The Canadian Experience — Oscardo Inc.

Local knowledge overcomes logistical problems

Eduardo Lulka is President of Oscardo Inc., a Toronto-based tie manufacturer. His company sells about 10 percent of its product in Mexico. He says that knowledge of the Mexican market is key to overcoming administrative and logistical problems.

Lulka says that constantly changing labelling requirements has probably been the most significant irritant: "the last labels we sent required the usual content and care instructions in Spanish as well as the importer's name, exporter's name, registration numbers and so on; we were afraid the label would be larger than the tie."

Lulka ships F.O.B. Toronto by air, which is practical for a relatively high-value product such as silk ties. This means that the customer assumes all risks for the goods beyond Toronto, including possible shrinkage or delays at the border. To expedite customs clearance, Oscardo ships using a broker selected by the customer, so problems can be quickly corrected in Mexico. "Customs can be picky with silk ties", says Lulka, "they often want to send them to the lab to test fabric content to ensure it is not polyester. Having a local broker is important to keep the pressure on." Lulka has found that the *Bancomext* office in Toronto can also be very helpful in quickly resolving any administrative difficulties.

A growing number of Mexican companies now offer public bonded warehousing services in Mexico, often in partnership with U.S. firms. These facilities make it possible for exporters to ship full truck loads to the warehouses, and avoid the cost of less-than-truck-load (LTL) shipping. This arrangement also makes free on board (FOB) destination pricing more practical. It allows the exporter to maintain inventories in Mexico for more reliable delivery. The payment of duties and taxes is postponed until the goods are sold and withdrawn from the warehouse.

Moreover, once the goods are in the bonded warehouse, their value in pesos is frozen for purposes of import duty and value-added tax. This is especially important, considering the high rate of inflation in Mexico.

Shipments to a bonded warehouse must be accompanied by a letter from the warehousing company certifying that space is available. This letter must be presented to customs officials when the shipment enters Mexico.

Canadian exporters should retain the services of a Canadian customs broker who will work with the Mexican broker to set up the administrative framework before the order is shipped. Mexican customs procedures are complex, and shipments can be delayed for seemingly minor discrepancies in paperwork. Goods that travel in bond through the United States must also be covered by a certificate issued by an American customs broker. The Canadian broker will arrange this.

Goods shipped by truck are usually transferred to a Mexican truck at Laredo, Texas, and it is important to use a shipping company that offers effective tracking services. A few Canadian companies are now offering door-to-door and LTL services in association with Mexican carriers. Canadian trucks were recently allowed to cross the Mexican border for the first time, but they are limited to the immediate border area. This arrangement will be liberalized over several years, and Canadian trucks will eventually be allowed to deliver international shipments anywhere in Mexico. Under the North American Free Trade Agreement's (NAFTA's) investment provisions, apparel companies are free to establish warehouses and distribution centres in Mexico.