production for the domestic market.

## Pulp

Production of pulp is increasingly dependent on foreign raw materials. In recent years, Mexico has imported more than one-third of its wood fibres, with imports totalling more than US \$300 million in 1994. More than three-quarters of this pulp came from the United States. Canada's sales totalled US \$51 million, for an import market share of almost 17 percent. Brazil has been supplying increasing quantities of eucalyptus-derived cellulose. In 1995, the devaluation is expected to cut imports sharply by allowing Mexican suppliers to put idle capacity back into production. But even with the pulp subsector operating at maximum output, imports will continue to account for at least 15 percent of Mexican consumption.

According to industry sources, short, white primary fibres are in strong demand because of the lack of domestic capacity to produce them. Nor will Mexico be able to meet its own needs for secondary fibres.

## Paper

A recent report by the *Grupo Financiero Bancomer* predicts a "slight uptum" for the paper industry in 1995, as a result of modernization efforts and the devaluation of the peso. Import penetration is expected to fall, perhaps by as much as half. Nonetheless, certain finished products will continue to be imported:

- kraft types
- mullen
- papers suitable for "exploding"
- better quality newsprint paper
- specialty art papers

The market for packaging materials is expected to grow by 30 percent by 1996, on the strength of higher export activities. This in turn will drive a demand for imported virgin fibres.

## THE REGULATORY ENVIRONMENT

In early 1995, the Zedillo administration created a new department, the *Secretaría del Medio Ambiente, Recursos Naturales y Pesca (SEMARNAP)*, Secretariat of the Environment, Natural Resources and Fisheries. The secretariat took over responsibility for the forestry sector from the *Secretaría de Agricultura y Recursos Hidráulicos (SARH)*, Secretariat of Agriculture and Water Resources. *SEMARNAP* is now responsible for the enforcement of the *Ley Forestal*, Forestry Law. It also maintains an inventory of forest resources, and publishes statistical data on the sector.

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