

1. BACKGROUND

The mesoamerican cultures manufactured paper for the creation of books or codices, which were strips of paper or leather about 10 metres long. They were covered with characters on both sides and were folded to create a book with two thicker covers. The paper was made from plants such as agave, palm and other local species.

Paper was also used for decoration, offerings and clothing, mostly for their gods during religious ceremonies.

Certain areas were known as paper suppliers and many still produce paper using traditional technologies.

During the first decades after the Spanish conquest, all paper used for administrative purposes was imported from Spain. The first local paper was produced in the mid-16th century to meet the needs of the Spanish priests in their conversion efforts. A monopoly was created for the production of paper and a mill began operations. Much paper still needed to be imported. The independent Mexican paper industry was created only in 1824 after the Mexican revolution. The first company using machinery opened in 1840. Paper production was centralized in a very few companies which, over the years, were sold, resold, merged and enlarged.

In 1929, two large companies, which had been producing some 1,200 tons of paper annually by 1910, merged to create Fábricas de Papel Loreto y Peña Pobre S.A.. The new firm soon began installing modern machinery and equipment for the production of pulp and paper. By 1940, the company produced 140 tons/day of pulp and 9,600 tons/year of paper.

Another major company, Fábricas de Papel San Rafael, was created in 1892 for the production of pulp and paper. Cartonera la Moderna, created in 1905, was the first firm to produce cardboard, boxes and packaging material. This was followed by Fábrica de Papel Monterrey in 1917. In 1925, Fábrica de Papel la Aurora was created. It was reorganized in 1961 as Kimberly Clark de México.

Because the demand for paper was not being met by local production, the federal government created Productora e Importadora de papel (PIPSA) to supply the Mexican market and to regulate prices.

PIPSA's most important involvement was in the supply of newsprint but, with the support of special import duties, it was also Mexico's largest importer. PIPSA supplied as much as 94 percent of total apparent consumption in 1937 and an average 20 percent during the 1960s and 1970s.

At present (January 1993), the local pulp and paper industries represent 0.74 percent of total gross domestic product (GDP) and 3.23 percent of total manufacturing GDP. They employ 34,228 people, and their 73 plants have a total capacity to produce 1.1 million tons of pulp and 3.8 million tons of paper a year, as compared to 1 million tons of pulp and 2.8 million tons of paper in 1982.

Total pulp production increased from 473,000 tons in 1970 to 748,400 tons in 1982, but fell to 705,100 tons in 1991. Paper production, on the other hand, increased from 897,000 tons in 1970 to 2 million tons in 1982 and to 2.9 million tons in 1991. Imports of pulp have increased from 128,600 tons in 1982 to 320,000 in 1991, and paper imports increased from 281,400 tons in 1982 to 464,000 tons in 1991.

2. ECONOMIC ENVIRONMENT

With the objective of reducing the inflation rate, the Mexican authorities, in 1988, implemented a stabilization program, called the Economic Solidarity Pact. The Pact features traditional austerity measures, entailing tight fiscal and monetary policies, and unorthodox measures, such as price, wage and exchange rate controls. The program, the cornerstone of Mexico's economic policy, has been extended through 1993 under the name of the Pact for Stability, Competitiveness and Employment.

The Pact has drastically reduced the inflation rate from an annual rate of 159 percent in 1987 to 19.7 percent in 1989. Although inflation rebounded to 29.9 percent in 1990, it was brought down to 18.8 percent in 1991 and 11.9 percent in 1992. At the same time, interest rates have increased to 20 percent. The peso-dollar devaluation rate was recently increased to Mex\$0.40 pesos a day or 4.6 percent per annum.

Mexico's 1993 macroeconomic policy aims to consolidate the progress made in price stabilization with a 7 percent inflation goal by means of tight monetary and fiscal policies. It also aims to promote employment, reaffirm gradual and sustained economic